

The Boots Company Ltd

109. The Company is 57th in order of size among British companies measured by capital employed* and employs about 60,000 people, mostly in the United Kingdom. It is a public company with an issued share capital of £44.5m. Total net assets at 31 March 1972 were £125.2m including £99.5m of fixed assets and £25.7m of net current assets. Net world sales in the year ended 31 March 1972 were £303.5m of which £287.8m represented sales in the United Kingdom in that year. A profit of £34.2m was made, prior to tax, but after loan interest. A list of Boots' product ranges will be found at Appendix 9.

110. Boots owns two retail chains, one consisting of 1,398 chemist shops trading under the name Boots The Chemists (BTC) and the other of 196 non-chemist shops trading in houseware merchandise under the name Timothy Whites (TW). These latter are the 'Timothy Whites' shops remaining after the rationalisation which followed the acquisition of Timothy Whites and Taylors Ltd by Boots in 1968. All BTC shops have dispensaries supplying ethical drugs and over-the-counter medicines (when prescribed) and all the shops also sell over-the-counter medicines. These shops also sell diabetic, dietetic and baby foods; beverages and drinks; garden preparations and accessories such as insecticides and weedkillers; pet foods and equipment; surgical goods; baby requisites; sanitary protection; first aid; contraceptives; cosmetics; toiletries; photographic goods; batteries; and miscellaneous home goods such as washing-up liquids, soap flakes, vacuum flasks. The larger shops also sell some or all of the following types of goods:

stationery; art (pictures, statuettes, etc); fashion goods and miscellaneous gifts; books, audio (record players, radios, records); and houseware (tea sets, electrical household equipment).

Over 80 per cent of BTC's sales are however of typical chemist merchandise. Boots has its own distribution system supplying 50,000 product lines weekly to the retail chains.

111. Boots is also a manufacturer of ethical drugs, over-the-counter medicines, fine chemicals, cosmetics, toiletries, soap, household products, diabetic and dietetic foods, products for pets and gardens, and crop protection and animal husbandry products.

History and development

112. The Boots Company Ltd started with the chemist's shop in Nottingham which Mr Jesse Boot acquired from his mother in 1877. By 1883 he had ten retail branches and founded Boot & Co Ltd, with a head office in Nottingham. The company changed its name in 1888, first to Midland Drug Company Ltd and then to Boots Pure Drug Co Ltd. A Production Department was formed in 1885 to prepare and package Boots' own products but the sale in Boots' shops of the proprietary medicines made by other companies continued.

113. The number of Boots branches continued to expand. In 1893 there were thirty branches and in 1896 sixty-one. A period of rapid expansion followed through the formation of regional subsidiary companies so that by 1913 the company was operating 544 shops throughout the United Kingdom.

*The Times 1000 (1971-72).

114. The legality of corporate pharmacy was challenged during this period. It was ultimately established that a company could continue to use the title 'chemist' if it had a pharmacist on its board of directors with the responsibility for ensuring compliance with the provisions of the Pharmacy Acts.

115. A laboratory, originally set up to analyse materia medica to maintain high standards of purity, was expanded into a research division during the First World War.

116. In July 1920, because of age and ill health, Mr Boot sold his 100 per cent interest in the company to a United States drug company, Liggetts International Inc, but remained Chairman of the Board of Directors until 1926. In 1933 the equity in Boots Pure Drug Company Ltd (£1.5m) was sold on the English market. Thereafter the equity capital of the Group was progressively increased to its present level of £50m of authorised capital of which £44.5m is issued and fully paid.

117. During the period of American control of the Group, the retail side of the organisation continued to grow through the regional subsidiaries.

118. Between 1913 and 1939 the number of retail outlets expanded from 544 to 1,200. The research side of the company also continued to grow and Boots was among the British pioneers in the manufacture of insulin in 1923 and penicillin in 1942.

119. Although the original purpose of the manufacturing side of the business had been to ensure a supply of quality drugs to the shops of the company at the cheapest possible price, emphasis was increasingly placed, from about 1960 onwards, on the marketing of chemical and formulated products outside the shops of the company.

