

## 2 Trusthouse Forte PLC

2.1. Trusthouse Forte (THF) is a major hotel and catering group, operating hotels in the United Kingdom, North America, Europe, the Caribbean and the Middle East, and catering facilities comprising motorway and trunk road catering, high street and in-store restaurants, airline and airport catering and contract catering, together with a food manufacturing and processing company (Puritan Maid) and a sports clothing and equipment wholesaler and retailer (Lillywhites). Nearly 64,000 people are employed world-wide, some 52,600 in the United Kingdom. Turnover in the year ended 31 October 1985 amounted to £1,245 million.<sup>1</sup> Profit before tax was £130 million, on net assets of £932 million. Total capital employed was £1,197 million.

### History

2.2. THF was formed in 1970 by the merger of two hotel and catering concerns: Trust Houses Group Ltd and Forte Holdings Ltd. The origin of Trust Houses Group was with the Hertfordshire Public House Trust Company Ltd, founded in 1903 to revive the standards of the old coaching inns. By 1970 it owned and operated almost 200 hotels throughout the United Kingdom and overseas. It provided other catering services, including 44 Little Chef roadside restaurants, the first having been opened near Reading in 1959. Post House hotels began to be developed in the late 1960s; there are now 38.

2.3. In 1935 Mr Charles Forte, as he then was, opened his first milk bar in London's West End through Strand Milk Bar Ltd. After the war the company (which became successively Forte & Co Ltd and Forte Holdings Ltd) developed a range of popular and high quality restaurants and banqueting facilities, including the acquisition of the Cafe Royal in 1954. From 1955 catering concessions were obtained at several United Kingdom airports: Heathrow, Gatwick, Manchester, Glasgow, Birmingham among them. In 1959 the company opened the first motorway service area at Newport Pagnell on the M1, and seven others in the next decade. The company began the acquisition of hotels in 1958, with the Waldorf in London, and by 1970 had 28 hotels in the United Kingdom and Ireland and 15 overseas, including the George V and Plaza Athénée in Paris. The City of London catering firm, Ring and Brymer, was acquired in 1962, and in 1969 the Criterion site in Piccadilly Circus which included Lillywhites and the Criterion Theatre.

2.4. Further expansion followed the merger of Trust Houses and Forte Holdings in 1970. Travelodge International Inc, operating or franchising some 450 motels and hotels throughout America, was acquired in 1973, and 35 hotels, including several major London ones such as the Cumberland and Strand Palace, from J Lyons & Co Ltd in 1977. The chain of service areas had grown by July 1986 to 16, with another due to be opened soon. Five of these were located not on motorways, but on trunk roads (Doncaster, Oxford, Grantham, Gretna Green and Sutton Scotney). There were some 270 Little Chefs, 16 of them forming part of service areas, and seven including Lodges (overnight accommodation).

2.5. On 1 August 1986, THF acquired from Hanson Trust PLC its interest in enterprises which previously formed part of Imperial Group PLC: Anchor Hotels, Imperial Inns, the Welcome Break motorway service areas and the Happy Eater roadside restaurants.

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<sup>1</sup> This excludes Savoy Hotel PLC's turnover of £55 million for the year end June 1985. THF owns 69 per cent of its equity, representing 42.3 per cent of the voting rights of the company.

2.6. On 10 December 1986 THF announced the intention to form a 50:50 joint venture company with Kentucky Fried Chicken International, embracing all the latter's 64 company-owned and 266 franchised operations in Great Britain, and some of THF's existing properties. THF would be responsible for the management of the restaurants, which would become the main vehicle for its expansion into the High Street market.

**The enterprises acquired  
from Hanson Trust**

2.7. Anchor Hotels resulted from the amalgamation of the hotels and inns of the Reading Brewery Company, Simonds, and Courage's Brewery of Southwark. Before the amalgamation Simonds had taken over George's Bristol Brewery, and that group took over an East Midland brewery. Anchor progressively disposed of its smaller inns to concentrate on the hotel market. It now has 30 hotels, in the South-East, East Midlands and the Bristol area.

2.8. Imperial Inns comprised 26 Harvester Steak Houses, 23 Falstaff Bar and Grills, five Sullivans Restaurants, five French-style bar/cafes known as Domes and 26 other restaurants. Harvesters are converted from large public houses, and offer a 'steak bar' menu. Falstaffs are similar but with the eating facilities, which are more modest, in an extension to the bar, rather than a separate restaurant. Sullivans are in the American style, aimed at the younger market. The Domes serve alcoholic and soft drinks, with a limited range of snacks. Since the acquisition by THF, Imperial Inns has been renamed Pier House Inns.

2.9. There are five Welcome Break motorway service areas, at Michaelwood, Hartshead Moor, Leicester Forest East, Membury and (on a trunk road) Ross-on-Wye, with a sixth to be opened soon near South Mimms on the M25.

2.10. Happy Eater Ltd was founded in 1973 by Mr Michael Pickard, a former Managing Director of THF. In 1980—by which time it was operating 21 restaurants—it was acquired by Imperial Group PLC, Mr Pickard becoming Chairman of Imperial Brewing and Leisure Ltd, the parent company of Happy Eater and the other enterprises acquired by THF. When THF acquired it, Happy Eater was operating some 70 restaurants (since increased by four); three of these are in motorway service areas.

