



10 DOWNING STREET

1. ~~David Norgrove~~

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2. Prime Minister

BL

The Chancellor would
like you to see or
attended on BL, with -
apparently - he has
discussed this for.

Stevie

17/3

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Mr Peter J. Cropper,
Special Adviser,
H.M. Treasury,
Parliament Street,
London
SW1

IN CONFIDENCE

12th March 1986

Dear Peter,

We agreed on the telephone that I would write to you with some views on Land Rover for you to pass on to Mr Lawson.

The symbolic, and therefore emotional, importance of Land Rover is that, with Jaguar and Rolls Royce and a few minor specialist producers and component suppliers like GKN, it is one of the last remaining bits of the once great British motor industry and its traditions of engineering excellence and innovation. Rover cars as an identifiable entity, along with Austin, Triumph and the rest, have now gone forever. Selling Land Rover, which like Jaguar never lost its identity in BL, to GM would be to perpetrate the mistakes of the government-encouraged mergers in the motor industry in the 1960s. It is not a question of being anti-American but of not again allowing Land Rover to go into a group, British or foreign, which cannot exploit its full potential.

BL siphoned off resources from Rover and Jaguar into the drain of the volume car business, which the Japanese and Americans are so much better at than we are, instead of into the specialist business where our indigenous individuality, originality and sense of quality could be fully used and where, as it happens, there were tremendous long-term market opportunities as BMW, Volvo and others have shown.

Incredibly, the Range Rover, which BL inherited on acquiring the Rover Company, was ready to go into production 20 years ago (and very nearly killed at birth by its new owners). In case you find this difficult to believe, I enclose a photostat of a picture I took in Solihull in 1967 of the prototype. Only now are there

firm plans to sell the Range Rover in the USA. The potential for this vehicle, and indeed for its much older and now ageing sister the Land Rover, remains, however, provided it is sold on quality and is kept up to date. There is considerable scope for new products. The greatest need may be for a lightweight short wheel-base Land Rover with superior fuel economy - a project which was also under study 20 years ago. The parts business and Freight Rover are also valuable assets.

GM cannot develop new products of the kind Land Rover needs. This is not GM's role or its strength as industry leader. Internal pressures would soon result in Land Rover's unique features being 'value engineered' out of existence and the 'marque' would become just another badge like MG or Buick or Pontiac. The box plate Land Rover chassis would be dropped and probably replaced with the cheaper, lighter construction used in Chevrolet 4x4's. The simple engine would go and with it the aluminium panels etc. None of that would matter if the changes were really innovative since big changes are necessary for contemporary markets, but GM's history suggests that they would not be. The Range Rover actually uses an ex-Buick (GM) aluminium engine which GM dropped as being too innovative for them. Rover bought the tooling and rights for this power unit in the 1960s. GM is not a holding company, it is an integrated business and has never left any of its acquisitions much autonomy as far as I know.

GM's world-wide distribution system might take up several thousand extra units in the short term, but it isn't the kind of specialist network that Land Rover really needs and would soon simply help to reinforce the inevitable dilution of the distinctive nature of the product which is the only way to meet competition with lower cost Japanese competitors. Distribution is not a problem for really good specialist products, as Jaguar has found.

Lonhro's deficiencies are of a different kind. They wouldn't have the incentive or the ability to move the Land Rover product development out of the country or integrate with other products, but equally it has no tradition of engineering. Their strength is in distribution, especially in Africa, but Africa is no longer a major potential market. The future, at least in the medium term, lies in the advanced countries.

The Range Rover was conceived out of the realisation that non-military, non-agricultural markets in the advanced countries for 4x4's were growing much faster than the traditional markets

upon which the company's strength was built in the 1950s and early 1960s. This new market is less cyclical than the traditional one, but it probably remains subject to bigger fluctuations than that for conventional passenger cars. This is why any purchase of Land Rover must be adequately financed in case the survival of the company were to be jeopardised by a temporary downturn in demand, especially given the demands that new product development will make, though these are often exaggerated because very large groups are unnecessarily costly places in which to carry out R&D for low volume products. This is why GM now actually have some of their development work carried out by smaller firms in Europe.

Failure is not likely in the short term if the Range Rover can be sold successfully in the US. For Jaguar, its dependence on the US market is a source of weakness; for Land Rover it is there waiting to be tapped.

Product distinctiveness, quality and development is crucial for a small specialist producer, which is what Land Rover is. Land Rover will have a tough job on its own but that is the only way it is likely to survive at all. The best solution for Britain and for Land Rover and its employees is the management buy-out, in my opinion, provided it can be adequately financed and provided the management is good enough, which recent developments there suggest it is. There is no reason, given time, why Land Rover should not be as successful as Jaguar. Indeed, it is a pity that the two companies cannot work together. This would go some way to reconstituting the Rover-Land Rover set up, so unhappily destroyed by the ill-advised BL merger in 1967. (Car sales prevented over-dependence upon the fluctuating 4x4 market).

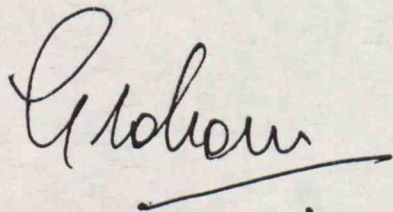
I can claim some authority for the views expressed here. I worked with Rover for ten years with a two year break at the OECD. From 1964 until 1967 I was actively involved in the Range Rover development which was, in fact, my idea, arising as it did out of research I carried out. I resigned in 1967, having no confidence in the new owners. In 1968-70, latterly as Manager Advanced (Product) Programmes for Ford of Europe, I was able to witness and participate in the transfer of much of sovereignty over Ford of Britain's product development from Dagenham to Cologne and Detroit and understand the commercial realities which made that happen. I have watched developments since but cannot claim to have an up to date knowledge of Land Rover's present operations. Most of what I have written isn't much affected by these and all of their 4-wheel drive products were conceptually pretty well as they are now, or on the drawing board, by the time

I left. More's the pity, but there is still even more scope for new developments and plenty of people in this country capable of bringing them to fruition.

The Land Rover issue is one perhaps rare case where emotion, patriotism, practical politics and business reality all point to the same conclusion. A management buy-out would be wholly consistent with the Government's policies on wider share ownership and self-reliance. If the obstacle is really that only GM is prepared to pick up Leyland then, surely, they would still do that if the price were right. Leyland Truck doesn't have the prospects that Land Rover does because it does not have a unique slot in the market. Competition in the truck business is ferocious because of hopeless over-capacity and it probably does make sense to integrate Leyland with Bedford.

I hope this letter will be of help to Mr Lawson and his colleagues.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'Graham Bannock', with a horizontal line extending from the end of the signature.

Graham Bannock

