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POLICIES AND INSTITUTIONS TO PROMOTE INDUSTRIAL REORGANIZATION AND MERGERS: THE EXPERIENCE OF THE UNITED KINGDOM 1/

by

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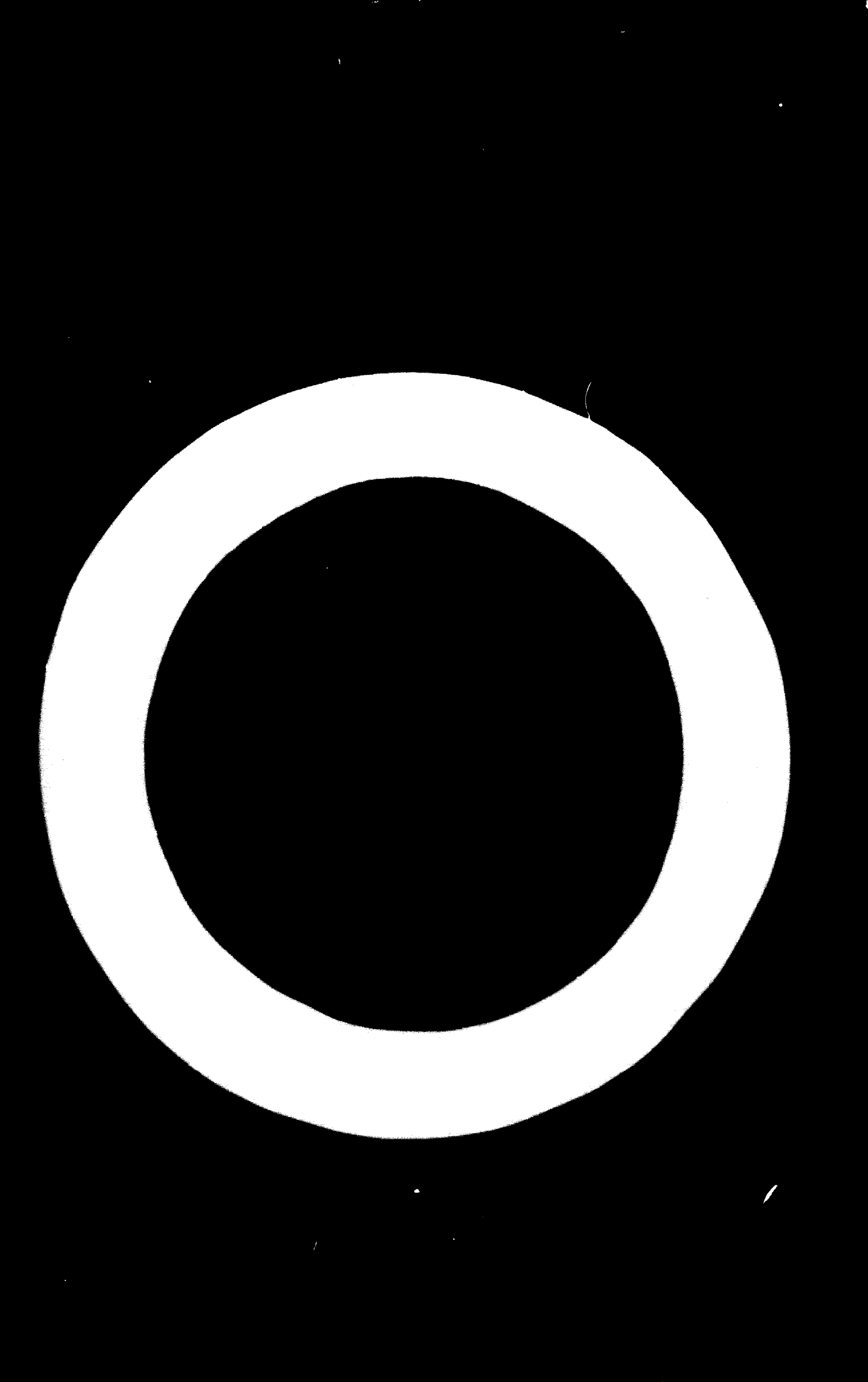

DISCUSSION PAPER FOR EXPERT MEETING OF
UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANISATION
VIENNA, NOVEMBER, 1972

Policies and institutions to promote industrial reorganisation and mergers; the experience of the United Kingdom.

by

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(a) The present structure of industry:

The first major wave of mergers in the United Kingdom took place around the 1890s, the second in the late 1920s, and early 1930s and the last merger wave, which is far from being spent, started in earnest in the mid-1950s. The first wave of mergers led to a degree of concentration, the second to a measure of rationalisation, particularly in basic and old-established industries, such as steel, coal, cotton and shipbuilding. The third wave brought about further concentration in selected sectors of manufacturing and distribution, it also aided the development of the 'conglomerate' and it was instrumental in restructuring industry in the United Kingdom.

The causes of the current thrust for mergers are numerous. The introduction of mass production was followed by the need for mass distribution, and, subsequently, by the demand for mass finance - hence no sector of the economy has escaped pressure for a measure of concentration. Also, there have been too many companies making or marketing too wide a range of products. While competition - hence concentration by merger - has played a part in reducing the number of firms, defensive strategies have sometimes, too, lead to mergers, and, more recently, so has the desire for diversification resulting in the birth of the conglomerate. The process of fragmentation of industry has been largely arrested in the mature economy of the United Kingdom.- certainly in a number of significant sectors.

United Kingdom industry has become markedly more concentrated since the second world war; nonetheless, few large individual firms dominate any given sector - except for a handful, and mainly in strategic industries; but the importance of large companies in many industries has grown - both as suppliers of goods to the market and as employers of labour and of capital.

(b) Changes in industry structure during the past ten years:

The structure of United Kingdom industry has changed significantly during the past twenty years. Small firms - employing 200 people, or less - accounted for 94 per cent of all firms in manufacturing in 1963, but they employed only 20 per cent of the labour force; hence 6 per cent of the firms employed 80 per cent. In retailing - traditionally the small man's business (i.e. firms with a turnover of £50,000 per annum, or less) - small firms accounted for 96 per cent of all firms, and for 49 per cent of all employment. Hence, fragmentation in retailing is greater than in manufacturing. (Table 1)

In some industries concentration is significant inasmuch as the three largest firms account for over 50 per cent of the output of the appropriate branch of industry. Among the more important of such industries are man-made fibres, mineral oil refining, tobacco, sugar refining, dyestuffs, margarine, detergents, cement, steel tubes, watches and clocks, asbestos, cables and wires, electrical machinery motor cycles, vegetable and animal oils and fats.

In certain other industries, such as dress manufacture and lingerie, housebuilding and construction, timber merchanting, household textiles, printing and publishing, furniture, hosiery and knitted goods, and in womens' wear, the degree of concentration, while growing, is unlikely to be significant since the combined output of the three largest firms in the industry accounts for less than 15 per cent of the business - in many instances very much less. (Table 2). (While the Census of Manufacturing figures in Table 2 refer to 1951 and 1958, there is no reason to suppose that the pattern has changed radically in the Census of 1963.)

It can be argued that, in those trades and industries where the price of entry is high - where research is vital, productive equipment expensive and manpower needs call for special skills - a higher degree of concentration will be found; per contra, where the price of entry is low - as in the manufacture of dresses or in basket making, for instance - where the skills needed are easily acquired, fashion element high, and machinery easily obtainable on hire - fragmentation is likely to be high.

The decade of the 1960s has witnessed significant concentrations in a number of industries - both manufacturing and distributive. In manufacturing, perhaps the most significant was in electrical manufacturing, where only one major firm now exists - the General Electric-English Electric Company - as against three majors until the late 1960s - Associated Electrical Industries, English Electric, and General Electric. In the manufacture of nuclear reactors, the number of consortia capable of supplying a complete nuclear power station - embracing electrical, mechanical and civil engineering skills and capabilities - has been reduced from five in the 1950s to practically one by the 1970s. Significant concentration in structure has similarly taken place in shipbuilding, textile machinery, machine tools, ball bearings, scientific instruments, joint stock (deposit) banking, and most branches of retailing - particularly in shoes, chemists' sundries and food. The force of the multiples has increased their share of the retail trade from 24 per cent in 1957 and 32 per cent in 1966 to an estimated 40 per cent forecast by 1975. Almost all the diminution in trade was suffered by the independent - invariably small - trader.

(c) <u>Speed and direction of reorganisation</u>:

The number of mergers in the United Kingdom has steadily risen since published statistics have been available to chart their progress. Table 3 shows their steady increase in numbers and in value - with 1968 having been a bumper year when their value has rocketed to £ml.946. The highest number - 1,000- was reached in 1965, the year the Mergers and Monopolies Act was implemented.

