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Confederation of British Industry

From the Director-General: Sir John Methven

21 Tothill Street
London SW1H 9LP
Telephone 01-930 6711
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Telegrams
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GOV/PM/1

28 June 1979

Dear Prime Minister,

In the letter to you of 21 June, the President said that we would be writing to all CBI members urging them to respond to the new climate that you and your Government created by the Budget.

I now enclose a copy of the letter which I have just sent out. We shall be publicizing individual examples of actions taken by companies and management in the new climate. I have mentioned R T Z Wheel Jane in the letter to members and I also enclose a copy of the letter that I have had from Bob Thornton, Chief Executive of Debenhams, which arose from a conversation which I had with him and to which, I am sure that you will agree, he has responded in the fullest fashion.

We will also be publicizing shortly a note which should help managers to resist wage claims based on the RPI: and I will send that to you, if I may. I am sure that you will agree that it is absolutely essential that we all get over to the public in every possible way over the next two months the fact that people really will have more money in their pockets and that excessive wage claims pushed through by the unions, will, in the absence of much higher productivity, only lead to higher inflation and further loss of jobs. I hope that you will agree that we might discuss this information problem as one of the topics at the meeting on 9 July.

Yours very truly

John

The Rt Hon Mrs Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON S W 1

Confederation of British Industry



From the Director General, Sir John Methven
To the Managing Director or Chief Executive

21 Tothill Street
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Telephone 01-930 6711
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Cobustry London SW1

28 June 1979

Dear Member,

Over the last three years, I have written to all of you on a regular basis, explaining in my own words what I believe that the CBI had achieved and the objectives I thought we should be striking out for.

I had intended to use this letter as a normal report to you all. But that I now think would be wrong. This letter needs to be straightforward and to the point; and I would ask you all to read it and then discuss it with your colleagues throughout your organisation. My reason for asking this is as follows.

Every one of us knows that we are entering a crucial period in the UK. We have a Government which, in its Budget, has set out to do many of the things that on the personal incentives front we have so long argued for. They have taken risks, but they have been bold and courageous. They have been bold in dealing with the Price Commission. I believe too, that they intend to move firmly on the Industrial Relations front. If they don't, they will get pushed very sharply by the CBI!

So at last we have a Government which is intent on giving us - managers, employers and shopfloor - many of the conditions for which we have asked: and they are going to ask us all - as they are entitled to - how we are going to respond.

How can we - each of us - respond? At its meeting on Wednesday last week the CBI Council responded by passing the following resolution (and the CBI Council very rarely passes resolutions!):

'This Council fully supports the strategy and the direction of the Budget and recognises that its success will hinge to a large extent on the ability of managers and employers throughout business to respond to the challenge and the incentives it provides. The CBI Council therefore calls on all CBI member firms to do everything in their power through the efficient and competitive management of their enterprises to ensure that the policies, which the CBI has long advocated and which are now being pursued by the Government, lead to higher productivity, higher living standards, more jobs and a more successful economy, in the interests of the British people as a whole.'

The CBI, as I well know, has no power or right, of its own initiative, to make promises on behalf of its membership. It is not something I would ever attempt. But we have learned to act and fight together over the last three years when it

was really necessary - over Bullock, on Government contracts, on sanctions: and I thank you for that.

Now what I ask you to show on an individual and company basis is that you recognise that we have a new climate for business and that we can and will respond to it.

How? For example, by responding as RTZ did, when they decided to re-examine the possibility of acquiring and re-opening Wheal Jane, the tin-mine in Cornwall, without Government aid: by fighting to obtain moderation in wage levels in the coming months and above all by getting real productivity increases: by showing, publicly, by individual example after individual example, that we - as managers as employers - are responding to the new climate by specific actions on the investment front, on the wages and salaries front, on the productivity front and by explaining the facts of life to our work-force to a much greater extent than in the past - encouraging a much greater sense of involvement with the firm for which they work.

Those of you who are owners of independent small firms (and you comprise the vast majority of members of the CBI) have a special challenge. The way in which you respond to the encouragement of risk taking will be crucial to the success or failure of the Government's policy. I believe that now you have a real opportunity to do the job you should be doing - taking risks and creating prosperity as a result.

I do not pretend that the next 12 months, or even thereafter, will be easy. The world economic outlook is certainly difficult. Indeed it may be that the CBI will have substantial disagreements with the present Government, for example over what changes the Government should make in industrial relations legislation or over changes to competition policy. That is why the CBI is needed - to go on putting the business point of view, irrespective of who is in Government.

But that should not and, I believe, will not deter each and every one of us from responding to the new climate and doing our best (which means much better than in the past) to deliver a high output, high earnings economy which will enable us to create the free, prosperous and caring society in which we all believe.

If we fail in this new environment - when we are being given the sort of incentives we have asked for - we may never be believed again. We may never get such a chance again. And we shouldn't be surprised then if other, unpalatable, alternative strategies gain more attraction.

I can assure you that every one of the CBI staff in the Regions and in Tothill Street (not least myself) will be ready to help you. In particular I will be sending you shortly a note on inflation, pay and the changes in personal taxation which I hope that you will find helpful.

But please tell us specifically how you are responding to the new climate and what you are doing. We want to help to publicise it.

Yes, this is a call to arms. This is a call to be positive and to publicise what we are doing. This is a call to show that we believe in a market economy and that, when given the right conditions, we can make a market economy work for the benefit of the British people as a whole - even though it may take us some long time fully to succeed.

