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THE NESTLÉ TAKEOVER OF ROWNTREE

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INQUIRY INTO CORPORATE TAKEOVERS IN THE UNITED KINGDOM

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The David Hume Institute has been commissioned by The Joseph Rowntree Foundation to conduct an Inquiry into the issues raised by Corporate Takeovers in the U.K. This paper is the sixteenth and last of a series presenting the results of research undertaken in the course of the Inquiry, and also submissions of opinion received from individuals and organisations which are thought to be of wide general interest. The Final Report will appear on 27 June 1991.

A note on the Institute and a list of its publications appear on pp. 30-33.

The Institute has no collective views on any public policy question and is not committed to the views of any of its authors.

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THE NESTLÉ TAKEOVER OF ROWNTREE

INTRODUCTION

The hostile bids for the Rowntree confectionery company in 1988 generated a substantial amount of public interest. Rowntree was a familiar name in a popular consumer segment in the UK, and it had created a substantial proportion of the best-known brand names in UK and overseas confectionery markets. It was also a major employer in York, as well as in Halifax and Norwich. In fact Rowntree was one of only 13 of Britain's top 100 companies to have headquarters out of London and it was well known as a company which had been founded and nurtured in Britain's best philanthropic traditions. While its independence was initially threatened by Suchard, a family-controlled business, the main threat came from Nestlé, a foreign firm which already had some interests in the confectionery market, and which was also protected from takeover by restrictions on the voting rights of certain types of shareholder.

Issues of reciprocal national treatment on takeovers, the need for a regional diversity of headquarters activities, the responsibilities and obligations of firms to local and national communities were all raised by the bid, in addition to the more common arguments associated with takeovers - the competition implications of mergers, the relative effectiveness of the competing managements, 'short-termism' and the role of institutional investors.

This paper is a case study of the takeover of Rowntree by Nestlé. In Section One, we outline the background and events that led Rowntree into Nestlé control, and look at some details of the results of that acquisition. In Section Two, we attempt a preliminary answer to a number of questions: was a takeover inevitable? Who benefited? Was it a good thing for the UK economy?

In preparing this paper we have received full co-operation from the managements of the two companies involved and some of the information used has not been previously available to the public. We particularly wish to record our thanks to Sir Donald Barron, Mr. Peter Blackburn, Mr. Kenneth Dixon and Dr. Reto Domeniconi for the assistance they gave us, and also to Jonathan Star of the London Business School for research assistance. Final responsibility for the views expressed rests with us alone.

Evan Davis
Graham Bannock
April 1991

SECTION ONE

The History of the Takeover

Brief History

The Rowntree and Nestlé companies were formed within three years of each other. The Anglo-Swiss Condensed Milk Company first established a processed milk operation in Cham, Switzerland in 1866. A year later, the Henri Nestlé infant food company was formed in Vevey. The two merged in 1905 to form what is recognisably the Nestlé Group that exists today, still based in Vevey. From 15 factories in 1900, by 1987 the group had 383 and a presence in all continents, and had become the world's largest food company, primarily through uncontested acquisitions.

Rowntree was a company that was also founded by acquisition, when in 1869, Henry I. Rowntree bought the cocoa powder business of a York grocery which had closed earlier. The shop had been opened some 144 years previously by Mary Tuke, who was, like the Rowntrees, a Quaker. In partnership with his brother Joseph, who joined him in 1869, Henry Rowntree bought a factory in York and established Henry Rowntree & Co. The company began to be highly focussed and successful when in the 1930's it introduced the now well known national brands such as Kit-Kat, Aero, Smarties and Black Magic. The company also developed a name as a generous and socially enlightened enterprise. After the war, the company continued to innovate and successfully established Polo (1948), After Eight (1962) and Yorkie (1976), three of only a handful of truly successful confectionery launches by *any firm* in that period.

In 1968 General Foods made an unsuccessful bid for Rowntree, but shortly afterwards Rowntree made an agreed merger with Mackintosh, a Norwich confectioner with brands such as Rolo and Quality Street, also launched in the 1930's.[1] Mackintosh originated in Halifax but moved its headquarters to Norwich before the 1939-45 war. Norwich was the location of Caleys, a firm acquired in the 1930s.[2] Mackintosh had deep roots, which like Rowntree could be traced back to a provincial retailer, but it suffered from family succession problems, Lord Mackintosh having died at Christmas 1965. Though Mackintosh was smaller than Rowntree, the merger was designed to be one of equals and, as clear evidence of this intention, five of the eight Mackintosh directors joined the Rowntree-Mackintosh board. Although there were few redundancies at the time of the merger, or subsequently, within three years many of the senior Mackintosh sales and

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1 Strictly speaking, General Foods did not bid but announced that they would do so if the controlling trustees agreed. The merger discussions with Mackintosh had been under way for five months, i.e. prior to the General Foods approach. The Mackintosh merger was effected by an exchange of shares.

2 Caleys were a chocolate company. It is interesting that the addition of their skills to Mackintosh's speciality in toffee enabled Mackintosh to produce Quality Street and Rolo, which combine the two.

marketing staff left and only two of the five former Mackintosh directors remained on the board. As agreed before the merger, the Mackintosh Norwich headquarters were closed, with certain functions transferring to York, and the Group's presence in Norwich reverted simply to manufacturing operations.

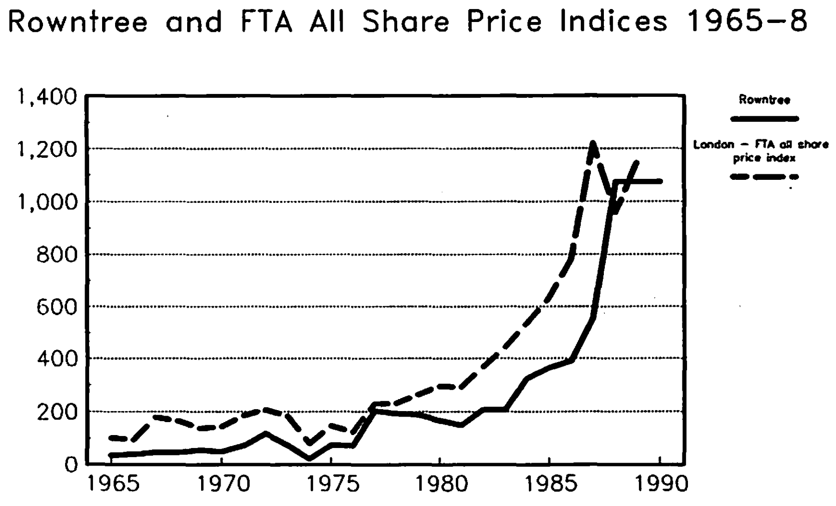
In 1988, when Rowntree itself became a target of Swiss attention, Nestlé (with Unilever, one of the world's largest companies) dwarfed Rowntree. It had a market value almost ten times the size; its annual profits were roughly equal to Rowntree's turnover and it employed 163,000 people to Rowntree's 33,000.