Though the greater majority of acquisitions have been, and continue for the present, independent companies, not all acquisitions denote the loss of independence of one of the parties to the deal. It should be noted that during the past five years, there has been a perceptible trend in the sale of subsidiaries by one public company to another. These causes may be attributable to shortage of funds, change of main emphasis in the activity of the firm (e.g. concentration on hydraulic engineering, hence selling electrical engineering subsidiaries), desire for concentration, lack of management in a subsidiary, expense of diversified research, etc. Table 4 shows the rising tide of selling of subsidiaries - whose number increased from 102 in 1969 to 264 in 1971.

The type of merger or acquisition which best serves the aims of concentration is the horizontal merger; that is when two companies manufacturing or marketing roughly the same type of products or services combine forces. In the opening years of the present merger movement in the 1950s and early 1960s, probably the majority of all mergers were of the horizontal variety. Records of mergers classified by type have been analysed by the Monopolies Commission, but these only included a survey of 771 mergers - based on the 2,024 companies analysed for the years 1958 to 1968, and only of companies (a) with net assets of £m0.5 and over at the beginning of 1961, and (b) engaged principally in the United Kingdom and had a quotation at the beginning of 1961 on a federated Stock Exchange. Their research, set out in Table 5, indicates that while in the period 1958/1960 some 62 per cent of all companies merged - taking manufacturing and distribution - were of the horizontal variety, this percentage was reduced to 51 per cent by 1968. In manufacturing alone, the ratio of horizontal mergers to vertical mergers has always been higher than in distribution and service industries.

The research work of the Monopolies Commission on the sample of 771 mergers has also included an analysis of concentration in a number of industries. Their report shows that: "The largest reductions in the numbers of companies were in textiles (88), drink (85), non-electrical engineering (82), wholesale distribution (71), electrical engineering (47), retail distribution (47) and food (46). The largest reductions as percentages of the number of companies in classifications at the end of 1957 were drink (63 per cent), food (54 per cent), chemicals (45 per cent), vehicles (44 per cent), bricks, etc., etc., (43 per cent), electrical engineering (42 per cent) and textiles (41 per cent). Of the 2,024 companies in the population at the end of 1957, 771 (38 per cent of the original figure) had ceased to exist as independent trading organisations by the end of 1968. In the manufacturing sector, 600 companies (40 per cent of the number at the end of 1957) were merged; in the distributive and service industries, 171 companies (33 per cent of the number at the end of 1957) were merged." (1)

(1) A Survey of Mergers, a paper prepared by the Staff of the Monopolies Commission Department of Trade and Industry, HMSO, London 1970. p.4

Attention should be drawn to the fact, however, that the Monopolies Commission's sample was based on 2,024 companies at the end of 1957 and that no attention has been paid to companies which could have been added to this sample over the years - namely those whose net assets increased beyond £m0.5 during the ten year period to 1968. Had the potential new entrants qualified for admission into this sample, there is little doubt that their number would not have been reduced from 2,024 in 1957 to 1,253 by the end of 1968. Their number would be considerably higher despite the 771 mergers which have taken place in this particular sample of companies; how much higher must remain a conjecture.

This observation about the continuing rise in numbers of substantial companies - in this case to meet the asset test of £0.5m - should be considered as more than just of passing importance. The number of private companies floted on the market each year to become public companies totalled 1,619 (1) between 1958 and 1967, as against the 1,253 being acquired, in the corresponding period. Hence the stock of substantial firms continues to grow, and, therefore, in certain branches of industry, the process of concentration is likely to slow down, and in others it may even fragment! However, this is not a serious hazard.

One further feature impacting on reorganisation of industry is the occasional decline of substantial, sometimes of giant, companies: such firms sometimes go insolvent or bankrupt; but, more usually, they are acquired, often by smaller firms with managerial excellence and this enables the smaller firm to become a very large firm much more quickly. When a smaller firm is injected into a large firm with the owners of the smaller firm finishing up in control, then a 'reverse takeover' has occurred.

Finally, an important aspect of industrial and commercial reorganisation is the telescoping of the time-scale. Nowadays, it takes a much shorter time to start a new firm, to run a successful company and to become large, sometimes very large. Similarly, the penalties of unsuccess are also swifter and companies can more quickly suffer reversals.

(1) Companies General Annual Report for 1967, Table 4, p.23 Board of Trade, HMSO, London, 1968.

(1) See also Table 9.

II Industrial reorganisation and mergers:

(a) Government reliance on competition to promote efficiency:

Successive governments have attempted to raise industrial efficiency by encouraging competition, and this has undoubtedly lead to a measure of concentration. However, governments have been deliberately selective in their approach to concentration by encouraging mergers in certain sectors and discouraging them in others. The fragmentation of parts of United Kingdom industry was recognised by successive governments since the end of the second world war, and, in particular, since the mid-1950s. Government measures from time to time have endeavoured to arrest this fragmentation.

Between the two world wars, United Kingdom industry enjoyed substantial tariff protection in the domestic markets, and some degree of preferential treatment in overseas Commonwealth markets. As Commonwealth preferences waned, and as an effect of the GATT, tariff reductions were carried out in industrial countries to promote world trade, the increasing competitiveness of British industry became a matter for survival.

The liberalisation of imports is a powerful weapon in exposing the weaknesses of industry. In the machine tool industry it has shown that, while Britain exports bulk, it imports refinement. The unit value of bulk, i.e. simple machine tools, is comparatively low, and the unit value of sophisticated machine tools is high. In the electrical industry, the threat of importing large power transformers (from Canada, for instance) for use in a nationalised industry has been a sobering thought, and so has, more recently, the actual placing of certain orders for telephone equipment abroad for the British Post Office - a public corporation.

The need to export, and to withstand overseas competition has undoubtedly assisted in the reorganisation of industry - and this can best be seen in the waves of concentration which have taken place, inter alia, in the motor car industry. Apart from specialist motor car makers, manufacturing in low volume for a specialist market of affecionados, even the two leaders of motor manufacture in the United Kingdom in the 1960s - two large firms, Leyland Motors and British Motor Corporation - had to merge in 1968. While the motor industry is the United Kingdom's largest exporting industry, the reorganisation of the industry is probably not over yet. The need for restructuring the motor industry by mergers was forced upon the industry, partly by the necessity to export, as well as to protect its home market where local American producers - coupled with a rising tide of imports - have proved to be merciless competitors.

The United Kingdom's eventual accession to the European Common Market has been considered inevitable by successive governments, and preparations for that eventuality had to take into account the general level of competitiveness of British industry. While in the European Free Trade Area - that half-way house between complete independence and the membership of the European Economic Community - British industry was by far the most dominant entity; in the new scheme of things, when the United Kingdom enters the Common Market in January, 1973, this will no longer be the case.

The success of the GATT, the rise of Japan, the growing competition by countries both from East and West have alerted United Kingdom industrialists to the need for restructuring their industries for added competitiveness. This process of restructuring has been given impetus in the United Kingdom, more by the government's favourable attitude to mergers than by its actual fiats. By the late 1950s governments began to look with favour upon reconstruction by mergers.

(b) Government reliance on private initiative to improve industry structure:

In addition to the external forces impinging upon industry and channeling changes towards reorganisation and reconstruction, there is, too, the private initiative of industrialists to hasten this change, and, similarly, the professional advisers of industry recommending and supporting reorganisation in anticipation of change.

The restructuring of industry under private auspices - that is on the initiative of the participants, who are directors of companies, or upon the initiative of advisers to companies, the bankers and the brokers - is a voluntary act. Reconstructing under such conditions may contain an element of the national interest, but this contribution must be considered as a by-product of entrepeneurs' anticipations of gain through 'better business'. The motivating forces for mergers or acquisitions are varied; the enlargement of a business, the achievement of greater competitiveness, attempts at reduction of competition, opportunities for establishing new markets, increase in the volume of production, with a corresponding reduction of costs, hence, possibly, of prices - these are all potentially important considerations. All these objectives are worthy and can serve the purpos s of the 'economic good'; however, all these objectives are in reality only means to an end. The end result for the industrialist must be, in some measure, an increase in profitability of the merged enterprises, or a degree of added stability of business, or halting the financial deterioration of the companies by means of rationalisation.

With these objectives of 'betterment' in view, there is little doubt that mergers and acquisitions have become important adjuncts of business expansion by external means. This fact is brought out in relief in Table 3 by the merger statistics which reveal that while the value of mergers was around the £m130 average annual, between 1954 and 1958, this rose to about £m900 between 1969-1971. Businessmen have always acquired other men's businesses, and this tendency has been encouraged and reinforced from time to time by government support. On account of the ever-growing ramifications of business enterprise and of the complicated processes of taking them over, numerous skills have developed over the past fifty years or so, the use of which help to make company marriages more successful.