120. The formation of a Pharmaceutical and Fine Chemical Division in 1967, responsible for United Kingdom and overseas manufacturing and marketing, was followed by a substantial strengthening of its marketing resources both at home and overseas. The fruits of the Company's policy of expansion of its non-retail activities began to manifest themselves from this time onwards; between March 1967 and March 1972 the Company's annual sales at manufacturers' prices of its own products to third parties in the United Kingdom achieved a 102 per cent increase from £4.4m to £8.9m while world sales of these products made a 110 per cent increase from £23m to £51m.

121. Meanwhile in March 1968 the total number of Boots shops had reached 1,256 and retailing was re-organised under one subsidiary, Boots The Chemists Limited.

122. In August 1968 Boots acquired the whole of the share capital of Timothy Whites and Taylors Limited (TWT), a public company with an issued capital of £10.2m. TWT had carried on business mainly as a retailer of houseware and as a retail chemist, with 614 shops. Its turnover in the year before the acquisition was approximately £33m.

123. Boots bought in 1970 all the shares of Kenya Overseas Company Limited, a private company in Kenya trading throughout East Africa. The turnover of the group at that time was about £700,000, representing sales of branded and

unbranded pharmaceuticals and toiletries and soap. The company was bought in order better to sell Boots' products in East Africa and to provide Boots with a manufacturing facility within the protective import tariff of the area.

124. In 1970 Boots acquired an 80 per cent interest in the David Rabot Group of companies, a French pharmaceutical organisation with both manufacturing and research facilities in France and with an annual turnover of £850,000 at the time of the acquisition.

125. In 1971 Boots acquired from Arthur Guinness and Company Ltd all the share capital of the Crookes Group of Companies. That group has factories at Basingstoke and Dublin where it manufactures over-the-counter and ethical medicines and veterinary products. It also manufactures and markets on an international basis a number of toiletry products.

Structure

126. The principal management units under The Boots Company Ltd are:

- (a) Boots The Chemists Ltd, responsible for the operation of the retail chemist chain and for central buying, warehousing and distribution.
- (b) Boots Pure Drug Company Ltd, responsible for United Kingdom manufacturing and marketing to third parties, to the retail subsidiaries and to Boots Farm Sales Ltd.
- (c) Boots International Ltd, responsible for exports and the operation of overseas subsidiaries.
- (d) Timothy Whites and Taylors Ltd, responsible for the operation of the chain of houseware shops.

127. Boots Pure Drug Co Ltd and Boots International Ltd are purely management companies (each with a capital of £100), acting for The Boots Company Ltd. Boots The Chemists Ltd, and Timothy Whites and Taylors Ltd, on the other hand, are trading subsidiaries which own their assets and prepare separate financial accounts. A list of Boots' subsidiaries will be found in Appendix 12.

Research and development

128. Research and Development at Boots is organised departmentally as follows: Pharmaceutical Research (including a laboratory in Paris); Agricultural Research (including a research station in Australia); Development Laboratories; and Administrative Services. These departments are responsible to a Director of Research.

129. The research facilities include two modern laboratory blocks of 80,000 and 60,000 square feet; a 26-acre site for horticultural research, including laboratories and greenhouses; a 1,000-acre estate including three farms and laboratories for animal husbandry research and crop protection trials. The Australian research station includes a large farm where tests are carried out on semi-tropical crop plants.

130. Boots has two Development Departments. One of them, reporting to the Director of Research, is concerned with the development of medical and agro-chemical product formulations. The other is responsible to the 'Own Goods' Marketing Manager and carries on the development and packaging of cosmetics, toiletries, household goods, soaps, etc; it also provides a packaging development service for medical and agro-chemical products.

131. The amount spent on research and development in the year 1971-72 was approximately £1.6m, of which £0.768m was for pharmaceutical research and development, £0.649m for agricultural research and development, and £0.185m for consumer products development. In the early 1920's Boots was a pioneer in the field of insulin. Currently it has a number of drugs from its own research and development, including 'AMC' and 'Dybenal' (antiseptics used in 'Strepsils'); and, most recently, ibuprofen, brand-named 'Brufen' by Boots, a drug for the treatment of rheumatic disorders.