Rowntree's Performance in the 1980s

When it was taken over, Rowntree was performing satisfactorily. Figures from Micro Extel indicate that it was earning margins of about 8.7 per cent, and growing; making a return on equity of 21.5 per cent, and a return on net assets of 19.6 per cent. It was making respectable economic rents - operating profits in excess of those necessary to finance its operating capital at normal rates of return. Over the long term its performance had been good, and Rowntree had not let its recent shareholders down either: between 1983 and 1988, its market capitalisation rose by 180 per cent (140 per cent in real terms); its share price had grown at a similar rate, and it was trading at a typical Price-Earnings ratio of about 11 (although this was somewhat below the 13.4 average for the sector). Despite two disappointing years of growth in 1985 and 1986, operating profits grew by 25 per cent in the last full year of the company's existence as an independent entity. Efficiency had also improved. According to the Rowntree defence document, growth of labour productivity on Kit-Kat was over 10 per cent a year between 1982 and 1988. (Rowntree staff costs represented about a quarter of total costs on Micro Extel figures, so if this improvement was maintained at all levels of the production chain it would generate a rise in margins of about 2.5 per centage points a year at constant prices.)

Despite this very respectable financial performance and its innovative record, Rowntree was perceived as an underperformer in stock market terms ; indeed, much of the share price gain in the 1980s is believed to derive from some market expectation that Rowntree would be the subject of an acquisition bid. There were two reasons for this: one was the historical lacklustre performance of Rowntree stock, and the perception that the firm could have done better in its particular market over the previous twenty years. Exhibit 1 shows the performance of the Rowntree share price compared with the FT All Share Index since 1965.

Exhibit 1



The second reason was that in the 1960s and 1980s, Rowntree had embarked upon two major strategic goals respectively, each with only limited success. One was to establish the successful UK confectionery brands in the EEC of the Six (EC) and in the United States. The second was to engage in acquisition, notably by diversifying into snack foods and retailing. By 1988, neither strand of Rowntree's policy had produced conclusive results. Overseas diversification had been expensive and, except in Canada and South Africa, not very profitable.

In the United States, no suitable confectionery acquisitions were available. Tom Foods was acquired in 1983 as part of the diversification strategy and to provide a learning base in the American market, but was sold in 1988. Rowntree acquired Sunmark, a highly profitable sugar confectionery company, however, in 1986 and this business still remains within the group.

Perhaps more ambitious was the attempt to break into Europe with the popular UK lines. This was generally accepted to be a costly and lengthy task without major acquisitions, which were not available.[3] Spending much higher proportions of sales revenue on continental promotion than was usual in the mature UK market, Rowntree

3 Rowntree did in fact acquire six small companies in Europe but others were protected by family shareholdings or other obstacles, notably in France.

only netted £11 million of profit on the operation in 1987. Whilst, therefore, the results of this policy - which had really commenced under the previous Chairman, Sir Donald Barron, in 1964 - were beginning to show through, there was still a long way to go. Exhibit 2 shows that Rowntree's market share of the chocolate market dwarfed that of Nestlé in the UK and Netherlands and was much larger in France, and Rowntree had a small but profitable presence in Italy. Rowntree had made no real attempt to penetrate the smaller markets in Austria and Switzerland, preferring to concentrate on the larger potential within the EEC.

Exhibit 2 European Chocolate Market Shares by Major Competitor, 1988 (per cent)

	Mars	Suchard	Rowntree	Ferrero	Cadbury	Nestlé	Others
United Kingdom	24	2	26	2	30	3	13
Austria	4	73				5	18
Belgium	6	82	2	5		3	2
France	11	13	17	6	8	10	35
Italy	1		*	34		5	60
Netherlands	23		13				64
Switzerland	9	17				17	57
West Germany	22	15	3	16		8	36
Total	17	13	11	10	8	9	32

Source: Henderson Crosthwaite

* Note: The original source for this table omits Rowntree's share in Italy, which was about 2 per cent. Rowntree's market share in Germany may also be understated.

Rowntree achieved a 25 per cent market share for countlines in France, and an 11 per cent market share in Germany, where it had made a small acquisition as long ago as 1964.[4] But, as their defence document admitted, they were still making much smaller margins on their continental sales than they could make at home (11.6 per cent in the UK as opposed to 3.7 per cent in Europe in 1987). And growth in European margins could be as much explained by their productivity record as by successful marketing.

Despite their investment, turnover in Europe was still growing more slowly than their sales in the UK (even taking into account differences in inflation). Rowntree's commitment to the EC was such that as a matter of policy it decided that it could not, for the time being, fight on two fronts, and in 1969 decided to license Hershey in the United States to manufacture two brands. (The US market is notoriously difficult to

4 Countlines are products sold by the piece, e.g. Kit-Kat and wrapped tubes of Rolo or Mars Bars, rather than by weight, as in sugar confectionery. Chocolate used to be sold by weight but is now generally wrapped, while sugar confectionery is increasingly bagged. For these reasons the technical distinction between countlines and other confectionery products has become blurred, though the term remains in use in the trade.

penetrate for overseas confectionery manufacturers.) Hershey were later given rights to sell all Rowntree products, although this was re-negotiated in the late 1970s and reduced to four, then subsequently three brands.

The Importance of Brands

To understand why Rowntree was to prove to be such a valuable bid target, it is necessary to appreciate the value of brands and the time and effort required to establish them. Brands are of course valuable in many industries, but what seems to distinguish them in chocolate confectionery, and also in other food and drink sectors, from those in different sectors such as pharmaceuticals, is their apparent permanence.[5] Despite many attempts to do so, no firm has ever been able to introduce, for example, an effective competitor for Kit-Kat or the Mars Bar. Coca-Cola, Nescafé, Guinness and Kelloggs dominate in their fields in a similar way. This brand strength derives not simply from the cumulative effect of advertising but from the technology of recipe and manufacture. It seems that the only way of building a brand is to take a long-term view. Heavy initial investment in research and development; expenditure on specialised manufacturing equipment; advertising and distribution and early years of under-pricing while volume grows, are all typically necessary. It is striking that given this large investment, much of which has to be written off against current trading profits, major brands have generally been created by owners who were protected in some way from the pressures of outside shareholdings.

Once established, ownership of brands of these kinds confers rights to inflation-proof economic rents. Moreover, the possessor of a brand can use it as a bargaining counter to assure the distribution of other products through multiple sales outlets.

PHASE ONE: Rowntree Receives Attention

On April 13th 1988, the Jacob Suchard Company, led by Kr. Klaus Jacobs, put Rowntree 'into play', launching a 'dawn raid', a sixty minute period in which they picked up near to their permitted maximum of 15 per cent of the company's equity from institutional shareholders. Suchard did not announce a full bid at that time, declaring its objective for the next twelve months to be the acquisition of a 25 per cent stake. The price per share offered by Suchard in the dawn raid, the Rowntree share price on the previous day, and the subsequent share price premia are shown in Exhibit 3.

5 However, even in pharmaceuticals, some brands seem to have permanent value: witness Disprin and Beecham's Powders, for example.