Even if the industrialist himse f seeks out hi likely potential partner, he may not wish or is not sufficiently experienced himself to negotiate a proposed acquisition and is likely to call in an intermediary - a banker or broker - to help him. Then, there is the verification of the chosen company's financial position, which is the task of the reporting accountants, and when, finally, a price has been agreed, the assets and profit verified, then the specialised skills of tha corporation lawyers are called in to draw up the legal contract for transfer of ownership. All these professionals play an important role as specialist advisers.

The role of the merchant banks has been, and remains, important in mergers - particularly in the case of public companies (that is, companies whose shares are quoted on the Stock Exchanges), and even more so when the public company bid for decides to oppose the bidder company. The merchant banks have the mechanism for dealing with contested bids and, invariably, both the attacking and the defending companies appoint their own merchant banking advisers. A contested merger is called a 'takeover bid', and whether or not such a bid is successful depends upon a combination of the assiduity of the bidding company's board of directors, assisted by the skills of its merchant banking adviser.

There is a large, and growing, number of merchant banks operating in the United Kingdom - both in London and in the provinces. Some of the merchant banks have a well-established reputation for the successful handling of contested, and also of uncontested mergers. It should be noted that when merchant banks handle merger negotiations, the company bid for has been usually chosen by the bidding industrialist, who instructs the merchant bank to act for him. Merchant banks sometimes also endeavour to suggest possible merger combinations to their clients, but this is not in the main-stream of their activities.

Little is known about the propensity of the joint stock banks' advisory role in the encouragement of mergers and acquisitions in the United Kingdom. Joint stock banks have, hitherto, not generally indulged in the activities of the merchant banks - though one or two of them have established merchant banking subsidiaries or have forged associations with them.

Perhaps it is appropriate to mention that joint stock (deposit) banks in the United Kingdom do not, as a rule, lend long-term to industry. Short and medium-term loans have been the staple business of these financial institutions. Hence, to successfully mount an acquisition by raising the necessary monies - if the purchase is for cash, or there is, as there must be, a cash alternative to shares offered - the joint stock banks (in the past at least) could only provide temporary accommodation to the bidder by way of bridging finance, a facility which merchant banks also provide.

It is in respect of the strength of ties between bank and customer that the role of the joint stock banks in the United Kingdom is so different from those in the rest of Europe. On the Continent, joint stock deposit banks, as well as banque d'affairs, have substantial stakes in many industrial and commercial companies - hence the more intimate and more permanent nexus between the banks and industry. Companies with such associations cannot easily manoeuvre on the merger or acquisition front without the complaisance of their banks. Because banks, as a rule are conservative institutions, this may be a logical reason why the rate of mergers in Europe has been so much lower than in Anglo-Saxon countries. This point will be appreciated better when it is realised that, while in the United Kingdom alone, the number of mergers totalled 7,530[1] between 1961 and 1969, the number for the same period was only 3,153[2] taking all the mergers in all the countries of the European Economic Community.

Thus, the role of the merchant banks in the United Kingdom is important when one public company acquires another, or when a private company is acquired, and also when the acquiring company requires financial support and also financial advice. However, the forte of the merchant banks lies in contested bids, and here, of course, solely public companies are involved. (Contested bids are only possible between public companies). There can be no contest when a public company wants to acquire a private company, since the shares of a private company are not quoted on the Stock Exchange, but are held by the founder, his wife, and, perhaps, family, or a few other shareholders. Hence, the acquisition of a private company hinges upon the peaceful agreement of the shareholders to sell to another (usually, but not always, a public company)

The great majority of the acquisitions in the United Kingdom have been, and continue to be, private companies. While public company acquisitions, as a percentage of all acquisitions, accounted for 23 per cent in 1957, declining to only 8 per cent in 1965, they again rose to nearly 17 per cent in 1968 - a special year as it included several substantial bank mergers. In terms of percentage of the total - during the period - rising from a low of 42 per cent in 1956 to a high of 84 per cent in 1968 - in that exceptional year, but the average would be nearer 70 per cent.[3] Peaceful mergers and acquisitions have been important among public companies, but they are axiomatic between a public and a private company; while no statistical documentation appears to be available on this important aspect of 'company marriages', it may well be accurate to assume that, perhaps, between 90 per cent to 95 per cent of all merger activity in the United Kingdom is

(1) See table 3.

(2) Opera Mundi, Commission of EEC, in memorandum on industrial policy, March, 1970

(3) Based on detailed merger statistics compiled by the Department of Trade and Industry, London, but discontinued since 1969.

is, in fact, pacific - and not contested. The trend is in favour of agreed, peaceful mergers.

Peaceful company get togethers are the chosen sphere for the activities of the professional merger broker. There is no specific qualification for a merger broker - he may be an individual, a firm of lawyers, accountants or bankers, or, indeed, a specialist firm dedicated solely to the broking of mergers of companies. In recent years, merger broking has become more professional in the United Kingdom and specialist merger broking firms have been established. The business of these firms is exclusively the promotion of peaceful and planned mergers, and their skill is finding the right partners for firms in manufacturing and in the distributive and service industries. Unlike some other advisers to companies, professional merger brokers concentrate exclusively on merger work.

Merger brokers develop ideas for a get together between two companies; their main task, however, is to find a partner for a company wishing to acquire, or to find a buyer for a vendor firm whose owner wishes to sell. By far the greater part of the broker's work is to find sellers, as, invariably, buyers heavily outnumber sellers. On having been instructed by a company to acquire a specific firm, it must be assumed that the professional merger broker has previously discussed the requirements of his client in some detail and that the broker agrees with his client's ideas about a specific type of acquisition. The importance of a well prepared and argued out acquisition brief cannot be exaggerated, since a broker's reputation depends upon finding the right acquisition.

Merger brokers are not concerned with the accountancy examination of the vendor, or with the legal issues involved; their domain is to find the most appropriate partner for their clients, make a preliminary assessment of his suitability, help in the negotiations and assist in the determination of the price. Knowing the problems and aspirations of both parties, the broker's task is to bring them together under optimum conditions.

The most taxing task of the merger broker is to find a suitable acquisition candidate. The search to find such a candidate may take a long time. As an example, in the case of one merger broker, every year some 4,000 firms are contacted, about 1,000 are visited by the broker's directors or executives, perhaps as many as 400 companies are examined in some depth, but, at the end of the year, the number of companies negotiated or merged - for buying clients at home or abroad - is unlikely to exceed 28 or 30. What should not be unsaid is that, at any time during the year, the number of mergers and acquisitions negotiated by the same firm of brokers never falls under 250, sometimes over 300 - but both the rate of wastage and the rate of new candidates coming forward being quite high.

What are the reasons for one company wanting to acquire another, and for a company wishing to find a partner? Official 'findings' are woefully inadequate in publishing the reasons why one firm would want to acquire another, or why a firm wants to sell out. Admittedly, it is a difficult statistic to collect and assemble In a recent study of small firms (Table 6), the highest percentage of firms seeking to be acquired was due to 'financial failure', and the second highest was 'problems of succession' - that is, the founder not having anyone to whom to leave the business. Interestingly enough, the 'elimination of competition' was not found as important a cause as might have been expected. A further important reason is lack of 'financial resources' for expansion; then there is the need for acquiring 'professional management' to supplement the knowledge and experience of the owner-manager.

Some companies have grown to their limits on their own resources, and any further and more rapid growth necessitates joining up with another company which is in a position to supply special facilities in marketing, manufacture or research. But, in addition to corporate reasons, there can be many telling personal reasons - provision for 'death duties', the 'desire to retire', the 'wish to find some firm capable of managing his company and looking after the employees' - why the owner or the controlling shareholder of a company would want to be acquired

When contemplating the reasons why a company wants to acquire another, the purpose of the purchase must be carefully examined. Does the acquiring firm want to be bigger, does it want to diversify, or want to become an industrial holding company? Only when the acquisition objectives have been examined and critically discussed, and the financial capability to buy carefully assured, can the would-be acquirer begin to think of buying specific types and sizes of firms.

Why the selling company wants to be acquired, and why the buying company wants to buy, can then be ascribed to numerous causes, but one factor stands out, and should be stressed; namely that most corporate marriages are between successful companies. There are lingering thoughts among those unfamiliar with mergers that companies only want to be taken over when they are ailing or that the desire of a firm to acquire must necessarily have some hidden motives, such as elimination of competition or desire to buy a new lease of life, or simply the desire for aggrandisement by the owner. Such explanations come easily, but are invariably misleading.

(c) Role of a well-developed capital market in mergers:

There is little doubt that the United Kingdom has the most sophisticated and highly developed capital market in the world. Any class of borrower can obtain money, provided the firm is credit worthy, and has a sound project in view. It should not be unsaid, however, that businesses in the United Kingdom generate most of their capital requirements from their own savings, though a proportion of money requirements are also financed by capital issues and long-term loan monies.