Production

132. The products with the manufacture and marketing of which Boots Pure Drug Company Ltd is concerned are chemicals, pharmaceuticals, medicines, toiletries and cosmetics, specialist foods, beverages and drinks and a variety of products such as soap and household disinfectants and washing-up liquids.

133. There are two factory sites for the manufacture of chemicals, one at Nottingham and the other on the company's main site at Beeston. Manufactures include opium derivatives (mainly codeine), insulin, ibuprofen, potassium permanganate, saccharin and its by-products, various selective herbicides and a range of chemicals for human and veterinary medical use. Manufacture of antibiotics was discontinued in 1968.

134. There are four factory sites for the manufacture of pharmaceuticals and other products, at Airdrie, Basingstoke, Dublin and, by far the largest, at Beeston. The range of manufacture covers:

- (a) Medical ethicals, including ethical branded products promoted to doctors and dispensed by private chemists as well as Boots The Chemists shops: generic products such as oxytetracycline and penicillin preparations and other products for use by hospitals and dentists.
- (b) Agro-chemicals, including herbicides, vitamin and mineral supplements, seed dressings, sheep dips, fungicides, dairy hygiene and veterinary products.
- (c) Crookes-Anestan products, consisting mainly of artificial sweeteners and deodorants.
- (d) Products, manufactured under contract to other pharmaceutical manufacturers and to multiple grocery chains, including proprietary medicines, general tablets, toiletries and soap; and chemicals supplied in bulk to various customers.
- (e) A considerable inventory of products known as 'Own Goods' for sale through the Group's own shops only, including over-the-counter medicines; a wide range of toiletries including toothpaste, hair sprays, deodorants, shampoos, hand creams, shaving preparations, suntan preparations, perfumes, talcs, bath preparations, baby toiletries, cosmetics and men's toiletries and soap; household and pet and garden products; and specialist foods and drinks.

Distribution, marketing and sales

135. 80 per cent by value of the goods sold in Boots' retail shops is distributed through Boots The Chemists' own distribution system. 20 per cent by value of the goods sold in them is distributed to them either direct by the manufacturer

or, to a lesser extent, by wholesalers. The principal goods not passing through Boots' own distribution system are:

- (i) prescription medicals and other prescription items (eg surgical) not, or not immediately, available through Boots' distribution system but obtained through wholesalers;
- (ii) cosmetics and toiletries supplied direct by the manufacturer to particular branches under a franchise system;
- (iii) bulky merchandise where satisfactory direct delivery is afforded by the manufacturer or his distributor;
- (iv) all gramophone records.

136. The operation of Boots' own distribution system ensures that the majority of the retail shops receive a daily delivery of particular ranges of goods; this involves distribution first from central warehouses through a regional distribution centre (RDC) appropriate to the shop, and thence by delivery vans at stated times. Transport from warehouse to RDC is by independent contractor; and from RDC to shop partly by such contractors and partly by Boots' own vehicles.

137. Medical ethicals are promoted by two sales forces:

- (a) 60 representatives calling on general practitioners, wholesalers, independent chemists and selected hospitals; and
- (b) 10 representatives calling on hospitals only.

138. The agro-chemicals department sells mainly to Boots Farm Sales Ltd, but also to other manufacturers. Veterinary products are sold to agricultural merchants and veterinary chemists, including some Boots The Chemists' shops, and to veterinary surgeons and wholesalers who deal with them.

139. Crookes-Anestan products are sold to outlets other than Boots The Chemists by a sales force of 21 representatives calling on both retailers and wholesalers. As stated in paragraph 134 (e) 'Own Goods' are sold only in the Group's own shops, mainly through Boots The Chemists but also through Timothy Whites. The most important sections of the inventory are medicines, cosmetics and toiletries which together account for over 60 per cent of 'Own Goods' sales.

Retail

140. The Boots Company operates, through Boots The Chemists Ltd, 1,398 retail branches in the United Kingdom, ranging from small chemist's shops of 400 square feet to large stores of up to 40,000 square feet of sales area. Every shop has a dispensary. The goods supplied at the dispensary are mainly ethicals, but over-the-counter medicines (eg cough mixture) are supplied at the dispensary when prescribed. Every one of the 1,398 retail branches is managed by a qualified pharmacist.