Exhibit 3 The Rowntree Share Price and Bid Prices and Premia

	p per share	% premium
Rowntree share price, 12th April	468	-
Price offered in Suchard dawn raid	629	34
Price offered by Nestlé in first bid	890	90
Price offered by Suchard in first bid	950	103
Price eventually paid by Nestlé	1075	130

Rowntree did not welcome Suchard's attention, describing the price paid as "wholly inadequate for the obtaining of a major stake in the group", (The Times, 14th April), a claim that in light of subsequent events, was no understatement. Immediately, questions were asked about the propriety of the "dawn raid" technique, in which large investors are given little time to decide on a generous but anonymous offer for a slice of their shares. In the Suchard case for example, Warburgs offered something like a 30 per cent premium and gave institutions about half an hour to decide on whether to sell.[6]

Speculation of possible bids from other sources - with Nestlé and the American confectioner Hershey the favourites (The Independent, 25th April) - sent the Rowntree share price up to 737 pence by the end of the week. The Rowntree management, who had just announced profits of £125 million, up a quarter on the year before, made it clear that they entertained no ideas of accepting any bids or seeking a "white knight". Earlier, in September 1987, Nestlé had proposed taking a minority stake in Rowntree and setting up a joint distribution agreement but although talks were held, the Rowntree Board had rejected this proposal as not being in the interests of shareholders. Immediately after the Suchard dawn raid, Nestlé pressed for Rowntree management agreement to make a full bid but this too was rejected. Rowntree were left with the impression that Nestlé would take no further action.

PHASE TWO: Rowntree Campaigns Against the Swiss

The 13-day phoney war for Rowntree ended on April 26th 1988, the day of the Rowntree shareholders' Annual General Meeting, when Nestlé formally entered the contest with a full scale bid for the company. Mr. Kenneth Dixon, Chairman and Chief Executive of Rowntree since 1981, was notified half an hour in advance by Nestlé that their hands had been forced. It was the first hostile acquisition Nestlé had ever attempted. They valued Rowntree at £2.1 billion, a price of 890p per share. The Nestlé bid was rejected

6 It was reported to us that a senior executive in one financial institution has explained that "you have to respond to these dawn raids if you want to get the game going".

by the Rowntree Board and shareholders were advised not to sell at this price. The market price of the shares rose from 717 pence on the 25th to 925 pence on the 26th. Suchard, who had still not made an offer for the whole of Rowntree share capital, continued buying shares on the market, though Nestlé, having made a bid, were not allowed to buy further shares in excess of the bid price. By early May, Suchard had taken their stake to 29.9 per cent, the maximum permitted under Takeover Panel rules without the launch of a full bid. It was now assumed that Suchard would make a bid, and that the Swiss were fighting it out with each other.

For Nestlé, the most important strategic motive for joining the battle for Rowntree was to expand its interests in confectionery, particularly confectionery in the growing countline segment of the market. According to some reports, (for example, The Daily Telegraph, 17th May), Nestlé had identified an alliance with Rowntree as an objective earlier in 1987. What precipitated the activity of April 1988 was the move by Suchard, which threatened to take Rowntree out of Nestlé's grasp forever, closing off a partner and obstructing the quickest route into the chosen market. There was no company that looked quite as attractive as Rowntree and in fact, as Rowntree pointed out in presentations to institutional shareholders at the time, it was the only company which would enable Nestlé to meet its strategic objectives without building up countline brands itself (Exhibit 4). With Rowntree, Nestlé would extend its range into all four segments: not only blocks and countlines, but sugar confectionery and assortments also.

Exhibit 4 Confectionery Industry - Major Players

	Status	Countline/block Products
Mars	Family owned	Countlines and some blocks
Hershey	Protected	Blocks and some countlines
Ferrero	Family owned	Countlines and some blocks
Suchard	Family owned	Blocks and some countlines
Cadbury	Major shareholding by General Cinema	Blocks and some countlines
Rowntree	Widely held: trust shareholding 7%	Countlines and some blocks

Note: This exhibit does not cover other products (e.g. assortments) of the firms listed.

In their defence presentations, Rowntree catalogued the alternatives, exposing why it was Rowntree who were so attractive. Cadbury-Schweppes was already 15 per cent owned by the American General Cinema, a credible buyer, and in any event Cadbury was less focussed on the area Nestlé wanted as well as less successful in the precise countline segment that Nestlé were keen to develop. The dominant American firms - Hershey and Mars - were bid-proof and larger than Rowntree, indeed were too large, and they were also privately controlled, as were Ferrero and Suchard. Rowntree was also attractive because it appeared to suffer from exactly the problems that the Swiss were able to help them with: the distribution network to exploit more fully well-developed brands in overseas markets.

Rowntree portrayed the bid as a desperate move by a company that was in markets threatened by new entry (branded food products faced opposition from private label products) and relative secular decline (such as the block chocolate segment, growing at one per cent a year, compared to the seven per cent growth in countlines). Nestlé had only one minor countline product - 'Yes' cakes - on sale in France and Germany, and Rowntree viewed the sale as being the purchase of success by a group who could not foster it themselves.

If Nestlé had believed that they could simply pick up the Rowntree brands and sell them in Europe, they would have been mistaken. The distribution network they could offer might yield cost savings of about two per cent, as the industry usually estimates distribution to be 5 per cent of total costs (reported in IMEDE, 1989). On marketing - a total of about ten per cent of costs in the industry - it would not be possible for Nestlé to save money. Costs of advertising would still have to be incurred, for while Nestlé already had an international reputation, it was not one which consumers would attach to Rowntree's products straight away. In their offer document, Nestlé argued that they could bring cheaper and more substantial finance for marketing and research and development; some market clout with respect to retailers, particularly in new underexploited geographical areas, and additional local management resources in overseas markets.

What Nestlé were buying was an uncluttered range of successful and tested brands in a growing segment of the market; and in effect, an option on continental sales of countlines. If Europe - where countlines were only marginally more popular than block chocolate - went the same way as the UK and America, where countlines sold three times as many tons as block chocolate, it was clear that whoever had the Rowntree brands, and a willingness to promote them, would be poised to take a 25 per cent market share of a profitable sector.

Before a victor could emerge between the two Swiss companies, however, both had to defeat the British opposition. Arguments against the takeover of Rowntree by a Swiss concern were mounted by the company, the many friends it had won around York and more widely in the UK, as well as numerous other stakeholders: Tesco, a major buyer who did not wish to see the monopoly power of Nestlé extended;[7] Hector Laing (now Lord Laing) and Cadbury's, who saw the successful acquisition of Rowntree as a threat to themselves or their hopes; and the employees' unions, who feared that the liberal employment policies of Rowntree would be threatened under foreign ownership.

7 Nestlé already owned several other popular brands sold by the multiples including, in addition to Nestlé's Milk and Nescafé, Libbys, Findus, Chambourcy, and pet foods.

The campaign to prevent a takeover was fought in earnest between April 26th and May 25th 1988. Rowntree targeted its efforts in two directions. The first targets were its own shareholders, and the management worked hard with its advisers to develop the case that the shares were worth much more than £8.90. The company defended itself principally on the grounds that it was a successful brand building operation, and that it was in the business of investing in brand development with a view to making returns many years down the line. The essence of their arguments in this direction was very much that they were capable and effective, and that their firm was worth more than the market had thought. It would be in shareholders' own interests to keep their shares and employ the same management team. Rowntree drew attention to Nestlé's record at brand building in the confectionery industry and argued that "Nestlé needs Rowntree more than Rowntree needs Nestlé".