Information tabulated in Table 7, and based on published sources, indicates that the means of payment for acquisitions varies over a period. The use of ordinary shares rose from 35 per cent of the expenditure on acquisitions in 1964 to 60 per cent in 1968. When companies show or expect to show good profits, shares stand high and buying by issue of ordinary shares is preferred. Buying a company for ordinary shares is one form of a capital issue, since it means the enlargement of the equity base.

Preference shares also rank as capital issues, though these have become unpopular in the United Kingdom compared to loan stock, as the preference dividend is payable by the company from post-tax profits; it is little wonder, therefore, that their popularity has declined from 4 per cent to 1 per cent of the expenditure of acquisitions between 1964 and 1968.

Long-term loans have increased from 5 per cent to 22 per cent during the same period. These loans are usually in the form of secured or unsecured notes, and often the notes can obtain a quotation on the Stock Exchange. The duration of these notes can be anything up to 15-20 years - thus, they offer additional liquidity to buy a company, for instance, without diluting the equity capital.

Those who wish to have a stake in the growth of the company acquiring their firms usually opt for a substantial proportion of the purchase consideration being paid in ordinary shares, while those looking for security of fixed income may want a proportion paid in notes or in cash. Cash has enjoyed waning popularity as a means of payment - declining from 56 per cent to 17 per cent between 1964 and 1968. The reason is not in any way a flight from money, but a testimony to the efficient operation of the capital gains tax. If the shareholders of an acquired company take cash for their holdings they are immediately liable for payment of capital gains tax - at a rate of 30 per cent; if, however, they take paper - ordinary or preference shares, or notes - then payment of capital gains tax is deferred until the paper which they received in exchange is sold. This way payment of capital gains tax can be deferred.

Raising monies for acquisition through the London capital market is a simple exercise. In the same way, obtaining a public quotation by placing about 35 per cent of the (newly floted) company's shares with the public is also a relatively easy task. Once a firm has acquired a public quotation, investors are ready and willing to subscribe to new shares, and thus provide additional capital for its expansion, if appropriate, for use in making acquisitions. Shares of already established public companies can also be 'placed' (sold) with institutions such as pension funds, financial trusts, investment trusts, and insurance companies - all of which are prepared to purchase a small proportion of many companies' shares for their investment portfolio. No financial institution wants to hold a really substantial percentage of any company's shares - unless a 'special relationship' exists between them.

For public companies the mechanism of raising money is often via merchant banks and stockbrokers - who also invest on behalf of their clients - private individuals as well as institutions. Financial institutions invest monies in private concerns too, and can provide the funds for a private company to take over another.

What facilitates the investor's propensity to invest in the shares of companies on the United Kingdom Stock Exchanges is the existence of a well-developed market in securities, where shares can be easily traded. Hence, there is usually a healthy market in the shares of most quoted companies - unlike in the financial centres of many other countries, where the shares of only a few companies are dealt in with any frequency and a proper price for the shares is, therefore, not easily established.

Table 8 shows the number of securities quoted on the London Stock Exchange since 1954, their nominal value and their market valuation at a fixed date each year. An interesting feature of the information in the table is that, while the number of securities dealt in has declined from 9,861 in 1954 to 8,978 in 1972, their market value has risen from £m30.503 to £m149.531![1] Here is an indication of the fact that companies have expanded and their shares have grown in value; the nominal amount of these same securities during the period under review has grown from £m26.653 to £m54.326 - by more than double.

(d) Non-obstructing legal framework:

The most important comment to be made on the legal framework in the United Kingdom about mergers is that it puts no obstacles in their way. The Companies Acts provide a legal framework and protection against fraud. A well-developed corps of expert corporation lawyers practice and among them a high degree of specialisation has developed.

To supplement the general provisions of the Companies Acts a City Working Party was set up by the Governor of The Bank of England in 1959 to consider good business practice in the conduct of takeovers. The working party consisted of representatives of the accepting houses, investment and unit trusts, insurance associations, clearing banks, issuing houses, Confederation of British Industry, pension funds and the London Stock Exchange. The City Code - embodied in a published code - does not have the force of law, but no company or its advisers would want to run counter to its recommendations, since, in an extreme case, the facilities of the City would be withheld from them. The City Code is a living body of regulations, and the Panel which administers it publishes a yearly report of its activities as well as a constantly revised rules of conduct. While the Panel has done good work in protecting the shareholder, for instance, voices have been raised to endow the Panel's instructions with more authority.

(e) Adequacy of accounting framework:

The United Kingdom is the cradle of modern accountancy and the professional institutes of accountants - just as the institutes of

(1) 1.394 securities are government stocks with a value of £m25.233

lawyers and other professional bodies - insist on high professional standards. Apart from the statutory accounting provisions of the Companies Acts, the Institute of Chartered Accountants issues notes on accountancy practice from time to time, to which all accountants and auditors perforce adhere. While accountancy remains an art, the interpretation of company accounts does not differ markedly between accountants.

The accounts of all companies must be audited each year by a 'qualified' or 'recognised' accountant. Auditors are engaged by the directors of companies, but report to the shareholders! Their remuneration is agreed by the shareholders of companies at their annual general meeting. Audited accounts are unquestioningly accepted by both parties to a merger or acquisition.

When a public company acquires another public company, the basis for financial facts is taken on the face value of the audited and published accounts. When a public company acquires a private company it is usual to send in a firm of reporting accountants to verify the assets, etc., of the private company. This is a precaution because the owner of a private company can change the disposition of his assets in a firm since the publication of his last accounts; after all, he is responsible only to himself, and this is why reporting accountants would prepare a report for the prospective buyer of the company. There are no accounting obstacles of any kind in the way of mergers in the United Kingdom.

(f) <u>Anti-monopoly legislation</u>:

The Monopolies and Mergers Act, 1965, is the first specific merger legislation introduced in the United Kingdom, though legislation on monopoly goes back to an act in 1948; it is a liberal law, and only under two specific conditions can, if the Department of Trade and Industry think fit, a merger can be referred to the Monopolies Commission. Thus, an inquiry can be ordered by the Commission if the proposed merger will bring about a market share of over 33⅓ per cent of the combined companies, or if the value of the assets of the company to be bid for exceeds five million pounds.

Since the passing of the 1965 Act, the work of the Monopolies Commission has expanded. In the four years, 1965-1968, the number of mergers considered by the Board of Trade totalled 318 (plus 49 mergers proposed in the fields of newspapers, banking and building societies) involving gross assets of £m3.858. It is interesting to note that 83 per cent of the mergers considered were horizontal! (1)

(g) Ownership of industry:

In 1971, some 16,680 public companies were registered (Table 9) and nearly 9,000 companies' shares were traded on the Stock Exchanges, (Table 8) as at March 1972. The number of private companies, also for 1971, totalled 560,551. The number of new company registrations during 1971 rose to 39,287.

Probably just over half of United Kingdom industry is privately owned; and about half of the private sector is owned by institutions and the other half by individual shareholders. (2)

III Government intervention to promote industrial reorganisation and mergers.

(a) Studies in structure of industry to identify reorganisation needs

Numerous studies have been carried out by the United Kingdom government scrutinising industrial performances or inquiring into the anatomy of industry. These included the Working Party Reports, issued after the second world war, in the late 1940s, the reports of the Board of Trade, National Economic Development Office, the Ministry of Technology, and now the Department of Trade and Industry; these have all examined sectors of industry, but, even if the need for reorganisation was recognised, the reports were not specifically prepared with this view in mind. Rather more formal studies focusing on mergers were carried out by the Industrial Reorganisation Corporation, but none of these were actually published; they were working papers examining the structure of industry from the vantage point of reorganisation.

(b) Help to start merger negotiations - IRC:

A bolder policy of government assisting in the negotiations for mergers was initiated with the setting up of the IRC by the Labour Government in 1966. The IRC was established "for the purpose of promoting industrial efficiency and profitability and assisting the economy of the United Kingdom ... to promote or assist the reorganisation or development of any industry: or, if requested, to

(1) Mergers a guide to Board of Trade practice, HMSO, London, 1969 Tables 1 and 2, pps. 25, 26.