**The roadside restaurants**

2.11. The earliest Little Chefs were simple, basic prefabricated constructions, with room for up to 20 customers, a staff of three to four and provision for car parking. From 1965, they were being built in brick with room for about 40 customers. Standard decor and uniforms were brought in, together with staff training. Later on, they were built with room for some 60 customers, car parking space was improved, and sign boards and other identifying marks emphasised. The latest restaurants provide facilities for the disabled, and the older buildings are being progressively upgraded. Redevelopment on 34 major projects cost £1.15 million from January to October 1986.

2.12. Little Chefs are open every day of the year except Christmas from 7.00 am to 10.00 pm and sometimes longer. The all-day menu comprises breakfast and platter dishes (including vegetarian). Twelve restaurants carry licences. A Little Chef today has a staff of up to 18, including a manager, deputy and two supervisors. New employees attend an initial residential training course, and are trained to undertake all normal duties.

2.13. Food is cooked to order on the premises. In the year to 31 July 1986, food stuffs, drink and other supplies were purchased to a value of £15.1 million; well over 90 per cent of this was supplied through Puritan Maid. About 80 per cent of those products are manufactured, not by Puritan Maid itself, but by 'nominated suppliers', of whom there are 91, appointed by the Group Purchasing Department.

2.14. Seven Little Chef Lodges have been opened since 1985. They have between 20 and 40 bedrooms, priced (at November 1986) at £19.50 for single use up to £24.50 for a family of four. Each room has a bathroom with shower attached.

2.15. In determining where to locate the restaurants, THF looks primarily at the volume of traffic (no less than 4,000 to 5,000 cars per day: 7.00 am to 11.00 pm) and composition of traffic (predominance of holidaymakers, businessmen and commercial travellers rather than commuters and short distance travellers making less than a two-hour journey). There is, however, now a trend towards urban sites, to attract shoppers from out of town; also at railway stations and airports. It has recently been found feasible, in ideal locations, to locate restaurants no more than eight miles from each other, as against the 25-mile spacing originally thought necessary. THF hopes to continue to expand with an average of 40 new sites in each of the next five years.

2.16. Most Happy Eaters are concentrated in South-East England, along the A1, in East Anglia and the Midlands. One is franchised, the other sites are owned or leased. They have room for between 70 and 110 customers, and lay some stress on accommodating young families (each with an outdoor play-park and indoor games area) as well as travelling businessmen.

2.17. There is a standard menu, with separate lists for breakfast, main meals, and ice creams. All Happy Eaters carry licences for a limited range of drinks, except those in motorway service areas. Each unit has a staff of 12 or more, including a manager and deputy. All staff receive training, mostly at the restaurant itself from regional training officers.

2.18. At Appendix 2.1 is a chart showing the growth of the Little Chef and Happy Eater chains year by year since 1973.

#### **Organisation and operations**

2.19. Within the group there are six principal immediate subsidiary companies and seven operational divisions; these are shown at Appendix 2.2. The Catering Division, with which we are primarily concerned (it controls both motorway service areas and roadside restaurants, as well as inns), is a trading division of Trusthouse Forte (UK) Ltd, along with the Airport Services Division. The management structure of the Catering Division is shown at Appendix 2.3. A divisional management committee is composed of the heads of the seven operational sections, and reports to the Divisional Managing Director. Motorway services fall under the Popular Catering Section, Little Chef and Happy Eater under the Roadside Catering Section. Little Chef operations are under the control of two directors, north and south, while Happy Eater has been placed under one director.

2.20. Just over 14,000 staff are employed in the Catering Division, of whom 4,050 are with Little Chef (2,400 full-time and 1,650 part-time) and 1,430 with Happy Eater (760 full-time and 670 part-time).

2.21. At Appendices 2.4, 2.5 and 2.6 are charts showing the organisational structure respectively of Little Chef before the acquisition of Happy Eater, and of Happy Eater before and after acquisition by THF.

#### **Financial information**

2.22. THF makes up its accounts to 31 October each year, prepared under the historical cost convention supplemented by inclusion of revaluation of properties.

2.23. Financial information on the group as a whole is given in Appendices 2.7 and 2.8 as follows:

2.7 Summarised balance sheets at 31 October in each of the last five years.

2.8 Profit and loss accounts for each of the last five years.

2.24. THF's turnover and trading profit before interest and taxation for the last five years are analysed by divisional activity in Table 2.1.