The other targets to which Rowntree efforts were directed were the public authorities which might have had some say over the takeover's outcome. The thrust of the campaign was to lobby for a Monopolies and Mergers Commission (MMC) reference, which - if made by the then Secretary of State for Trade and Industry, Lord Young, under the advice of the Director General of the Office of Fair Trading, Gordon Borrie - would have involved a time-consuming look at all the issues from the perspective of the whole public interest. It would have removed the ownership decision from Rowntree shareholders to a public agency with a much wider brief than one under which the shareholders alone would operate. It was assumed that Nestlé would withdraw their bid if a referral was made, and many believed a referral was in effect an end to the whole affair. Nestlé, consistent with what one would expect of a strategic rather than an opportunistic bid, in fact claim that they would have still pursued the acquisition if they had been allowed to after a six month investigation. We are convinced that they would, in fact, have done so, although it is possible that a referral would have allowed sufficient time for other solutions to be developed, for example in relation to a minority interest.

Most of the effort of those 'sympathetic' to Rowntree seems to have gone into obtaining a referral. The lobby for a reference blended some serious argument with some notable expressions of the strong public feeling on the issue. In the latter category were a mass trip of employees from York and all other Rowntree locations, to Westminster; a petition signed by 13,000 people; strong public statements from the local Mayor, MP and Member of the European Parliament; and highly publicised rekindling of the ancient "Council of the North", the first for 350 years. By signalling the volume and intensity of feeling on an issue, measures of this kind can have an effect. They can certainly raise the profile of an issue, ensuring that it does not tip in favour of one group merely by lethargy on the part of policy makers. It can also lead elected officials to take a stronger stand than would otherwise usually be their inclination. In these respects the lobbying tactics were successful. The Labour opposition supported Rowntree - Neil Kinnock implored shareholders not to sell - and there was a debate in the House of Commons. There was a certain amount of Conservative disquiet at the Government's passive stand on the issue, and the Government applied a three-line whip to secure a majority approval of its position on the case. (The Daily Telegraph, 25th May).

Unless unusual political interference was to be applied, however, the effective decision on whether a reference should be made was to be taken by Gordon Borrie, an unelected official who already understood the importance of the issue. For him, arguments relating to competition policy were of more importance than people dressed up as chocolate bars. The problem facing Rowntree was in finding any competition policy angles that were convincing. The full submission made by Rowntree to the OFT was not and has not been made public, but their case for referral of the bid to the MMC had two legs. The first was that although Nestlé had a very small market share in the UK, it remained a strong *potential* competitor in chocolate confectionery. The second leg of the argument was that Nestlé, a Swiss-based company, was bid-proof (non-reciprocity). Unless there were a reference, wider issues of public interest - such as the effect of a takeover upon the regional economy - could have been taken into account, Rowntree could not find another channel through which the other issues could be raised. The Government under the 'Tebbit Guidelines' of 1984, had deliberately chosen to focus UK competition authorities on the function of maintaining competition, in which only excess market power was seen as a factor which might provoke public intervention.

The arguments for a reference were complicated by the suggestion of a Cadbury-Rowntree merger. This would have obviously raised a more explicit threat to competition in the UK, and a reference would have been most likely. Such a reference would have undoubtedly examined the alternative Swiss bids, and provided an occasion for the entire industry to be investigated. There was, however, little appeal in a Cadbury-Rowntree combination, unless the goal was to maintain British control. Ironically, it would have probably involved more job losses and rationalisations in the UK than either of the Swiss bids, and the Rowntree management did not pursue it (Lorenz, 1989).

On May 24th, the Government announced that it did not intend to refer the bid. Suchard entered the fray more formally on the next day, with a £2.3 billion offer for the company. After the issue of its defence document on May 25th, Rowntree talked to its large shareholders, some of whom had already sold a proportion of their holdings, but to little avail. The management apparently spent time in early June trying to persuade those institutional shareholders who were reported still to control major holdings - the Norwich Union and the Prudential Assurance Company, amongst others - to hold on to their shares (Yorkshire Evening Press, 2nd June). In this, the management failed, but by June 4th, the original expiry date of the Nestlé offer, still fewer than one per cent of the shareholders had accepted Nestlé's offer. Nevertheless, the two Swiss companies were sitting on a total of 46 per cent of Rowntree. It seemed that the low take-up by the financial institutions was in anticipation of a still higher price from one of the two bidders, rather than a committment to an independent Rowntree.

Nestlé extended its offer to June 20th, while the shares were trading at a premium to the Suchard offer price, with the expectation that the offer would be improved. There was a small flurry of activity in Europe; Mr. Dixon visited the EC Commissioner for Competition in Brussels, who decided not to intervene; and there were investigations by the German and French cartel offices. These amounted to nothing.

PHASE THREE:
Rowntree Supporters Try to Minimise the Damage

It became obvious that Rowntree efforts to maintain their independence had failed. The tactics of the Rowntree management - and unions - changed. No longer was there any doubt about a takeover; the remaining phase of the battle was for each group to extract the maximum benefits from Nestlé or Suchard that it could.

The employees could be said to be the first to adopt the pragmatic line publicly. Their unions had been very against takeover by either Suchard or Nestlé, but had been unsuccessful in persuading at least some of their members not to sell their shares. Some 1,600 Northern Rowntree workers owned an average of about 800 shares, although these would not have comprised even one per cent of the total (The Independent, 27th May). The temptation to cash in these holdings was too much for some staff to resist, wherever their hearts lay, though no information is available on the number of employees who sold out at this stage. It did not appear to the workforce that their share sales would have a material outcome on the process, and even if in aggregate that had not been the case, individual incentives would still be to sell, whatever the other staff chose to do. Nor did the threat of jobcuts loom very large in the minds of employees. While the union argued that a high price for Rowntree would be financed by rationalisations after the event, the argument that the workforce found more convincing held that no-one pays £2 billion for something to close it down.

The union had a hard argument to make from the start. It was no good asserting that Rowntree was secure and well run, because that only further convinced the workforce that they would flourish under Nestlé. On the other hand, arguing that Rowntree was inefficient and flabby was not credible and would only seek to strengthen the view that takeover was desirable.

In essence, the workers, particularly the older ones, were sorry to see their company taken over, especially by a foreign firm. They would have been happy to see it remain independent, and they were easily persuaded to support the independence lobby. Nevertheless, they did not seem to believe their material welfare to be seriously affected by the issue.

Given knowledge of this kind, the main union representing Rowntree employees, the GMB, adopted an ambiguous attitude to the takeover. In the absence of any bargaining power of its own, all it could do was to try to persuade Rowntree management to extract assurances about the workforce's future. David Williams, leading the GMB union on the issue, had asked management to talk to both Nestlé and Suchard in early June. Only later did it emerge that such talks were already under way. The union indicated a respect for Nestlé, and there were rumours that the GMB had itself entered secret discussions with the Swiss (The Independent, 8th June). In supporting Nestlé, and taking what was then the most pragmatic line, they alienated themselves from the white-collar union, APEX, who believed their members had more to lose from the takeover. The unity of interest between the different Rowntree stakeholders that had been the hallmark of the campaign to that point thus diminished, with the local Conservative MP and MEP accusing the union of "selling-out" (Yorkshire Evening Press, 3rd June).

The union were not the only group to assess the probability of a successful defence as very low. The management of Rowntree had reached the same conclusion as soon as the decision had been made not to refer the bid to the MMC. In the final offer document, it emerged that management entered secret talks with Nestlé as early as May 28th, in which they indicated that they were willing to offer their support for a bid in order to extract concessions on behalf of themselves, other employees and other stakeholders. It was also clear that Nestlé were willing to make numerous concessions in order to obtain management agreement, raising the interesting question as to why management agreement was worth so much.