(2) Estimates by the writer.

do so ... establish or develop or promote or assist the establishment or development of any industrial enterprise."(1)

Mergers and acquisitions were encouraged, e.g. to support better quality management, more efficient research, speedier development, better marketing and the use of up-to-date plant for achieving longer production runs. The White Paper on the IRC pointed out that "there was no organisation whose special function is to search for opportunities to promote rationalisation schemes which would yield substantial benefits to the national economy. Merchant banks and issuing houses carry through a great many mergers every year, but they can, in general, only act at their clients' request." (2) Because official blessing had been bestowed on mergers and acquisitions, and because government support was an objective by those wanting to carry out ambitious mergers, businessmen in large numbers approached the Corporation for its views and for advice. The IRC has achieved some of the founders' objectives in stimulating thinking abour reorganisation of industry; it has used its undoubted influence to effect numerous sensible new combinations in industry and it has contributed to the rationalisation of several industries - in special steels, process plant, materials handling and construction equipment, hydraulics components and instrumentation - just to mention some. Undoubtedly, the most far reaching industrial reconstruction supported by the IRC was in the electrical manufacturing industry, and in the ballbearing industry - in the case of the latter, the summary of a case study is published in the Appendix.

(c) Financial aid for mergers - IRC:

In the IRC the government has found the means to encourage industrial mergers meriting its support. All mergers are, in effect, acquisitions, with very few exceptions, and all acquisitions require financing. The scale of many mergers approved or initiated by the IRC were such that funds had to be found from the public purse to carry them through. Parliament voted £m150 for the IRC to support mergers when appropriate and by March 31st, 1970, its last year of operation, the Corporation invested £m80.5, some £m22.6 in equities.

It is in respect of how to spend the money put at the IRC's disposal that controversy arose about the role of the Corporation, and this

(1) Industrial Reorganisation Act, 1966, Section 2 (1) HMSO, London 1966

(2) Industrial Reorganisation Corporation, Cmnd. 2889, HMSO, London, 1966.

debate possibly led to its demise, under the Conservative government in 1971. Advancing loans to approved mergers was one thing, investing money by buying into companies via the stock market was another. After all, by backing its judgement with money, the IRC became both judge and jury in respect of investing in companies. In any case, the ability to buy into ordinary shares was not generally approved by the business or banking community.

(d) <u>Other institutional help:</u>

Apart from the IRC, governments can always find both the funds and the excuses to finance reconstruction in industry. The reorganisation of the aircraft industry and the pressure for mergers through the Shipbuilding Industry Board are only two examples of Government finding the necessary funds for supporting mergers in important strategic industries.

(e) <u>Possible aid for mergers in Industry Act, 1972</u>.

Though the Conservative Government abolished the IRC in 1971, in the following year it took powers to provide selective financial assistance to industry in Part II of the Industry Act, 1972, which became operative on August 9th. These powers are designed not only to expand and safeguard employment in the assisted areas, but also to strengthen British industry generally. The purposes for which assistance can be given include developing and modernising industry, promoting efficiency, ensuring orderly contraction, encouraging growth and promoting the reconstruction, reorganisation or conversion of an industry or company. It is therefore possible that in certain circumstances assistance under the Industry Act will be given to facilitate mergers.

Financial assistance to industry is widely drawn - and includes investment by acquisition of loan or share capital in any company, or extending guarantees, or providing loans or grants. However, no shares in a company can be acquired without the consent of the company, and, except in the assisted areas, not more than half of the equity capital can be acquired by the Government. There are also various other constraints on the acquisition and retention of equity capital. These limitations, as such, did not apply in the case of the IRC.

IV <u>Lessons to be drawn from the United Kingdom's experience:</u>

In most branches of manufacturing and service industries, varying degrees of concentration have been accomplished since the second world war. The rate of concentration has accelerated since the early 1960s.

An increasing and completely up-to-date example of how, in a decade, one section of industry can increase its concentration can be gauged from a simple calculation in Table 10 which portrays changes in an important sector of the electrical industry - appliances. This table shows that, in some cases, the number of suppliers has been reduced and so has the number of produc ts made by the ; in some appliances only one of the variables has declined, and, in others, either or both have increased. The ratio of concentration success is expressed in a declining average number of each appliance supplied by all its makers. In over 40 per cent of the appliances examined (14 out of a valid comparison of 33) a higher degree of concentration existed in 1961 than in 1951.

(a) Desire for growth:

Some enterprises have had to grow bigger to survive - atomic energy, motor manufacture, heavy electrical machinery makers, to mention some of the most obvious. An increase in size is also sought to provide an enhanced ability for the large corporations to supply a comprehensive range of products and services. It is suggested that there are optimal sizes for most enterprises.(1)

(b) Larger - better?

Large companies can become more efficient by becoming larger, but they do not necessarily become more profitable. Unless the industrial organisation is consciously and keenly geared to profits, the results of greater efficiency by an increase in scale may be dissipated. The difficulties of examining a segment of an industry over a period to monitor the benefits of concentration are well-nigh impossible. What is possible is the measurement of performance of a significant individual firm in relation to its industry. Such a firm is, for example, the General Electric-English Electric Company, whose four stages of development - (i) as an individual company in 1967-68, (ii) when the GEC merged with AEI in 1968-69, (iii) when GEC + AEI merged with EE in 1969-70 - and (iv) the combined efforts of the merged companies in 1971-72 - in terms of pre-tax profits, turnover, net assets and earnings per share, are well documented in Table 11.

(c) Government intervention effective:

As rationalisation and concentration by private enterprise, with government support of particular cases, has been broadly successful, stronger government policies are not needed in the United Kingdom; partially to replace the IRC, the government has instituted new measures in the Industry Act.

(1) The Economies of Large Scale Production in British Industry An introductory study by C. Pratten and R.M. Dean in collaboration with A. Silberston, Department of Applied Economics. Cambridge University Press, 1965, pps. 99-105.

TABLE 1

SMALL FIRM SECTOR AS DEFINED FOR THE INQUIRY ON SMALL FIRMS

	Statistical definition of small firms adopted by the Committee	Small firms as a % of all firms in the industry, 1963	Proportion of total employment in small firms, 1963	Average employment per small firm, 1963
	(1)	(2)	(3)	(4)
Manufacturing	200 employees or less	94%	20%	25
Retailing	turnover £50,000 p.a. or less	96%	49%	3
Wholesale trades	turnover £200,000 p.a. or less	77%	25%	7
Construction	25 employees or less	89%	33%	5
Mining/Quarrying	25 employees or less	77%	20%	11
Motor trades	turnover £100,000 p.a. or less	87%	32%	3
Miscellaneous services	turnover £50,000 p.a. or less	90%	82%	4
Road transport	5 vehicles or less	85%	36%	4
Catering	All excluding multiples and brewery-managed public houses	96%	75%	3

SOURCE: Reports on the Censuses of Production and Distribution and other official inquiries (and Research Unit Estimates). Quoted in Small Firms report of the Committee of Inquiry on Small Firms. Cmnd. 4811, HMSO, London 1971

All figures relate to enterprises but with the exception of Manufacturing relate only approximately to the year indicated.

TABLE 2

CONCENTRATION IN BRITISH INDUSTRY

In the following table output refers to the net output (gross output minus cost of materials, fuel, transport, etc.) of each industry in 1958. The concentration ratio is the proportion of that output which was contributed by the three biggest firms in the industry in 1958 and 1951 respectively.

The Census of Production for 1958 gives the concentration ratio for most industries. In other cases the maximum and minimum possibilities have been calculated and averaged. For example, in toilet preparations the census tells us that the top four firms have 28 per cent of output. This implies that the top three must have more than 21 per cent and obviously less than 28. So 24½ per cent is quoted as the average of the two figures, and, since the real value is most unlikely to be anywhere near the upper or lower possibilities, the average is probably a very reliable index. Where census information is too scanty to reach this degree of accuracy, the ratio is marked with an asterisk. In a few cases the ratio quoted should not be taken as more than a very broad guide to the true degree of concentration, and these have been marked with a double asterisk.

Figures for 1951 are taken from the book <u>Concentration in British Industry</u> by Evely and Little, published in 1960. They are based on the 1951 Census. Industry classification has altered since then: in a few cases it has not been possible to give a comparable figure for 1951 and in others where the 1951 figures have been put in brackets, the correspondence may only be

		CONCENTRATION	
	Output 1958 £m.	*Ratio* 1958 %	*Ratio* 1951 %
Man-made fibres	43	89	(82)
Mineral oil refining	31	87½	
Locomotives and track equipment	34	82	
Tobacco	78	80½	74
Sugar	15	78½	82
Dyestuffs	22	76	67–89
Explosives and fireworks	[illegible]	74½*	46–91
Margarine	7	70½	64–85
Soap, detergents, candles	29	69	71
Cement	23	67*	67–89
Steel tubes	58	65½*	(60–79)
Watches and clocks	5	65	62
Salt, non-metalliferous mining	10	64*	
Asbestos	13	62	60
Railway carriages, wagons	37	61½	
Abrasives	6	61	53
Metalliferous mines and quarries	5	59	41
Telegraph, telephone apparatus	36	58	74
Ordnance and small arms	31	58**	
Spirit distilling, compounding	37	57**	
Insulated wires and cables	[illegible]	57	48
Cycles and motor cycles	16	57	
Vegetable animal oils and fats	16	55**	
Fertilisers and pesticides	23	54½	58
Plastic materials and resins	26	54	(51)
Coke ovens, manufactured fuel	23	54	(63)
Linoleum and leathercloth	9	53	52
Cans and metal boxes	20	51**	46–61
Polishes	5	50	33
Glass	43	50	
Motor vehicles	194	47	
Farm machinery	10	46	40
Domestic electric appliances	22	45	
Cutlery	9	44**	45–60
Cocoa, chocolate, sweets	40	42	38
Gelatine, adhesives	2	42	41
Jute	4	41½	38
Industrial engines	21	41	
Aircraft	118	41	47
Coal-tar products	4	41	34
Lubricating oils, greases	13	41*	32
Electrical machinery	115	41*	(46)
Office machinery	12	40	34
Biscuits	19	39½	31
Grain milling	29	37½	33
Textile machinery	20	37*	36

TABLE 2 (Contd.)

