

Scottish & Newcastle Breweries plc

3.1. Scottish & Newcastle Breweries plc (Scottish & Newcastle) is one of the largest companies managed and resident in Scotland. Its main activities are the production and wholesale and retail sale of beer, the sale of wines and spirits and the ownership and operation of hotels. Turnover in the year ended 28 April 1985 was £707 million, of which £539 million was from the wholesaling of beer, the operation of managed and tenanted public houses and maltings. Profit on ordinary activities (at historical cost and before taxation) was £65 million on net assets at 28 April 1985 of £393 million. Capital employed, as calculated in the manner set out in Table 3.2, was £532 million.

History

3.2. Scottish & Newcastle was formed by the merger of Scottish Brewers Limited and The Newcastle Breweries Limited. Essentially it comprises an amalgamation of three old-established companies: William Younger and Co Limited, William McEwan and Co Limited, and The Newcastle Breweries Limited. The brand names 'Younger's', 'McEwan's' and 'Newcastle' derived from these companies are the principal brand names used by Scottish & Newcastle today.

3.3. In 1749 William Younger established a brewery in Leith (the port of Edinburgh), and in 1778 one of his sons established his own brewery in the precincts of the Abbey of Holyrood. In 1887 the firm was incorporated as William Younger and Co Limited. The Abbey Brewery ceased production in the mid-1950s, since when production has taken place on adjacent premises at the present Holyrood Brewery, with the Group Headquarters continuing to be located at the Abbey Brewery site.

3.4. In 1856 William McEwan set up a brewery in the village of Fountain-bridge on the outskirts of Edinburgh, where the company's Fountain Brewery is now situated. The firm was incorporated in 1889 as William McEwan and Co Limited.

3.5. The Newcastle Breweries Limited traces its origins to the Barras family who were involved in brewing in the early 1700s in Gateshead and Newcastle. In 1884 John Barras & Co acquired the Tyne Brewery in Newcastle upon Tyne, which is now part of Scottish & Newcastle's Tyne Brewery site. The Newcastle Breweries Limited was incorporated in 1890.

3.6. In 1931 William Younger and Co Limited and William McEwan and Co Limited merged to form Scottish Brewers Limited. In 1960 Scottish Brewers Limited merged with The Newcastle Breweries Limited to become Scottish & Newcastle Breweries Limited. The name was changed in 1981 to Scottish & Newcastle Breweries plc.

3.7. In 1961 Scottish & Newcastle participated in a consortium formed to introduce Harp Lager to the United Kingdom market. Initially all the locally

brewed Harp Lager was produced at a new brewery built on a Courage site at Alton (Hants), but later on breweries were opened in Manchester and Edinburgh on sites provided by Scottish & Newcastle. In a restructuring of the then consortium in 1979 Scottish & Newcastle acquired the Harp breweries in Manchester and Edinburgh and it continues to brew Harp under licence.

Present activities

Brewing and distribution

3.8. The company operates breweries in Edinburgh, Newcastle and Manchester. In Edinburgh the Holyrood Brewery is being progressively closed down with final closure taking place in April 1986. All Scottish production, including both cask-conditioned and brewery-conditioned beers and bottling and canning, will then be undertaken at the recently enlarged Fountain Brewery in Edinburgh. The brewery at Manchester is being enhanced, and from 1986 it too will be a major production and packaging plant, both for ales and for lager (including Harp). Both directly and through a subsidiary the company plays a prominent part in brewing research and in the advancement of brewing technology, particularly in the field of process controls and monitoring systems.

3.9. The company has primary distribution centres at Edinburgh, Newcastle and Manchester.

Beer sales

3.10. Scottish & Newcastle's national beer sales are presently 20 per cent below their peak in 1975-76. Total United Kingdom beer sales peaked in 1979 and have since declined by 10 per cent (see Table 2.1). Since 1982 industry beer sales, including Scottish & Newcastle's, have tended to level out (see Tables 2.1 and 5.1).

3.11. The decline in Scottish & Newcastle's sales was largely due to a reversal of its successful penetration of the free trade in England and Wales (see paragraph 3.12). This was associated with falling demand for Tartan Bitter. The company also suffered from the absence, in its portfolio, of lager brands other than Harp at a time when national demand was growing. The company therefore latterly developed its own brands of lager for both the on-trade and the take-home trade, while continuing to produce Harp under licence (paragraph 3.7).