Two factors suggest themselves: the first is that the very competent management team was one of the assets Nestlé wanted to buy in the acquisition, and conflict might have driven some of the management away - not only senior management, but younger people who might not want to work in a post contested-takeover atmosphere. Under this account, in making concessions to management themselves, Nestlé were not making concessions at all. There was, however, a second explanation: the power of Rowntree management to influence shareholders. If the shareholders listen to management when they make their decision, it is worth buying the management off at a high price. In mid-May, the management of Rowntree assessed its chances of fending off the bids as low, seeing that over 40 per cent of their stock was held by the two bidders. The bargaining strength of management really derived from the fact that there were two bidders on the scene, and while one of them was bound to win, management could play a decisive role in choosing which one.

Success for Nestlè

The result of management talks with Nestlé was an agreed bid at a higher price than had previously been suggested: overtaking Suchard's £2.3 billion offer, Nestlé settled for £2.55 billion, or a price of 1075 pence per share. The deal was announced on June 23rd, and although there was a moment of hesitation over the intentions of Suchard (who eventually made a profit of about £200 million from the shares they had bought during the bid), the battle for Rowntree was all but over. The Suchard stake was bought on June 28th, giving Nestlé more than 50 per cent of the company, and Nestlé finally gained some 90 per cent of Rowntree shares at the end of July 1988. (The remainder were acquired under the compulsory purchase powers of the Companies Acts.)

While the Nestlé victory looks inevitable in retrospect, it was not so obvious at the time that Nestlé were willing to agree to the Rowntree management's conditions in every respect. Among the terms agreed were the following:

* Nestlé would establish a new confectionery grouping in York, under the direction of Kenneth Dixon.

* Rowntree would remain in York, under its present management, and it would report directly to Vevey; not to Nestlé UK.

* Nestlé would respect all rights of employees and ex-employees and would support Rowntree's continuing commitment to York and its residents.

* Kenneth Dixon would have a place on the General Management Committee of the Nestlé Group.[8]

Most of these undertakings would not have been hard for Nestlé to swallow. There would be little sense in alienating the staff or the local community by engaging in a penny-pinching retrenchment of Rowntree's generous local spirit. It was also arguable that the presence of Kenneth Dixon on the main board was of benefit to Nestlé; he did, after all, have the experience of running a successful confectionery company, and that

8 The General Management Committee acts as a form of executive board. Nestlé's statutory board consists entirely of non-executive directors except for Mr. H. Maucher, the chief executive director, and is therefore effectively a supervisory board.

was an area Nestlé wanted to expand into. The harder pill for Nestlé to swallow was the disruption of its heavily geographical organisation with the presence of a UK subsidiary that did not report through the UK headquarters, and the existence of a confectionery group that transcended national boundaries. Nestlé had previously never allowed itself to be organised along product lines, and the management agreement with Rowntree appeared to represent a major departure from that policy. The Nestlé annual report in its description of the "special structure", labelled the new chocolate-confectionery-biscuit strategic concern a "decentralised central unit", exhibiting some of the corporate contortions that were necessary to try and place this new division into the Nestlé fold.

Of course, the most obvious Nestlé concession was the price they were willing to pay for Rowntree. It turned out to represent a price/earnings multiple of about 22, a premium of 130 per cent above the pre-bid market capitalisation of Rowntree, and a good deal higher than the average bid premium for food industry acquisitions generally.[9] If Nestlé were to achieve only a ten per cent return on that sort of investment, they would need to obtain £250 million of profits a year; more than twice the Rowntree level, a level that had recently grown fast at the end of a large consumer boom in its main domestic market. To obtain this through expansion of Rowntree sales in Continental Europe - assuming all other markets remained broadly stagnant - margins would have to increase, and sales would have to grow at their current rate for about 35 years. Another expression of the challenge facing Nestlé is the fact that at then levels of turnover, costs would have to fall by £150 million a year - more than Rowntree's total annual advertising and promotion budget - to get an improvement in the bottom line big enough to obtain a 10 per cent return on the investment.

One way of asessing the impact of the deal to the Swiss is to look at the movement of the Nestlé share price around the time of the purchase. Analysis of this kind, which is generally regarded as the only method of gauging market reaction to an event of this type, is notoriously hard. Firstly, it is difficult to establish a benchmark against which the share price would have performed in the absence of the deal; and secondly it is hard to judge when the event under analysis reflected itself in the share price.

Bearing the pitfalls in mind, the Nestlé share movements relative to the Swiss share index over the period from the start of the whole set of events to the end of them are still very revealing. The results are in Exhibit 3. According to Datastream, Nestlé has an equity beta of about 0.75, indicating that a 1 per cent rise in the Swiss stock market index should result in a 0.75 per cent increase in the Nestlé share price. On this basis,

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9 Also in 1988, Campbells paid a 56 per cent premium for Freshbake and Bassetts paid a 47 per cent premium for Jamesons. Both were agreed bids. However, other brand-rich companies have changed hands at higher P/E ratios, for example Martell (32), Duracell (33).

Nestlé's registered shares under-performed their predicted performance by about five per cent over this period. The bearer shares behaved in a similar way. This is a significant amount - worth about £500 million. As the company spent £2.6 billion on Rowntree, this would suggest that Nestlé shareholders actually valued it at about £2 billion, and lost half a billion pounds through the takeover. This is still much less than Rowntree gained by the deal, and the difference - the net gain - either reflects the City's undervaluation or the value of operating synergies that could be exploited by the Swiss. The registered shareholders soon more than recouped their losses when their shares became internationally tradeable later in the year.