	CONCENTRATION		
	Output 1958 £m.	Ratio 1958 %	Ratio 1951 %
Miscellaneous manufactures	13	37*	
Fruit and vegetable products	22	34	
Chemicals (general)	83	33	(36–40)
Rope, twine, net	3	33	36
Rubber	37	31½	33
Toys, sports equipment	8	31	
Animal and poultry foods	18	30½	(45)
Iron and steel (general)	111	30	
Miscellaneous electrical goods	29	30	
Soft drinks, British wines, cider	18	30*	(18)
Hand trucks, perambulators	2	30*	(29)
Paper and board	42	29½*	19
Bolts, nuts, rivets, etc.	14	29	25
Carpets	10	29	24
Milk products	12	28	21
Stationers' goods	4	27	26
Ships, marine engineering	84	27*	
Newspapers and periodicals	48	25½	24
Cardboard boxes, cartons, cases	12	25	17
Toilet preparations	7	24½	41
Contractors' plant	10	24	
Pharmaceuticals	20	23½	(19)
Scientific instruments, etc.	28	23½	21
Paint, printing ink	15	23	
Starch and miscellaneous foods	7	22	
Men's/boys' tailored outerwear	14	22	
Bricks and refractory goods	14	22	(18)
Bedding, etc.	2	22	(17–22)
Bread and confectionery	28	22	17
Mechanical handling	11	22	21
Bacon, meat and fish products	11	21	
Paper and board products	15	21	
Brushes and brooms	3	21	18
Jewellery, precious metals	8	20**	
Wire	12	20	23
Textile finishing	13	20	24
Miscellaneous building materials	18	19½	(22)
Radio, electronic apparatus	29	19	
Gloves	1	19	10
Cotton/rayon spinning, doubling	22	18½	
Iron castings, etc.	19	18	(16)
Machine tools	12	18	15
Non-ferrous metals	36	17½	20
Chalk, clay, sand, gravel	7	17½	20–26
Tools and implements	5	16½*	12
Industrial plant, steelwork	27	16	
Brewing and malting	23	15	11
Narrow fabrics	2	15	16
Miscellaneous textile industries	1	15	
Canvas goods, sacks	2	14½	8
Pottery	7	13½	(10)
Shop and office fitting	3	13	15
Hats, caps, millinery	11	12½	12
Engineers' small tools, gauges	7	12	
Lace	1	11½	8
Weaving of cotton, rayon, etc.	9	10½	
Stone and slate	3	10½	
General mechanical engineering	19	10	
Fur	1	10	13
Footwear	8	10	8
Plastics fabricating	3	10	
Weatherproof outerwear	2	10	(14)
Hosiery, knitted goods	9	9½	12
Leather tanning and dressing	3	9½	
Women's/girls' tailored outerwear	4	9½	
Corsets, miscellaneous dress industries	3	9	
Miscellaneous machinery	27	8½	
Woollen and worsted	11	8	8
Overalls, men's shirts, etc	2	8	
Furniture, upholstery	7	8	9
Printing, publishing, etc.	17	8	8
Household textiles	1	7½	
Miscellaneous metal goods	18	7	
Wooden containers, baskets	11	7	5
Leather goods	1	6½	7–9
Miscellaneous wood and cork products	1	6	
Timber	3	4	3
Construction	46	4	
Dresses, lingerie, etc.	2	2½	

TABLE 3

EXPENDITURE ON ACQUISITIONS AND MERGERS OF INDUSTRIAL COMPANIES (a)

Year	Number Acquired: Quoted Companies	Number Acquired: Non-quoted Companies	Number Acquired: Total	Expenditure: On Quoted Companies £m	Expenditure: On Non-quoted Companies £m	Expenditure: Less Trade Investment already held in these acquired companies £m	Total Expenditure £m
1954	42	233	275	59	45	-	104
1955	49	245	294	45	42	-	87
1956	44	202	246	54	76	-	130
1957	70	231	301	98	37	-	135
1958	60	273	333	79	40	-	119
1959	98	461	559	216	91	-	307
1960	84	655	739	180	178	-	358
1961	71	568	639	379	142	-	521
1962	66	574	640	225	167	-22	370
1963	80	808	888	180	175	-3	352
1964	72	868	940	267	337	-99	505
1965	80	920	1,000	359	168	-10	517
1966	80	727	807	387	125	-12	500
1967	97	666	763	658	193	-29	822
1968	158	788	946	1,660	326	-40	1,946
1969 (a)	113	794	907	660	313	-38	935
1969 (a)			846				1,069
1970			793				1,122
1971			884				911

(a) The figures up to 1969 are based on acquisitions reported in the published accounts of quoted industrial and commercial companies operating mainly in the United Kingdom. From 1969 they are based on acquisitions within the United Kingdom by U.K. industrial and commercial companies reported in the financial Press. Up to 1969 they exclude, and from 1969 include, acquisitions by companies in shipping and property and by companies operating wholly or mainly abroad.

TABLE 4

SALES OF SUBSIDIARIES BETWEEN COMPANY GROUP

Number and value of all acquisitions and mergers, less sales of subsidiaries, showing transaction in independent companies - 1969-1971

Year	All mergers and acquisitions		Sales of subsidiaries between company group		Acquisitions and mergers of independent companies	
	Nos.	£m	Nos.	£m	Nos.	£m
1969	846	1.068.9	102	99.7	744	969.2
1970	793	1.122.5	179	125.9	614	996.6
1971	884	911.1	264	165.5	620	745.6
1972 1st Qtr.	278	465.7	69	39.6	207	426.0
2nd Qtr.	326	421.5	63	44.8	260	375.0

SOURCE: Department of Trade and Industry, London.

TABLE 5

NUMBERS OF MERGERS AND CLASSIFICATION DISTRIBUTION 1958-1968

Period	Within same classification		Not within same classification		Total mergers		Total mergers per annum
	number	%	number	%	number	%	number
MANUFACTURING INDUSTRY							
1958/60	109	66	56	34	165	100	55
1961/63	101	66	52	34	153	100	51
1964/65	57	61	37	39	94	100	47
1966	22	46	26	54	48	100	48
1967	36	59	25	41	61	100	61
1968	43	54	36	46	79	100	79
Totals	368		232		600		
Average		61		39		100	54
DISTN. AND SERVICES							
1958/60	17	44	22	56	39	100	13
1961/63	16	30	38	70	54	100	18
1964/65	10	40	15	60	25	100	12
1966	5	28	13	72	18	100	18
1967	2	14	12	86	14	100	14
1968	8	38	13	62	21	100	21
Totals	58		113		171		
Average		34		66		100	16
ALL INDUSTRY							
1958/60	126	62	78	38	204	100	68
1961/63	117	56	90	44	207	100	69
1964/65	67	56	52	44	119	100	59
1966	27	40	39	60	66	100	66
1967	38	50	37	50	75	100	75
1968	51	51	49	49	100	100	100
Totals	426		345		771		
Average		56		44		100	70

A Survey of Mergers 1958-1968 a paper prepared by the staff of the Monopolies Commission, Department of Trade and Industry. HMSO, London 1970, p.6.

TABLE 6

REASONS FOR ACQUISITION GIVEN BY SMALL ACQUIRED FIRMS

Reasons for takeover of firms	Manufacturing and construction	Wholesale	Motor trade	Per cent Retail
	%	%	%	%
Financial failure	37	45	33	6
Succession problem	24	32	13	33
Estate duty payments	14	--	--	--
To eliminate competition	14	--	9	--
To provide tied suppliers	11	--	--	--
To acquire tied outlets	--	--	45	61
Other tax reasons	--	23	--	--
Total	100	100	100	100

SOURCE: Merrett Cyriax Associates, Research Report No. 12. Quoted in Small Firms, Report of the Committee of Inquiry on Small Firms, Cmnd 4811, HMSO, London, 1971, p.11.