The on-trade

3.12. Approximately three-quarters of Scottish & Newcastle's total beer sales go through the on-trade, but only some 20 per cent of this goes through its own tied on-trade. The company's 1,446 managed and tenanted on-licences, located mainly in Scotland and North-East England (Appendix 2.2), are considerably fewer than those of other national brewers and account for around one-quarter of its total beer sales through the on-trade, compared with a range of between 50 and 71 per cent for the other nationals. This reflects partly the

company's Scottish origins, which in the past have militated against the acquisition of tied premises in Scotland,¹ and partly, at the time the company was increasing market share, a policy of achieving this through organic growth rather than growth through corporate acquisition. It is also the result of rapid expansion by the company of its sales to the free on-trade and the off-trade in England and Wales between 1965 and 1975. This growth—like the company's earlier penetration of the market in the North-West—was achieved with very little investment in the acquisition of licensed premises. In addition to supplying its own beers Scottish & Newcastle sells to the on-trade, as a general wholesaler, an extended range of products of other brewers (Appendix 5.1).

The off-trade

3.13. Scottish & Newcastle is extensively involved in off-sales of its canned and bottled products to the take-home trade, principally through supermarkets and specialist off-licences. These account for about 25 per cent of its total beer sales, putting Scottish & Newcastle among the leading companies in the sector.

Regional coverage

3.14. By virtue of its total output of beer (estimated by Scottish & Newcastle at about 9 per cent of that for the industry as a whole in the year to December 1984) and the nationwide distribution of its draught beers Scottish & Newcastle is customarily considered to be a national brewer and is included in the 'Big Six'. However, by contrast with the other five tied estate nationals, sales of Scottish & Newcastle are unevenly spread across the country, and its tied houses are situated almost entirely in Scotland and in the North-East and Yorkshire, as described in paragraphs 3.15 to 3.18.

Scotland

3.15. In the year to December 1984 Scottish & Newcastle's sales in Scotland represented almost 40 per cent both of the company's total barrelage and of the total Scottish beer market. The proportions of its sales in the tied on-trade, free on-trade and off-trade sectors in Scotland were also substantial. Its managed and tenanted on-licences represented one-third of the regional total and a slightly higher proportion of its own tied estate (Appendix 2.2).

The North-East and Yorkshire²

3.16. Scottish & Newcastle has long had substantial sales and a sizeable tied estate in the North-East and Yorkshire, modified only marginally by its participation in the 1978 pub swap scheme administered through The Brewers' Society. In the year to December 1984 the company's sales in this region accounted for over 30 per cent of its total barrelage, representing some 14 per

¹The Monopolies Commission's 1969 report noted (paragraph 171) that for full on-licences brewer-ownership dominated the scene in England and Wales but was much less in evidence in Scotland. Until the end of the Second World War very few retail outlets were owned by brewers in Scotland. Among reasons cited for this were the absence of legal protection for a brewer in the event of the tenant losing his licence, and the opposition of licensing courts (and retail trade associations) who had taken the view that the retail trade was essentially one for the individual. Since the war there had been some change in the attitude of the licensing courts (and the retail trades), and a fairly large proportion (26.9 per cent) of total on-licences had come under brewery ownership, the corresponding proportion for England and Wales being 86.1 per cent. The report also recorded (paragraph 172) that Scottish & Newcastle owned 1,915 licensed premises at that time.

²Region as defined by The Brewers' Society and shown in the map at Appendix 2.1.

cent of the total regional beer market and a similar proportion of the tied on-trade, free on-trade and off-trade sectors in the region. Its managed and tenanted on-licences accounted for around 10 per cent of the regional total but over 50 per cent of its own tied estate (Appendix 2.2). In 1984 the company sought to acquire a further 460 public houses and to improve its geographical spread within the region by an agreed merger with J W Cameron & Co Limited of Hartlepool. Following a reference to the Monopolies and Mergers Commission the proposal was abandoned, though in July 1985 agreement was reached to swap nine Scottish & Newcastle public houses on Tyneside for 12 from Cameron's estate in Cleveland and North Yorkshire.

The North-West and Cumbria¹

3.17. Scottish & Newcastle's sales in the North-West and Cumbria in the year to December 1984 accounted for less than 13 per cent of the company total, equating to 7 per cent of the regional total. These sales included only 1 per cent of the tied on-trade sector in the region, achieved through the same share of regional tied houses (representing 6 per cent of the company's own tied estate). By contrast Scottish & Newcastle's share of the free on-trade sector, and even more so its share of the free off-trade sector, in the North-West and Cumbria were broadly comparable to the shares of its national competitors.