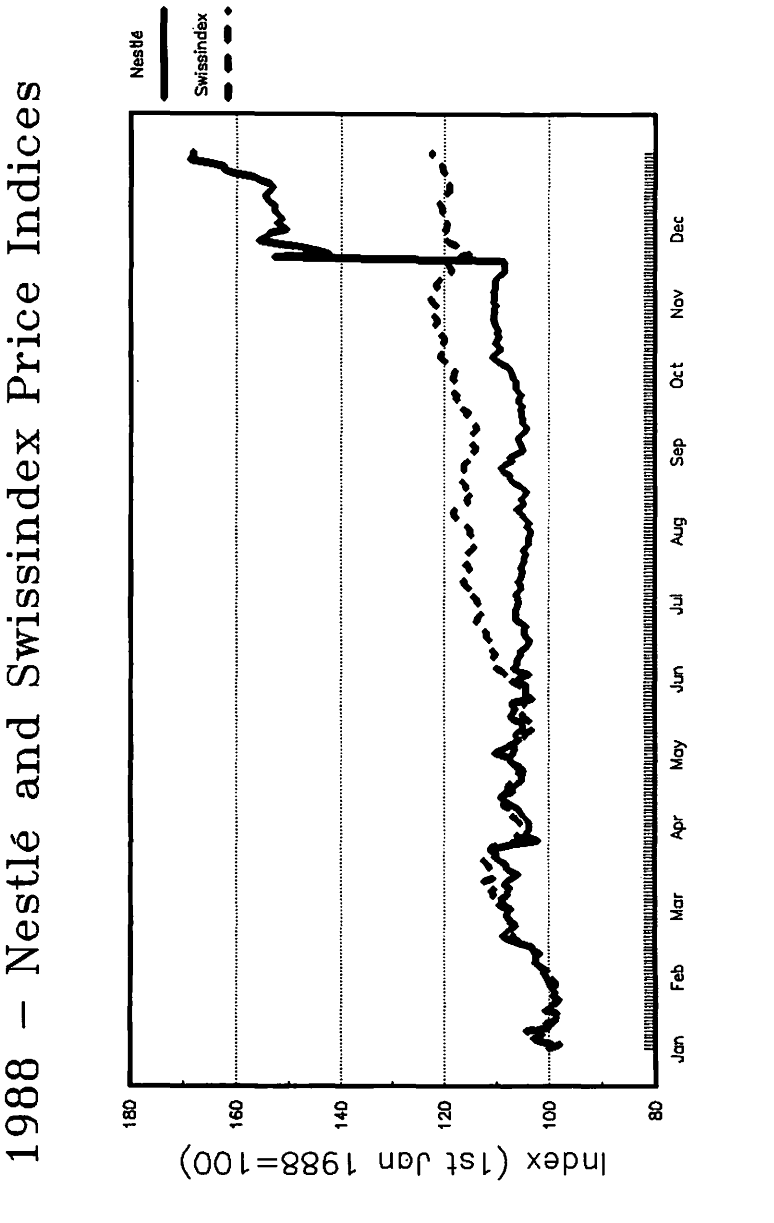
EVENTS SINCE THE ACQUISITION

Despite all the upheaval, 1988 was a record year for Rowntree, with its performance slightly exceeding the forecasts made in its defence document (Rowntree News, March 1989). In April 1989, it received a third Queen's Award for Export Achievement for its performance in the previous year.

On January 1st 1989, the company took its place in the newly organised Nestlé structure. The Rowntree Group Board was disbanded. Rowntree UK is still run by Rowntree personnel, although at the senior management level, there was a shift: all but two of the board left or retired shortly after the transition to Nestlé control (Financial Times, 19th Jan 1989; Rowntree News, November 1988).[10] Kenneth Dixon took a place on the executive committee of Nestlé; and, leaving at his own wish, was replaced in 1989 by Peter Blackburn, who was a member of the Mackintosh team before the merger with Rowntree in 1969. Blackburn went on to become Chief Executive of Nestlé UK, which is based in Croydon. This could be seen as a slow means of undermining Rowntree independence, or as a means of exploiting the asset that Nestlé had bought - a strong Rowntree culture.

10 Two of the other directors were also offered positions elsewhere in the Nestlé group. One decided to leave, and the other took a position but left the group in 1990. The severance terms provided for both staff and directors were not ungenerous.

Exhibit 5



Source: Datastream

In York, an International Chocolate Group was set up under Kenneth Dixon which had the objective of co-ordinating the confectionery activities of the national Nestlé subsidiaries. In June 1989, Rowntree UK took over the UK confectionery activities of Nestlé; Nestlé UK took over the non-confectionery activities of Rowntree; and the Rowntree subsidiaries abroad were integrated into the national Nestlé companies and ceased to report to the UK. Rowntree's international headquarters in York were closed down.

About forty staff jobs were lost in York as a result of the reorganisation, and some labour was shed in a continuation, at a slower rate, of the rationalisation trend established by the firm when it was independent (see Exhibit 6). The group science centre in York has doubled in size (employing forty extra people) and no science or R&D personnel left. The company remained sensitive to York's role in the group, holding its first ever Management Board meeting outside of Switzerland in the city. Nestlé continued to put new investment resources into York, maintaining - and probably increasing - the pace of Rowntree's original plans. It announced a new £15 million Polo plant and a £13 million cocoa plant there, and spent more than twice as much in 1990 as had been spent in 1987. Investment in other parts of the UK continued as well, with an £8 million milk plant planned for Girvan.

EXHIBIT 6 Capital Investment and Employment at Rowntree UK, 1984-90[4]

	ROWNTREE CONFECTIONERY ONLY					ROWNTREE UK LTD.	
	Capex £ m	% T/O	Capex £m	Employment York only (1984 = 100)	Employment (total confectionery)[3] (1984 = 100)	Capex £ m	% T/O
1984				100	100		
1985				92	91		
1986				87	83		
1987	26	5.0	9	87	80	30	5.7
1988	25	4.5	8	83	77	29	5.2
1989	37	6.3	15	76	73	41	6.9
1990	48[1]	7.3	19	74[1]	71[2]	52	7.8

1 Planned for year; outcome probably much higher.

2 September.

3 Given the changed coverage of the business, comparisons are difficult. On the basis of present coverage, employment has increased by about 800 since the acquisition. York figure does not include £7m for the research centre.

4 Some of the data in this table were not readily available prior to 1987.

Source: Rowntree UK Ltd.

The commitment to good staff relations also continued, with a union agreement in February 1989 for the union and management jointly to audit Rowntree's skill needs and grading system (Financial Times, 14th February 1989); a continuation of profit sharing; and the introduction of free health screening in April 1989.

No company management can afford to tie its hands indefinitely on organisational, employment and other policies. In retrospect, the undertakings given by Nestlé on these matters were somewhat vague. Some outsiders probably expected that these undertakings meant the Rowntree operation in York would be largely unchanged, and that Nestlé's world-wide chocolate and confectionery operations would report direct to Vevey. This is not what has happened: Nestlé's confectionery and chocolate operations continue to be based on national operations reporting to Vevey, and the role of the new confectionery grouping seems to be concerned mainly with the development of strategy, not world-wide operations, which remain controlled as before from Switzerland. The Rowntree UK confectionery operation reports to Nestlé UK in Croydon, of which Peter Blackburn, as mentioned, is now Chief Executive.

Abroad, Nestlé's follow-up to the Rowntree acquisition was to engage in further confectionery purchases, including the Nabisco chocolate interests in the United States which Rowntree had unsuccessfully tried to buy in 1982. It sold the non-confectionery Rowntree subsidiaries, notably the American retailing interests. In Japan, in a move very like those that Rowntree had engaged in when independent (and which was criticised by Nestlé) a large joint venture with Fujiya, a long-time licensee of Rowntree, was announced for further production and distribution of Rowntree products (Rowntree News, June 1989).

As a postscript, it is worth mentioning that in 1989, Nestlé obtained a London share listing, making it much easier for non-Swiss nationals to purchase shares in the company. Suchard was itself acquired by Philip Morris in August 1990.

SECTION TWO
An assessment of the takeover

There are several perspectives from which we can answer the question "Was the takeover of Rowntree 'a good thing'?" The first is from that of each of the participants. Should the old owners of Rowntree have held on to it; or did Nestlé make a mistake in buying it? The second perspective is that of the UK authorities. If we believed that the merger was a mistake, would it have been appropriate to have intervened? A third perspective of more academic interest would be that of a benevolent world dictator: was the world overall made better off or worse off by this deal?

Our answer to these questions - based on judgement rather than facts - would be that the Rowntree shareholders and the UK government behaved quite sensibly over the deal; the Swiss may have paid more for Rowntree that it was worth, but on the basis of stock market movements, the short-term losses to the Swiss were smaller than the gains to the British, and the merger was, on present evidence, a socially desirable outcome from a world perspective.