NOTE: These figures give the percentages of small firms in existence in 1963 going into liquidation, ceasing to trade, or taken over by 1970; they exclude mortalities of firms established between 1963 and 1970.

T A B L E 7

EXPENDITURE ON ACQUISITION OF SUBSIDIARIES

	1964	1965	1966	1967	1968
	Per cent	Per cent	Per cent	Per cent	Per cent
Ordinary shares	35	43	54	50	60
Preference shares	4	2	1	1	1
Long term loans	5	11	18	26	22
Cash	56	44	27	23	17

<u>A Survey of Mergers 1958-1968,</u> A paper prepared by the Staff of the Monopolies Commission, Department of Trade and Industry, London HMSO, 1970, p.13.

TABLE 8

TOTAL NOMINAL AND MARKET VALUATIONS OF QUOTED SECURITIES FOR EACH YEAR FROM 1954

ALL SECURITIES

(i) Date of Valuation	(ii) No. of Securities	(iii) Nominal Amount	(iv) Market Valuation
31st March, 1954	9,861	26,653,126,011	30,503,221,012
31st March, 1955	9,954	27,749,159,273	33,796,351,830
31st March, 1956	9,988	28,852,615,940	33,633,269,887
31st March, 1957	9,979	29,674,715,813	35,794,453,143
31st March, 1958	9,893	30,126,916,906	33,101,815,616
31st March, 1959	9,800	30,503,139,402	39,020,461,388
31st March, 1960	9,591	31,292,768,886	45,068,174,830
31st March, 1961	9,355	33,332,489,385	50,951,363,550
31st March, 1962	9,175	33,620,518,115	50,223,580,402
31st March, 1963	9,134	35,737,829,193	55,309,110,100
31st March, 1964	9,191	37,696,399,778	59,841,170,263
31st March, 1965	9,299	39,168,280,731	75,154,668,343
31st March, 1966	9,431	40,213,911,136	78,163,829,766
31st March, 1967	9,586	43,618,271,351	82,033,466,228
31st March, 1968	9,481	45,140,889,141	103,330,691,365
31st March, 1969	9,356	46,527,757,812	131,678,611,255
31st March, 1970	9,180	48,695,758,386	120,040,417,553
31st March, 1971	9,024	50,806,906,735	120,504,165,157
31st March, 1972	8,978	54,326,791,910	149,531,323,216

SOURCE: Statistics relating to quoted securities 30th March 1972 issued by The Stock Exchange, London, 1972

TABLE 9

COMPANY FORMATIONS, DISCONTINUANCES, PRIVATE AND PUBLIC COMPANIES IN GREAT BRITAIN 1954-1971

	ADDITIONS TO COMPANY REGISTER			REMOVALS FROM REGISTERS	COMPANIES ON REGISTERS		
Year	New Private registrations	Conversion: Private to public	Conversion: Public to private	Removed from registers	Public	Private	Total
1954	15,703	108	55	10,751	16,607	279,113	295,720
1955	17,361	110	59	11,954	16,513	291,093	307,596
1956	17,420	88	49	11,378	16,454	301,534	317,988
1957	20,531	58	52	11,121	16,368	313,751	331,119
1958	22,204	91	59	11,059	16,360	329,314	345,674
1959	28,989	169	71	12,253	16,479	351,480	367,959
1960	34,058	183	115	13,699	16,705	376,789	393,494
1961	33,383	137	125	14,083	16,805	400,089	416,894
1962	34,601	174	109	14,915	16,921	427,118	444,039
1963	41,935	198	124	16,662	16,080	460,000	478,060
1964	48,072	243	135	17,075	16,271	496,319	512,590
1965	36,076	197	149	9,548	16,411	522,963	539,374
1966	28,010	122	127	11,385	16,473	539,786	556,259
1967	31,019	105	104	17,751	16,583	553,237	569,820
1968	20,428	204	121	37,244	16,657	536,625	553,282
1969	24,969	129	121	25,751	16,672	536,127	552,799
1970	30,090	112	111	23,750	16,639	542,858	559,497
1971	39,287	134	114	21,879	16,680	560,551	577,231

SOURCE: Department of Trade and Industry, London.

T A B L E 10

Appliance	No. of Suppliers 1971	No. of Suppliers 1961	No. of Models available 1971	No. of Models available 1961	Average No. of Models per supplier 1971	Average No. of Models per supplier 1961
Blankets, pads and bedwarmers	37	48	147	242	4.2	5.0
Boiling rings	9	18	19	39	2.1	2.2
Carpet Underlays (heated)	X	5	X	69	X	13.8
Clothes Dryers (heated)	9	25	17	60	1.9	2.4
Clothes Dryers (spin)	11	16	28	22	2.4	1.4
Clothes Dryers, Cabinets & Racks	8	X	26	X	3.25	X
Coffee Grinders and Makers	23	22	60	44	2.9	2.0
Cookers	27	19	171	131	5.4	6.9
Dishwashers	19	15	60	20	3.01	1.3
Dry Shavers	10	18	48	56	4.8	3.1
Fans - Desk and Extractor	35	25	127	148	3.51	5.9
Firelighters	2	5	2	5	1.0	1.0
Floor Polishers	5	12	11	19	2.2	1.6
Food Preparation Machines (Mixers Juicers etc.)	17	26	119	75	6.0	2.9
Fryers	5	7	9	19	1.8	2.7
Hairdryers	17	15	67	26	3.9	1.7
Heaters - Wall, Portable, Fan, Skirting	72	119	508	957	6.01	8.01
Infra-red Grills and Spits	8	15	34	38	4.2	3.1
Irons	21	22	63	81	3.0	3.7
Ironing Machines	5	6	8	8	1.6	1.3
Kettles	19	23	75	94	3.9	4.1
Plate Warmers	11	15	45	47	4.1	3.1
Radiators - Storage, etc.	27	9	200	92	7.3	10.2
Refrigerators	27	29	115	152	4.4	5.2
Waste Disposers	10	10	30	17	3.0	1.7
Tea Makers	4	4	15	11	2.9	2.8
Toasters	15	11	24	14	1.6	2.8
Towel Rails	5	6	11	30	2.1	5.0
Vacuum Cleaners	14	23	56	69	4.0	3.0
Vacuum Cleaners (Hand)	10	17	15	22	1.5	1.3
Waffle Irons	4	4	5	4	1.25	1.0
Wash Boilers	2	8	9	19	4.5	2.5
Washing Machines	5	21	10	70	2.0	3.3
Washing Machines & Driers (combined)	20	23	80	41	4.0	1.8
Water Heaters (Instantaneous)	7	6	46	10	6.5	1.7

Compiled by the Research Department, Chesham Amalgamations & Investments Ltd London.

TABLE 11

Effects of concentration resulting from the merger of three major electrical engineering manufacturing companies in the British electrical industry, 1967 - 1972

	GEC In year (1967/68) prior to merger with AEI		GEC + AEI In year (1968/69) after the merger with AEI		GEC + AEI + EE In year (1969/70) after the merger of GEC + AEI with EE		GEC + AEI + EE In latest financial year 1971/72	
	T/C	Pre-tax prof.	T/O	Pre-tax prof.*	T/O	Pre-tax prof*	T/O	Pre-tax prof.*
	£m	£m	£m	£m	£m	£m		£m
	198	21	498	40	891	64	975	83
	Net Assets		Net Assets		Net Assets		Net Assets	
	31.3.68		31.3.69		31.3.70		31.3.72	
	£m		£m		£m		£m	
	109		287		575		499	
Earnings per GEC Share	4.85p		5.75p		6.30p		8.39p	

* Pre-convertible Loan Stock interest.

NOTE: GEC = General Electric Company
AEI = Associated Electrical Industries
EE = English Electric

APPENDIX

Merger example 1 - a private initiative

Brief summary of a merger between two small private companies in the United Kingdom food industry.

The merger of these two companies was conceived under private auspices, without any governmental support, incentive or official assistance. Because of the relative absence of major complications of merging the two companies - the owners were willing to merge providing a financial formula acceptable to both was found - the incubation period was only just over four months.

Company (A) was manufacturing mainly 'summer foods', e.g. salad dressing, mayonnaise and fruit soups; the firm, established in 1890 employed 150 people, was family owned and managed, but had no family succession. With a turnover of £m2 and profits before tax of £130,000, the company was reasonably profitable, but not earning the kind of returns it might have earned under better management, and profits had been eroding slowly.