Other regions

3.18. In the remainder of the country Scottish & Newcastle is still regarded in the trade as very much a 'Northern brewer' with a market share, whether in the tied on-trade, free on-trade or off-trade sector, substantially below that of the other nationals, and in certain areas below those of the larger regional brewers. Nevertheless this is a large market, in the aggregate, for its sales.

Maltings

3.19. In January 1985 Scottish & Newcastle completed the acquisition of Moray Firth Maltings plc at a price of around £23 million. Moray Firth operates mainly in the supply of malt to the brewing and distilling industries.

Wines and spirits

3.20. Through its subsidiary The Waverley Group Limited the company has interests in wines and spirits, both at home and overseas. These comprise the sale of Scotch whisky, and the bottling and sale of other spirits and wines. In October 1985 Scottish & Newcastle announced the proposed sale of its Scotch whisky production interests to Invergordon Distillers (Holdings) PLC.

3.21. The Waverley Group Limited also controls the operation and development of the company's beer sales overseas.

Hotels

3.22. Through its subsidiary Thistle Hotels Limited, created in 1965, Scottish & Newcastle has become one of the foremost hotel operators in Great Britain. Thistle's 35 predominantly four-star hotels, including eight in London, have some 4,500 bedrooms.

¹Region as defined by The Brewers' Society and shown in the map at Appendix 2.1.

Employment

3.23. In the financial year to 28 April 1985 Scottish & Newcastle's total workforce averaged 21,054, as shown in Table 3.1:

TABLE 3.1 Scottish & Newcastle Breweries plc: average numbers employed in the year to 28 April 1985

Wholesale beers, managed public houses and maltings	15,539
Hotels	4,468
Wines and spirits, and all exports	673
Group central functions	374
Total	21,054

Source: Scottish & Newcastle.

3.24. This represents a reduction of around 25 per cent from the peak of some 28,000 in the year to 27 April 1980. The fall occurred mainly between 1981 and 1983 in public houses and hotels and in the production, distribution and wholesaling of beer. Further reductions resulted from the sale of its special-ist off-licence chain, Gough Brothers, in 1984 (see paragraph 3.33).

Group organisation

Main Board and Group Management Committee

3.25. The Main Board comprises the Chairman, the Group Chief Executive, the Vice-Chairman and seven other Directors of whom five are executive and two are non-executive. Operations are supervised by a Group Management Committee which is chaired by the Group Chief Executive.

3.26. In exercising their responsibilities the Main Board and the Group Management Committee are supported by those Head Office departments which deal with financial matters (including insurance and pensions administration), central personnel and management services, public relations, data communications and company secretarial services for the group as a whole.

Trading operations

3.27. The group includes the following principal subsidiaries, some having responsibility for sales in particular regions (paragraphs 3.29 to 3.32) and others having operational responsibilities not confined to particular geographical areas (paragraphs 3.28 and 3.33 to 3.36).

Scottish & Newcastle Beer Production Limited

3.28. This subsidiary, with its headquarters in Edinburgh, is responsible for the operation of the brewing and packaging complexes at Fountain and Holyrood in Edinburgh, the Tyne Brewery in Newcastle, the Royal Brewery in Manchester and satellite packaging locations. It is also responsible for the trunk distribution of beer, both between those complexes and to the regional sales companies' warehouses. At April 1985 there were 1,879 people involved in production and 467 in physical distribution.

Scottish Brewers Limited

3.29. This subsidiary, with its headquarters in Edinburgh, has overall responsibility for wholesaling and distribution and for the operation of the tied estate in Scotland.¹ In 1984–85 nearly 80 per cent of its sales were to the free trade. The company employs 5,042 people and has 532 managed and tenanted on-licences.

The Newcastle Breweries Limited

3.30. This subsidiary, based in Newcastle, has overall responsibility for wholesaling, distribution and the tied estate in the North-East, including North and South Tyneside and Cleveland. In 1984–85 over 50 per cent of its sales were to the free trade. The company employs 4,808 people and has 656 managed and tenanted on-licences.