141. After the merger with Timothy Whites and Taylors Ltd it was agreed that all 'chemist' shops in the group should trade under Boots' name and all houseware shops under the name of 'Timothy Whites' (TW). The TW shops numbered 614 prior to the acquisition; those now trading as 'Timothy Whites' in the non-chemist retail section number 196.

142. The value of sales through Boots The Chemists shops was £258.9m in 1971-72. Of this total 14.8 per cent represented medicines dispensed under the

National Health Service and 85.2 per cent over-the-counter sales including private dispensing. (These sales are at retail prices and include Purchase Tax.) For the financial year 1971-72 goods manufactured by Boots accounted for 15.3 per cent of total goods supplied to its retail shops; 84.7 per cent of these goods were made by other manufacturers.

143. Boots has informed us of its view that, while the number of Boots retail branches may not dramatically increase, representation will continue to improve with larger modern shops, stocked with an expanding and up-dated inventory; the branches are, however, unlikely to increase their share of dispensing; the independent pharmacist in residential areas is gaining a bigger share of the market at the expense of the nearest Boots, normally situated in the main shopping centre.

Overseas organisation. Exports

144. Boots International Ltd is a management company responsible to The Boots Company Ltd for:

- (i) exports from the United Kingdom;
- (ii) the overseas subsidiary companies of The Boots Company Ltd;
- (iii) the overseas business of Crookes-Anestan Ltd.

The main overseas subsidiaries are in Australia, France, India, Italy, Kenya, New Zealand, Nigeria, Pakistan, Singapore and South Africa. Boots' exports from the United Kingdom, including sales to subsidiaries, for the year ending March 31 1972 were £7.3m, of which over 70 per cent was accounted for by ethical and over-the-counter pharmaceutical products. Sales by overseas subsidiaries for 1971 were £9.6m, of which about 75 per cent was accounted for by ethical and over-the-counter pharmaceutical products. Boots' total exports and overseas sales, after deducting sales to subsidiaries, were £15.8m.

145. The growth of Boots' sales and profits is attributed by Boots primarily to the re-organisation of the export marketing division of Boots International Ltd and the introduction of the new anti-rheumatic drug, Brufen. The export sales of Brufen are running at £2m per annum out of total export sales of pharmaceutical products of about £5.3m. Sales by overseas companies increased from £4.2m in 1967 to £9.6m in 1971.

Industrial relations

146. Since 1968 Boots has initiated and developed a system of local negotiations and collective agreements against a background of rapidly changing industrial relations. In the production and distribution sectors, Boots has such an agreement with the Union of Shop, Distributive and Allied Workers and with the Transport and General Workers Union, covering 4,000 production and warehouse workers on 6 sites; in the craft section there is a house agreement with the engineering craft unions; and in the scientific sector negotiating rights have been granted to the Association of Scientific, Technical and Managerial Staffs in respect of two groups of laboratory staff.

147. There are two contributory pension schemes: the General Pension Scheme and the Pharmacists' Pension Scheme. The former covers all works employees and most staff employees and is linked to retirement at the age of 65. The Pharmacists' Pension Scheme covers all pharmacists employed in the

retail side of Boots and middle and senior management throughout Boots and, being linked to retirement at the age of 60, is based on higher contributions than the General Scheme. Both schemes are fully funded and the Company contributes at double the rate of each member.

148. Boots also has a redundancy scheme which we understand to be more generous than required by the national statutory entitlement in that it is divided into (a) a cash element which in terms of entitlement is higher than the national scheme at every point, and is not limited as the national scheme is to a maximum entitlement based on twenty years' service nor a maximum entitlement governed by a maximum limiting rate of pay; and (b) a pension augmentation element under which a redundant employee over 50 years of age (45 if a woman) is credited with notional extra service qualifying him towards some increase in his pension entitlement, the extent of that notional service credit being governed by his length of actual service.