Company (B) was manufacturing a specialist range of 'winter foods' e.g. Christmas hams and puddings, and marketing specially packed hampers. This company, too, owner managed; it employed 40 people, with a rising turnover of £700,000 and profits before tax of £70,000. The firm was established only three years earlier by a young man, who was expanding his business fast by a novel method of distribution. Company (A) employed the customary method of distribution - via wholesalers and retailers.

At the time of the merger the financial anatomy of the two companies was as follows:

	Turnover	Pre-tax profit	Net assets	Multiplier	Valuation of Companies
Company (A)	£2,000,000	£130,000	£600,000	(4x)	£520,000
Company (B)	£ 700,000	£ 70,000	£240,000	(5½x)	£385,000
Combined (A & B)	£2,700,000	£210,000	£840,000		£905,000

Company (A) was the larger of the two, and much longer established. It had assets, apparently in excess of requirements; its profits had diminished on a static turnover over a period of four years. Company (B) was owned by a young man who started business only three years before the merger.

For the purposes of the merger, Company (A) was valued at 4 times pre-tax profits, and Company (B) 5½ times pre-tax profits. The reason for valuing (B) at premium was because of its rapid growth, good profit ratio to turnover and in relation to assets, and its young management.

The merger gave improved asset backing to (B) in the combined company which will enable him to expand faster, e.g. better credit, improved purchase terms; new business energy was infused into (A) since the young owner of (B) became chief executive of the combined companies.

Some kind of checks and balances were, however, maintained between the owners of (A) and (B), since (A) owned 57 per cent of the combined equity, while (B) only just 43.

The merger immediately resulted in:

(a) management succession at the top - hence the future of the firm and its employees reasonably safeguarded;
(b) better asset utilisation in relation to turnover;
(c) better range of product offered to each firm's customers;
(d) improved employment opportunities, since each company's salesmen could offer the other company's foods to their customers;
(e) in larger company no redundancy, due to shrinking turnover and declining profits;
(f) added manufacturing facilities for company (B) since resources (i.e. machinery and plant) were under-utilised in company (A);
(g) small savings initially, but larger likely savings in the years to come in costs of administration - for instance accountancy, insurance, banking charges, and,
(h) material increase in profits in first complete year of merger.

The owner of Company (A) had a larger share of the combined business, and some provision had had to be made regarding the future of the business after his retirement or death. Accordingly an agreement was reached that the managing director (formerly owner of (B)) should buy out the chairman's (formerly owner of (A)) shares by paying him at a rate of valuation for the business at 4 times the average annual profits in the last three years. This means that the chairman when paid out will participate in the growth of the combined companies.

This merger was completed without any money being paid out - it was based on a share exchange. The money to buy out the senior partner (chairman owning 57 per cent) will have to be found, in due course. By the time this eventuality occurs, little difficulty is expected to find the financial resources - because:

(i) either the company goes to the market, becomes a public company and the two owners can negotiate their shares freely on the Stock Exchange,

(ii) or bridging finance can be found by the managing director, and subsequently fund the debt.

APPENDIX

Merger example 2 - inspired by government

Summary of statement by the Industrial Reorganisation Corporation on the United Kingdom ball and roller bearing industry - explaining the reasons for the encouragement of a merger between three British ball bearing manufacturers (1)

Position of industry:

It was decided that a detailed investigation of the ball bearing industry should be undertaken by IRC. The industry is a large sector of engineering technology, making an essential input to major exporting sectors such as the motor and aircraft industries; compared with the industries in Western Europe and North America, the structure of the UK based industry appeared fragmented. Hence, the possibility of a merger between Ransome & Marles and The Skefko Ball Bearing Company (Skefko; a subsidiary of SKF of Sweden) as suggested could mean that there might shortly be no viable British owned company in the industry.

The characteristic structure of the industry in other advanced economies shows a very high degree of concentration. It was shown to the IRC that maximum economies could be gained by optimising the lengths of production runs, and by limiting the range of bearings to be produced. It was against this background that IRC considered the situation in the UK industry and decided on a course of action.

In 1968 total UK based production amounted to some £70 million of which £15 million was exported. Imports accounted for £11 million making total UK consumption of £66 million. There were six major manufacturers, three wholly owned subsidiaries of operating divisions of foreign groups: Skefko, British Timken (Division of the Timken Roller Bearing Co., USA) and Fafnir (subsidiary of Textron Inc., USA). The three other major manufacturers were UK controlled: Ransome & Marles, Hoffmann, and Pollard. The share of domestic consumption held by the three UK owned companies was approximately 35 per cent and the rest is shared between the other companies and imports.

(1) The 1969/70 Report & Accounts of the Industrial Reorganisation Corporation, London, 1970.

There was an identity of view in the industry that, with the possible exception of tapered bearings, where production is shared by Skefko and Timken alone, there were too many companies producing in sub-optimum manufacturing units an excessive range of bearings in too short runs. The fragmentation in the industry was one major factor causing low productivity, which international comparisons made clear: output per employee in Europe averaged about £3,000 per annum compared with only just over £2,000 per annum in the United Kingdom. The performance of the UK industry has reflected these limitations. In 1963 the value of UK exports exceeded imports by 75 per cent; by 1968 exports were only 36 per cent more than imports and the UK had increasingly heavy deficity in the balance of trade with the advanced economies of Western Europe and North America.

Suggestions for merger:

IRC went deeply into the possibility of creating a strong British controlled element in the industry out of the three British owned companies, Ransome & Marles, Hoffmann, and Pollard. The three companies, with combined sales of over £30 million, offered considerable possibilities for rationalisation and development. The two largest companies each manufactured between 7,000-13,000 different types of bearings and a major proportion of all three companies' products overlaped.

Rationalisation would make possible standardisation of product lines, the concentration of production of the component parts - ball, rollers, cages and races - and a reduction of stocks. The resulting volume of sales and economies of scale could be expected to generate a cash flow for new plant and machinery, for sustaining a strong development effort in advanced production engineering techniques and mounting an extensive overseas marketing effort. Thus, a strong British owned group would be formed, and the position of Skefko, firmly established in the UK market and with the backing of SKF's international operations particularly strong in the tariff-free EFTA market, would not be prejudiced. The result would be a balanced industry ensuring effective competition of benefit to producer and customer.

The board of IRC decided, accordingly on September 27th, 1968, to support the formation of a British owned company comprising, if possible, the three British owned ball bearing companies.

On this basis, the chairmen of the three British owned companies were invited by IRC on November 18th to participate in an investigation by an independent firm of chartered accountants which would collect and analyse financial information on the three companies as the basis for the detailed merger negotiations which would take place later.

Action by Industrial Reorganisation Corporation:

By January 1969 progress in the discussions with the companies was slowing down and the board of IRC decided that reorganisation could be achieved to best effect and with least delay if it had itself a firm basis from which to negotiate. Accordingly IRC made a cash offer, on January 31st, for the shares of Brown Bayley Ltd., which owned 60 per cent of the ordinary shares of Hoffmann. A revised IRC bid, recommended by the board of Brown Bayley and its financial advisers, became unconditional on February 28th. Immediately thereafter, IRC invited Pollard to discuss terms on which that business could be brought into the proposed three-company group. However, since withdrawing from the IRC sponsored negotiations, Pollard had held negotiations with Skefko and announced on April 8th that terms had been agreed for Skefko to take a 15.6 per cent interest in Pollard by subscribing for new shares at a price considerably above the then market price. The arrangement was also to provide for an exchange of directors and of technical developments in design, manufacturing and engineering research.

At this point in a long and complex negotiation, Ransome & Marles and IRC (i.e. Hoffmann) had to decide whether to settle for a two-way grouping or to proceed with an offer to the shareholders of Pollard for all their shares. IRC was particularly influenced by the judgement of the board of Ransome & Marles as the focal point in the reorganisation. Both Ransome & Marles and the management of Hoffmann considered that there were important industrial and commercial arguments in favour of including Pollard in the group. The decisive considerations were that Pollard's output was strongly concentrated on the standard range of bearings where the economies of volume production were particularly applicable, that Pollard had useful additional market outlets in the UK and abroad, and that with Pollard the British group would have a market share enabling it to stand up to strong foreign based competitors.

Accordingly, IRC gave full support to Ransome & Marles' offer for Pollard. A first offer was announced on April 30th, then a revised offer for Pollard and this was subsequently recommended by the Pollard board on May 21st. The three-way grouping had thus been achieved.

IRC is conscious that the successful conclusion of this negotiation does not, in itself, create a viable commercial enterprise. IRC is a major shareholder in the new group and intends to see that the funds it has made available are turned to good account. As before, IRC is prepared to consider participation by SKF or another large international ball bearing company in the enlarged group on arrangements similar to those envisaged between Skefko and Pollard, subject to the necessary consents being obtained from the Board of Trade. IRC is keen to promote joint industrial ventures on terms that can be seen to be beneficial to the parties concerned.

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