McEwan-Younger Limited

3.31. This subsidiary, with its headquarters in Chorley, Lancashire, has overall responsibility for Cumbria, Lancashire, Cheshire, North Wales, Yorkshire, Lincolnshire and Humberside. In 1984–85 almost 90 per cent of its sales were to the free trade. The company employs 1,829 people and has 149 managed and tenanted on-licences in the North-West and Yorkshire.

William Younger and Company Limited

3.32. This subsidiary (headquarters St Albans) has overall responsibility for an area south of the line from The Wash to Cardigan Bay, including the industrial Midlands. In 1984–85 over 90 per cent of its sales were to the free trade. The company employs 969 people and has 74 managed and tenanted on-licences.

Scottish & Newcastle Breweries (Sales) Limited

3.33. Scottish & Newcastle Breweries (Sales) Limited, with its headquarters in Edinburgh, is responsible nationally for sales to the take-home trade. It promotes, sells and distributes the group's brands to all sectors of the off-licence trade, but since the sale of the 155 Gough Brothers outlets in 1984 the group has not itself owned off-licences. The company employs 117 people of whom 80 are involved in selling.

Canongate Technology Limited

3.34. This subsidiary is responsible for the commercial development and exploitation of industrial property rights and technology and employs 20 people.

Thistle Hotels Limited

3.35. This subsidiary, based in London, has its own operating Board. Employees number some 4,500.

¹Since May 1985 Scottish & Newcastle has ceased direct supply to Northern Ireland and has entered into a distribution agreement with Guinness Ireland Limited for the sale of some of its brands in Northern Ireland and in the Irish Republic.

The Waverley Group Limited

3.36. This subsidiary is based in Edinburgh, again with its own operating Board. It employs 673 people.

Financial planning and control

3.37. The current business structure of the Scottish & Newcastle group was set up approximately three years ago to replace what it considered to be over-centralisation. Regional and local managements now have greater autonomy and responsibility, including that for capital authorisations within delegated limits. Each of the business structures described above was financially established with its own capital employed carrying an equity base supported by a proportion of debt finance. The purpose was to allow the local business divisions to function and to be measured as nearly as possible as if they were completely independent operations. Mainly for reasons of economies of scale, certain departments, almost entirely based at Group Headquarters, were retained as central units supporting the group business structures. The costs of running these departments are charged out in full to the operating businesses. Each operating business is also required to pay its proportion of group finance costs, taxation and dividend liabilities.

3.38. With the authority of the Main Board, the Group Management Committee sets detailed annual operating and financial budgets and targets for each operating business. The Group Chief Executive and the Group Finance Director carry out detailed quarterly reviews with divisional executives to measure performance to date, and to review the likely out-turn for the remainder of the financial year. In addition the Group Management Committee reviews period trading results by all businesses, and reports on these to the Main Board.

Financial information

3.39. Scottish & Newcastle makes up its accounts under the historical cost convention (except that certain properties are included at valuation) for periods of 52 weeks (or 53 weeks when necessary) ending on the Sunday nearest to 30 April each year.

3.40. Table 3.2 summarises Scottish & Newcastle's balance sheets at its accounting date in each of the last five years.

TABLE 3.2 **Scottish & Newcastle Breweries plc: summarised balance sheets**

	1981	1982	1983	1984	£ million 1985
Fixed assets	364.3	417.9	423.2	461.2	503.4
Stocks and debtors less liabilities (other than borrowings)	40.9	39.2	23.2	30.3	28.7
Capital employed	405.2	457.1	446.4	491.5	532.1
Net borrowings	(132.0)	(130.6)	(106.3)	(126.7)	(138.6)
Net assets	273.2	326.5	340.1	364.8	393.5
Capital and reserves	272.7	325.8	339.0	357.0	385.3
Deferred taxation provision	0.5	0.7	1.1	7.8	8.2
	273.2	326.5	340.1	364.8	393.5
Gearing (borrowings/capital and reserves) (%)	48.4	40.1	31.4	35.5	36.0

Source: MMC based on Scottish & Newcastle's published accounts.