TABLE 2.1 THF: divisional analysis of turnover and trading profit before interest and taxation

	1980-81	1981-82	1982-83	1983-84	£ million 1984-85
<b>TURNOVER</b>					
Hotels	376.7	404.5	457.3	537.7	578.1
Catering—Little Chef —Motorways —Others	[ * ] 373.2	[ * ] 419.9	[ * ] 471.1	[ * ] 556.1	[ * ] 623.4
Miscellaneous	30.6	35.6	34.7	37.6	43.0
Leisure	52.6	46.8	—	—	—
	<u>833.1</u>	<u>906.8</u>	<u>963.1</u>	<u>1,131.4</u>	<u>1,244.5</u>
<b>TRADING PROFIT— before interest and taxation</b>					
Hotels	51.9	56.6	73.0	91.6	113.2
Catering—Little Chef —Motorways —Others	[ * ] 13.0	[ * ] 17.5	[ * ] 17.7	[ * ] 23.1	[ * ] 28.1
Miscellaneous	5.4	2.0	2.1	4.2	5.1
Leisure	4.3	4.2	—	—	—
	<u>74.6</u>	<u>80.3</u>	<u>92.8</u>	<u>118.9</u>	<u>146.4</u>
Central costs	(2.7)	(3.0)	(3.2)	(4.0)	(4.1)
	<u>71.9</u>	<u>77.3</u>	<u>89.6</u>	<u>114.9</u>	<u>142.3</u>
<b>TRADING PROFIT— before interest and taxation and central costs as a percentage of turnover</b>					
					<i>per cent</i>
Hotels	13.8	14.0	16.0	17.0	19.6
Catering—Little Chef —Motorways —Others	[ * ] 3.5	[ * ] 4.2	[ * ] 3.8	[ * ] 4.2	[ * ] 4.5
Miscellaneous	17.6	5.6	6.0	11.2	11.9
Leisure	8.2	9.0	—	—	—
	<u>9.0</u>	<u>8.9</u>	<u>9.6</u>	<u>10.5</u>	<u>11.8</u>

Source: THF.

\*Details omitted. See note on page iv.

2.25. Details of tangible fixed assets acquired from Hanson Trust PLC at 31 July 1986 are set out in Table 2.2. THF told us that these figures were based on draft accounts which were subject to adjustments.

TABLE 2.2 THF: tangible fixed assets acquired from Hanson Trust PLC at 31 July 1986

	<i>At valuation</i>	<i>At cost</i>	<i>Depreciation</i>	<i>£ million</i> <i>Net balance</i>
Happy Eater	<div style="border-left: 1px solid black; border-right: 1px solid black; height: 100px; position: relative;"> <div style="position: absolute; top: 0; left: 0; right: 0; height: 10px;"></div> </div>	<i>Figures omitted. See note on page iv.</i>		
Anchor Hotels				
Imperial Inns				
Welcome Break				
Total				
Year of valuation	1985			
<i>Source: THF.</i>				

2.26. Table 2.3 summarises turnover and trading profit before interest and taxation of businesses acquired from Hanson Trust PLC for each of the last five years.

TABLE 2.3 THF: summarised turnover and trading profit before interest and taxation of businesses acquired from Hanson Trust PLC

	1980-81	1981-82	1982-83	1983-84	<i>£ million</i> 1984-85
<b>TURNOVER</b>					
Happy Eater	2.5	3.4	5.1	8.0	11.8
Anchor Hotels	<i>Figures omitted. See note on page iv.</i>				
Imperial Inns					
Welcome Break					
	44.0	61.7	74.3	90.3	111.1
<b>PROFIT—before interest and taxation</b>					
Happy Eater					
Anchor Hotels	<i>Figures omitted. See note on page iv.</i>				
Imperial Inns					
Welcome Break					
	2.5	3.6	5.0	6.1	7.5
<b>PROFIT—before interest and taxation as a percentage of turnover</b>					<i>per cent</i>
Happy Eater					
Anchor Hotels	<i>Figures omitted. See note on page iv.</i>				
Imperial Inns					
Welcome Break					
	5.7	5.8	6.7	6.8	6.8

Source: THF.

2.27. Table 2.4 compares the Happy Eater and Welcome Break turnover, net margin and return on average net tangible fixed assets with those of Little Chef and THF motorways. THF told us that it did not analyse working capital by sub-division; it calculated the return on capital employed based on year-end written-down value of tangible fixed assets.

TABLE 2.4 THF: comparison of turnover, net margin and return on average net tangible fixed assets of Happy Eater and Welcome Break with those of Little Chef and THF motorways

	1980-81	1981-82	1982-83	1983-84	<i>£ million</i> 1984-85
<b>Turnover</b>					
Happy Eater	2.5	3.4	5.1	8.0	11.8
Little Chef					
Welcome Break					
THF motorways					
<b>Trading profit—before interest and taxation</b>					
Happy Eater					
Little Chef					
Welcome Break					
THF motorways					
<b>Net margin</b>					
Happy Eater	<i>Figures omitted.</i>				
Little Chef					
Welcome Break					
THF motorways					
<b>Return on average net tangible fixed assets</b>					
Happy Eater					
Little Chef					
Welcome Break					
THF motorways					

Source: THF (based on divisional management accounts).

2.28. At 31 October 1985 THF's issued share capital consisted of 779.6 million ordinary shares and 0.8 million trust shares of 25p each. In addition, the senior executive and employee savings-related schemes held options to subscribe 27.3 million ordinary shares. Apart from Lord Forte (6.5 per cent) and the Kuwait Investment Office (5.12 per cent), no person holds or is interested in 5 per cent or more of the share capital of the company, so far as the directors are aware.