The most salient feature of the whole event was that it derived from a large difference in the value placed on the company by its predominantly UK based shareholders and the Swiss. This could have been the result of one of several factors:

* The City undervalued Rowntree; Nestlé knew the correct value.

* The City correctly valued Rowntree; Nestlé paid too much for it.

* The City correctly valued Rowntree and so did Nestlé; it was worth more to Nestlé than on its own, due to operating synergies, monopoly power, or Nestlé's lower cost of capital.

The first roughly accords to the Rowntree managers' view. The second is probably the view of most City investors: Nestlé maintain that they were able to create value through operating synergies, and may yet prove able to do so.

Either way, it is hard to see reasons why the public authorities should have intervened to stop the sale. If the UK markets undervalue firms, the way those values are corrected is by more farsighted purchasers coming into the market and picking up bargains. Attempts to thwart the mechanism would leave undervalued assets undervalued. It is interesting to note that those defending Rowntree against takeover - on the grounds that it was worth as much independent as it was for Nestlé - had not chosen, or had not done so in sufficient strength, to exercise their right before the acquisition to buy shares in the company. If it was as seriously undervalued as was maintained, it is odd to see why investors who complain about the deal did not choose to invest in it.

If one takes the second view, that Nestlé paid too much for Rowntree, it was again a good idea for the UK to sell it, as is always the case if someone offers to buy something at a price in excess of its value. In this case it doesn't much matter what they do with it. Of course, one might have worried more if we believed Nestlé to be making a mistake were Nestlé a domestic company. In that case, the net gain to the UK would have been zero or negative. This is not so with a foreign purchase. Or, one might have worried that on discovering their mistake, Nestlé would undermine the resources and destroy an asset with value to us all as well as the shareholders. Again, while Nestlé may have made a mistake, it is unlikely that the authorities would in general know better than private agents on this count, and certainly undesirable for them routinely to sit in judgement on takeovers in which there is no divergence between private and social interests. It is hard to object to a policy of regulating those mergers where there is a potential conflict between private and social interests.

Incidentally, it is also unlikely that if Nestlé had turned out to be poor owners that they would have exacerbated their error by destroying the company. They would have done better to merely sell it again, primarily at a cost to themselves, rather as Rowntree did with Tom's Foods.

If we believe the third account, that everybody valued it correctly - with the company worth more in the hands of Nestlé than independent - it again seems sensible to have allowed the takeover to proceed, as it guaranteed that the Rowntree resources were deployed in their highest value uses.

So what do we need to believe in order to assess the merger as negative? The idea that Nestlé's motives derived largely at the expense of the public, that the value created by the merger was constructed from monopoly power, was not believed to be the case by the authorities at the time, and we have seen no-one seriously suggest otherwise since.

There is also the idea, mentioned above, that Nestlé could only purchase the company as it had a lower cost of capital than most UK investors. This is true for two reasons. First, Nestlé was sitting on a cash mountain and was thus able to purchase assets easily. While this may be so, it is hard to see that it provides a reason for preventing the takeover. A second explanation of Nestlé's ability to buy Rowntree was that interest rates are generally lower in Switzerland than in the UK. In the second quarter of 1988, Swiss commercial banks' prime lending rate averaged 5.5 per cent. The equivalent value in the UK was 9.5 per cent. But the magnitude of this difference belies the importance of interest rate differentials in determining the profitability of overseas investments: real interest rates do not differ by very much internationally - certainly not enough to justify the sort of bid premium that Nestlé paid - and nominal interest rates differentials broadly reflect expected currency depreciations which will offset any cheaper interest rate effects. If the Swiss wanted to trade profitably through the existence of high returns in UK investments, they could have done so by much simpler methods than buying Rowntree. (The theory underlying this argument is presented more fully in Brealey and Myers, 1984). It is, of course, true that lower inflation and lower interest rates may encourage some investors outside the UK to take a longer view of the pay-off periods for investment. However, this is a reflection of UK economic management generally and is not specific to the Nestlé-Rowntree case. It should also be noted that high UK interest rates have not deterred large UK companies able to raise funds on international capital markets from buying more corporate assets abroad than foreign-based companies have bought here (Bannock 1990).

Another implicit argument offered at the time was that Rowntree had a public value in excess of its market capitalisation, based on its contribution to the City of York and Rowntree employees. The value created for Nestlé by the takeover came at the expense of these groups. This is an argument which contradicts the suggestion that corporate generosity can be defended as being in the company's own self-interest. It holds that companies are acting against their shareholders to be philanthropic. In this case, there is no reason to believe that philanthropy necessarily has an indefinite future under the old management any more than it would be from the new. If we do not believe that companies themselves benefit from being philanthropic - in which case we would anyway question the propriety of managers engaging in philanthropic behaviour - the idea that social responsibilities cannot be transferred from one owner to another is, as yet, completely disproved in this case.

A variant of this argument, associated with Schleifer and Summers, 1988, is that the acquiror in takeovers can only create value by ripping up all sorts of implicit contracts that govern relations between various stakeholders in the firm. A cost to the merger, then, is the fact that these contracts become suspect for those wanting to make them in future, and this engenders a short-term attitude among those who would like to participate in them. An extreme hypothetical example of such a contract might be the provision of subsidised food to retired employees of the company. In anticipation of these meals, staff might demand lower wages than otherwise; but having got the old employees to work at low rates of pay in anticipation of their free meals, there would be an incentive for a new proprieter to come along and move to the more normal system in which no subsidised meals are provided, and normal levels of wages are paid. Of course, like philanthropic behaviour, the incentive to remove the practice exists for both the incumbent managers as well as the acquirors. The striking thing about this case is the fact that these contracts have been maintained since acquisition, as have the philanthropic activities. Takeover need not be an obstacle to the pursuit of these social contracts.

This takeover was, of course, untypical in one crucial way: the acquiring firm was perceived as being bid-proof. It was quite possible for a foreigner to take over Nestlé, but it would have required them to make a risky and expensive purchase of ten per cent of the firm (worth almost a billion pounds at the end of 1988) to call a general meeting, make their offer, and then let the shareholders vote on a change in the company articles to allow a foreign takeover. It would not have been as easy for Rowntree to take over Nestlé as it was the reverse; and this has led people to assert that the market for corporate control provides no guarantee that good managers drive out the bad. A large part of the debate over the government's role in the merger related to the reciprocity issue and whether bid-proof companies should be allowed to take available companies out of the market. The issue is not one on which economists, politicians or company directors have agreement. Perhaps the best statement of the free market view on the issue, supported by Hannah (1990), is that non-reciprocity should provide grounds for a bid to be investigated by the MMC; once it under investigation, however, the public interest, devoid of any concerns of reciprocity, should be the criterion of whether it proceeds. Under this view, it would have been reasonable for the government to refer the bid on May 24th 1988, although not necessarily wrong not to refer it. Our view on this case, based on the evidence accumulated here, is that if it had been referred, it would probably have been right to have allowed the bid to proceed, as it was not against the UK public interest for it to do so. The information to make such a decision - i.e. the offer price at which it was worth selling the company - was, broadly speaking, available to the Office of Fair Trading at the time the decision not to refer it was made. It is hard to ascribe blame to any party for that decision.