3.41 Details of Scottish & Newcastle's fixed assets as at 28 April 1985 are set out in Table 3.3.

TABLE 3.3 Scottish & Newcastle Breweries plc: fixed assets at 28 April 1985

	<i>At cost or valuation</i>	<i>Depreciation</i>	<i>£ million Net book value</i>
<i>Tangible fixed assets</i>			
<i>Properties:</i>			
Breweries, maltings, warehouses and other properties	85.8	11.7	74.1
Hotels, licensed and related properties and fittings	296.5	34.1	262.4
	<u>382.3</u>	<u>45.8</u>	<u>336.5</u>
Plant, vehicles and equipment	167.1	83.0	84.1
	<u>549.4</u>	<u>128.8</u>	<u>420.6</u>
<i>Investments</i>			
Listed (market value £20.9 million)		13.4	
Unlisted		2.2	15.6
<i>Loans to customers</i>			67.2
			<u>503.4</u>

Source: Scottish & Newcastle.

3.42. The analysis of properties stated at cost or valuation was:

	<i>£ million</i>
As valued at 2 May 1982	164.4
At cost or as valued in 1974-75 or earlier	217.9
	<u>382.3</u>

3.43. The analysis by tenure of the net book value of properties was as follows:

	<i>Breweries, maltings, warehouses etc</i>	<i>Hotels, licensed properties etc</i>	<i>£ million Total</i>
Freehold	60.7	197.2	257.9
Leasehold over 50 years	13.1	43.8	56.9
Leasehold under 50 years	0.3	21.4	21.7
	<u>74.1</u>	<u>262.4</u>	<u>336.5</u>

3.44. Freehold licensed and non-industrial properties are not depreciated, it being Scottish & Newcastle's policy to maintain them to such a standard that the estimated aggregate residual values exceed the net book values in the accounts. Buildings held on lease are depreciated only when the unexpired term is 50 years or less. Plant and equipment, freehold industrial buildings and all properties held on lease where the unexpired term is 50 years or less are depreciated over their expected useful lives.

3.45. Table 3.4 summarises Scottish & Newcastle's profit and loss accounts for each of the last five years.

TABLE 3.4 Scottish & Newcastle Breweries plc: summarised profit and loss accounts

	<i>£ million</i>				
	1980-81	1981-82	1982-83	1983-84	1984-85
Turnover	587.7	620.5	641.8	692.5	707.2
Operating profit	48.1	47.8	52.0	63.2	74.8
Investment income	1.5	1.9	2.1	2.5	3.0
Interest payable (net)	(16.5)	(17.5)	(13.0)	(10.5)	(12.6)
Profit on ordinary activities before taxation	33.1	32.2	41.1	55.2	65.2
Taxation on profit on ordinary activities	(4.1)	(9.7)	(14.2)	(16.6)	(19.8)
Allocation to profit sharing scheme after taxation	—	—	—	—	(1.1)
Extraordinary items	(3.3)	(3.4)	—	(5.0)	(0.3)
Dividends	(12.9)	(12.9)	(13.7)	(15.6)	(18.4)
Profit retained	12.8	6.2	13.2	18.0	25.6
Earnings per ordinary share (pence)	10.1	7.8	9.4	13.5	15.3

Source: Scottish & Newcastle.

3.46. Scottish & Newcastle's turnover and operating profit for the last three years are analysed by class of business in Table 3.5.

TABLE 3.5 Scottish & Newcastle Breweries plc: analysis of turnover and operating profit by class of business

	1982-83		1983-84		<i>£ million</i>	
	Turnover	Operating profit	Turnover	Operating profit	Turnover	Operating profit
Wholesale beer, managed public houses, tenancies and maltings	457.1	48.7	496.0	56.9	539.0	65.0
Hotels	67.2	2.9	71.3	5.5	81.1	10.7
Wines and spirits, retail off-licences* and exports	116.5	0.3	124.9	0.7	86.8	0.1
Other	1.0	0.1	0.3	0.1	0.3	(1.0)
	641.8	52.0	692.5	63.2	707.2	74.8

Source: Scottish & Newcastle.

*Retail off-licences (Gough Brothers) were sold in 1983-84 and the figures for 1984-85 do not include any turnover or profit from this source.

3.47. At 28 April 1985 Scottish & Newcastle's issued share capital consisted of £58.6 million in ordinary shares of 20p each and £10.9 million in cumulative preference shares of £1 each. In addition Directors and employees held various options to subscribe for 3.9 million ordinary shares. In the company's most recent annual report it was stated that at 1 July 1985 the Norwich Union Insurance Group held the equivalent of approximately 6.05 per cent of the issued ordinary share capital. The Directors were not aware of any other shareholding which represented 5 per cent or more of such capital.