149. Boots also has a profit-sharing scheme under which $8\frac{1}{2}$ per cent of its profits in the United Kingdom before tax are put into a Profit Earning Fund and shared among the staff in the United Kingdom on the basis of salary and service. The amount of bonus paid out in 1972 was over £3m, shared by 40,600 employees, and payments ranged between 5.7 per cent and 17.2 per cent of the individual's annual salary.

Litigation

150. According to the offer document issued by Boots in its bid for Glaxo, Boots is not currently 'engaged in any material litigation and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened against Boots or any subsidiary'.

Financial information

151. We obtained from Boots figures showing the results of its trading during the six years ended 31 March 1972. Those figures are shown in Appendix 13 where we also give analyses of Group sales. It will be seen that in the six years, sales doubled and profits increased by 130 per cent; however, part of this growth arose from the activities of newly acquired subsidiaries (including Timothy Whites and Taylors in 1968-69). Sales of Boots' own products in the United Kingdom increased from £18.2m in 1967-68 to £33.7m in 1971-72; export sales increased from £2.8m in 1967-68 to £7.3m in 1971-72, owing primarily to the re-organisation of the export marketing division of Boots International and more recently to the introduction of Brufen. Sales of overseas subsidiaries also increased significantly. The analysis of sales shows that United Kingdom retailing provided much the greater part of the Group's total sales but, whereas sales over the counter are at retail prices inclusive of purchase tax, non-retail sales are at manufacturers' prices ie before adding distributor's margins and purchase tax.

152. It will be seen by reference to Appendix 13 that in the period of six years to 31 March 1972 profits expressed in terms of capital employed varied between 20.6 per cent (in 1969-70) and 29.1 per cent (in 1971-72), the latter rate representing a sharp increase over the levels reached in the previous five years.

153. We have described in Appendix 14 the exercise which we carried out

regarding the sizes (net assets) and profits of a sample of companies in United Kingdom manufacturing industry in 1969. On the basis referred to, Boots' profit as a percentage of net assets was 19.2 per cent, a rate significantly above that for United Kingdom manufacturing industry as a whole.

154. Boots has not raised any funds externally since 1958. Its expansion over the ten years to 31 March 1972 (before taking into account the acquisition of Timothy Whites and Taylors) was financed from retained profits and depreciation provisions.

CHAPTER 6

Evidence and Views of Third Parties

Hearings

155. We received written statements of the views of the Association of Scientific, Technical and Managerial Staffs, the Department of Health and Social Security, the National Research Development Corporation and the Union of Shop, Distributive and Allied Workers, and, as indicated in the Introduction to this Report, we also heard oral evidence from their representatives.

National Research Development Corporation

156. Linked with the question of the ability of the proposed Beecham/Glaxo enterprise to market products overseas is the question of the agreements entered into by the National Research Development Corporation (NRDC) with regard to cephalosporins. As indicated in paragraph 44, Glaxo makes some of its cephalosporin products by using basic processes covered by NRDC Patents under licence from the Corporation. In the event of a takeover of Glaxo by any other company NRDC has the right to terminate the licence. The Corporation's representatives told us that in that event the Corporation would consider itself obliged to grant a fresh licence to the successful bidder. Fresh terms would have to be negotiated for the new licence and this could have certain disadvantages.

Department of Health and Social Security

157. The representatives of the Department of Health and Social Security, the Department which has the responsibility of safeguarding the public interest by endeavouring to contain the cost of supplies of drugs by pharmaceutical manufacturers to the National Health Service, told us that certain aspects of the Voluntary Price Regulation Scheme, under which the Department discusses the prices of such supplies with individual manufacturers, were currently the subject of discussion with the Association of the British Pharmaceutical Industry. The Department was looking forward to a satisfactory completion of these discussions with the Association. In the meantime the Department did not expect any special difficulty, as a result of the merger, in negotiating drugs prices with either Glaxo and Beecham merged or Glaxo and Boots merged.

Association of Scientific, Technical and Managerial Staffs

158. The Association of Scientific, Technical and Managerial Staffs opposed both mergers on the grounds that the interests neither of the public nor of the