Yours sincerely,
John Odette

Confederation of British Industry



From the Director-General: Sir John Methven

21 Tophill Street
London SW1H 9LP
Telephone 01-930 6711
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Telegrams
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29 June 1979

Dear Sir,

Thank you very much indeed for your letter of 25 June 1979. If I may say so I was absolutely delighted to read it. I am taking the liberty of including a copy of your letter in a letter to the Prime Minister which I now enclose. I am sure that she will be as delighted as I am.

Are you going to publicise what you are doing? And, would it be possible for us to use the information provided that we do not in any way use your name unless you agree to it? I feel it is a question of getting a stone rolling: and what you have done should greatly help.

*Yours,
J.M.*

R C Thornton Esq
Deputy Chairman and Chief Executive
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25th June, 1979

Sir John Methven,
Director General,
Confederation of British Industry,
21 Tothill Street,
London, SW1H 9LP.

Dear John,

I thought I would drop you a line and let you know something of the general feeling in the Debenham Group as a result of the new Budget.

First, and I am writing with restraint; there was a strong surge of patriotic feeling went through the senior management as the realisation sank in that here at last was a Government acting in the best interests of the country. With this came a determination to make the Budget work. Here are a few of the things we have decided to do as a result:-

1. The increase in V.A.T. has left us in some confusion about our sales, margins and stock planning for the future. The one point, however, which comes out most clearly is the grave danger of a drop in unit sales with resultant price increases throughout the Group. We have, therefore, as a matter of urgency, instituted a review of all our sources of supply to ensure that the axe falls most gently on the suppliers, particularly in the U.K., with whom we wish to have growing long term relations. This means, of course, a cruel blow to a number of fringe people; but we take the view that in any case one of our problems as a country is that we have too many fringe activities.
2. Although we regard ourselves as the lowest cost Department Store Group in the world, we have instituted another look at all our costs, particularly those associated with the bureaucracy, both our own and that of Whitehall which, as you know, imposes on us heavy demands for paper returns, etc. We are going to perform surgery with zest. I look forward to the first confrontation with some Whitehall Department asking /

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asking for returns that we are no longer going to send them. I should be glad if you would tell your friends in Government that this is going to happen and I will keep you informed of how the battle goes.

3. We have struggled here for a year or two with a number of fringe activities of our own and have probably been self-indulgent; we shall be closing down a number of these within a matter of weeks and hope to claw back £5m. of capital and put it to better use.
4. I am attaching an extract from the Financial Times of 15th June which gives you a clear picture of our investment programme and our optimism about the United Kingdom. It makes no mention there of the \$40m. of sales we achieve in the United States. We intend to grow in that market from profits achieved there and without cost to the U.K. will build up a hard selling, high return asset.
5. We believe that the Chancellor means what he says about credit and therefore we are increasing our credit charges in order to damp down this method of selling and, incidentally, make more money.
6. We are looking again at fuel and distribution costs and, in particular, at company motor cars. We hope to come up with an idea for putting the choice back on the individual. We provide over 700 company cars and what we have in mind is to give staff the money instead. We think this will encourage them to be more frugal in their use of cars and fuel.

It was a pleasure to see you again the other day and, on behalf of my colleagues I want you to be assured, and pass the message on, that we intend to support the Government in its actions.

Yours sincerely,

Bob Thomson

Debenhams begins to benefit from earlier developments

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THE DEVELOPMENTS planned of sales £1.9m (£5.2m), less and started some years ago by searing of £1.6m (£2.3m). Debenhams, retail distributor. The £1.83m surplus arising from a revaluation of the group's are now coming on stream and properties made in 1978, with the group is beginning to reap retained profits, but less £3.3m the benefits, says Sir Anthony written off goodwill, resulted in an increase in shareholders' Burrey, the chairman.

As anticipated last year, the group opened two new stores during 1979 at Swansea and at Stockport. Both of these are showing good results and are coming fully up to directors' expectations.

In March this year the group opened the first phase of the redevelopment of its Ipswich store and Sir Anthony says the whole new store should be in operation by autumn 1980.

Progress on the Blackburn store is on schedule and it is anticipated that it will be completed by the summer of this year. Work on the new stores in Cardiff and Edinburgh is proceeding and these should be open in autumn next year.

Detailed plans for the major reconstruction of the group's Croydon property have now been completed and it will shortly be entering into negotiations for the financing of this new project.

As reported May 19, bad weather and industrial unrest early this year trimmed pre-tax profits from £24.6m to £23.3m for the year ended January 2nd, 1979, on sales, excluding VAT, of £698.4m (£649.9m). Trading profit after cost of finance rose by 39 per cent to £21.73m, but the effect of last turnover in January was to reduce profit by at least £1.25m.

The directors are confident that trading profit in the current year will show a further substantial advance.

On a current cost basis, pre-tax profits are reduced to £17.8m against £21.5m last time, after adjustments for depreciation of £3.2m (same), self-financed cost

of sales £1.9m (£5.2m), less searing of £1.6m (£2.3m). The £1.83m surplus arising from a revaluation of the group's properties made in 1978, with retained profits, but less £3.3m written off goodwill, resulted in an increase in shareholders' funds from £170.75m to £246.45m. At balance date, total borrowings amounted to £74.6m, representing some 30 per cent of shareholders' funds, compared to around 31 per cent a year earlier. Group fixed assets rose from £180.66m to £241.8m and net current assets were up from £71.82m to £52.41m.