Again, however, it is far less clear whether the public interest of the UK would have been served in the same way in a purely domestic merger with the same consequence. In that event, this set of defences for the Rowntree takeover would largely collapse. The reason for this is that one party whose interests were not a primary concern of the UK government were the shareholders of Nestlé, and yet they are the potential losers from the arrangement. If we believe the difference between Nestlé's valuation of Rowntree and that of UK investors lies in the fact that UK investors had to spend their funds rationally - being financial institutions, they are judged by their investment performance - but that the Swiss did not, it is possible that the Swiss overvalued it. It is not hard to see how this situation might have come about. With 120,000 shareholders, none of whom own more than 3 per cent of the company, Nestlé management, who did not need to consult their shareholders, faced less accountability than the other investors who were in the same position.

If we look at this takeover, we see that it possibly destroyed value for the Swiss. We have already established that it created value for the Rowntree shareholders; as economists we should ask whether it created more value than it destroyed. The answer at present is apparently yes: the market capitalisation wiped off Nestlé shares is not as great as that which was added to Rowntree shares. It is, of course, quite possible that Nestlé's high valuation of Rowntree's brands, which must have been the major factor in their decision, will be proved justified in the long run.

For the Swiss, there probably were more desirable alternatives to a complete and expensive takeover: a minority shareholding that would have obstructed takeover by a third party and that had provided the basis of a serious distribution deal might have allowed Rowntree to remain independent, exploit all the synergies available from Nestlé and saved the Nestlé shareholders the high cost of the bid premium. This option, however, did not prove acceptable to the Rowntree management.

CONCLUSION

It is sad that a profitable UK concern built up over 120 years can lose its independence in a few months, though this would be less cause for concern if there were more new challengers coming along to replace Rowntree in Britain's indigenously owned industrial fabric.

The belief that leads many to hold reservations about the takeover is that companies are entities which should not be traded with impunity. This is an attitude with which we have considerable sympathy. The pervasiveness of the short-term deal-making culture which distinguishes modern Britain from other economies, including those of Japan, Germany and Switzerland, is reflected in our inferior long-term economic performance. But whatever one thinks about the merits of opportunistic takeover, the Rowntree case does not fall into that category. It was an important strategic acquisition for Nestlé; it was by no means an easy or cheap bargain. On paper Nestlé looked adequately qualified to manage it, and in practice there has been as yet no evidence to the contrary.

From the narrower perspective of the welfare of the community in York about which there was so much concern at the time of the takeover, we found members of staff of Rowntree and residents of the city prepared to concede that despite the 'hoo-hah', in fact things had turned out well. The post-takeover performance of the company has been quite good, despite a general downturn in economic activity. Had Rowntree remained independent, it seems very unlikely that employment and investment in York (or in the UK as a whole) would have been any higher, and it might well have been less. There appear to have been no significant changes in local or UK sourcing of supplies and services.

Most of the former members of the Rowntree Board who left the company after the takeover are still living in the area and two, at least, have more time to devote themselves to community matters than before.

It is possible that in the long run the counter-pull of Nestlé UK in the South and the parent company in Switzerland will drain some of the dynamic impact of Rowntree's activities away from York. This might have happened anyway, but it is too early to make a judgement about these consequences of the takeover.

Whatever view is taken on the role of the City in undervaluing Rowntree's shares and the decision of the institutional shareholders not to accept the management's case, it is difficult to argue that these remote interests behaved irrationally or irresponsibly given the competitive pressures upon them to perform in the interests of their owners.

Nor can any blame be attached to the Rowntree management for failing to avert the bid. Given the apparent determination of the bidders and the scale of the resources at the disposal of the victor, Nestlé, the efforts of the Rowntree management were doomed in the absence of any government action to halt the takeover. Rowntree were criticised for not having accepted Nestlé's original offer of a minority stake, but such a stake might have been de-stabilising and bad for staff morale. It would probably only have delayed the inevitable. In our judgement, Rowntree management did a very good job in getting a high price for its shareholders and in securing the concessions that they did.

Nor can we blame the government in this case. Even had there been a reference to the MMC, it was then difficult to see (and now even more difficult with hindsight to see) on what grounds the bid could have been disallowed.

Nestlé made a commercial judgement that the dynamic needs of their industry justified a high price for the acquisition (a view to some extent shared by executives in other firms, as evidenced by the takeover of their rival, Suchard, by Philip Morris). It remains to be seen whether that commercial decision will be fully justified; it appears that their shareholders did not think so. But in their behaviour to the British, Nestlé seem to have conducted themselves honourably throughout.

Finally, we should ask what the benefits or disbenefits of this take-over have been for the consumer of chocolate confectionery. Satisfaction of the consumer is, after all - or should be - the object of commercial activity. Our answer to this question is the thought-provoking one that the effects on the consumer are largely neutral in this case and have therefore not affected the conclusion we have reached. There is no reason to suppose that the rate of innovation in this industry will be affected, or that the price of Rowntree products will fall or rise, compared with a situation in which the company had remained independent. All we can say, perhaps, is that consumers in some overseas markets will be able to enjoy these products earlier than they otherwise would, thanks to the assistance of Nestlé's distribution system.

Of course this one, in many ways exceptional, case provides no basis for generalising about the adequacy of present merger policy or the effects of takeovers on economic welfare. It is not difficult to think of other recent cases where the outcome has been, or threatens to be, considerably less favourable. On the evidence available today, however, the takeover of Rowntree by Nestlé seems to have brought some benefit and done no significant harm to the UK economy.

CHRONOLOGY OF THE TAKEOVER

1988

April 13th
Suchard dawn raid puts Rowntree "into play". Rowntree share price surges. Rumours of takeover spread. Suchard announces that it will make no bid for twelve months.

April 26th
Nestlé enter fight with a full scale bid worth 890p per share. Rowntree AGM hears vocal defence of Rowntree and announcement of a large profits increase.

April 27th
Suchard renounces its self-imposed restriction on making a bid for Rowntree. Rowntree announces the agreement to sell Tom's Foods.

May 8th
Speculation of possible Cadbury bid for Rowntree.

May 11th
Foreign Secretary, Geoffrey Howe urges the Swiss to make it easier for the British to take over their companies.

May 13th
Rumours of secret Rowntree management plot to join Nestlé.

May 17th
Petitioners descend on Downing Street; 1,500 employees attend rally and lobby in London.

May 20th
EC Competition Commissioner, Peter Sutherland, tells Rowntree that EC interervention is unlikely. Tesco chairman, Ian MacLaurin, writes to then Secretary of State supporting Rowntree independence.

May 24th
Government gives go-ahead for bids, rejecting referral to the MMC.

May 25th
Suchard approach Rowntree and ask if a higher offer of 940p would be recommended. Rowntree reject this and issue defence document. Suchard make full-scale bid at 950p per share.

May 28th
Secret talks between Rowntree and Nestlé begin.

June 1st
GMB union representative urges management to talk to Nestlé.

June 6th
First Nestlé offer deadline expires with few acceptances and is extended to June 20th.

June 8th
Parliament debates the takeover.

June 17th
Kenneth Dixon meets union representatives to allay fears about backroom deals.

June 20th
Second Nestlé deadline passes, still with few acceptances, and is again extended.

June 23rd
Nestlé makes an improved offer of 1075p per share and receives Rowntree management support.

June 24th
Suchard sells its Rowntree stake.

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