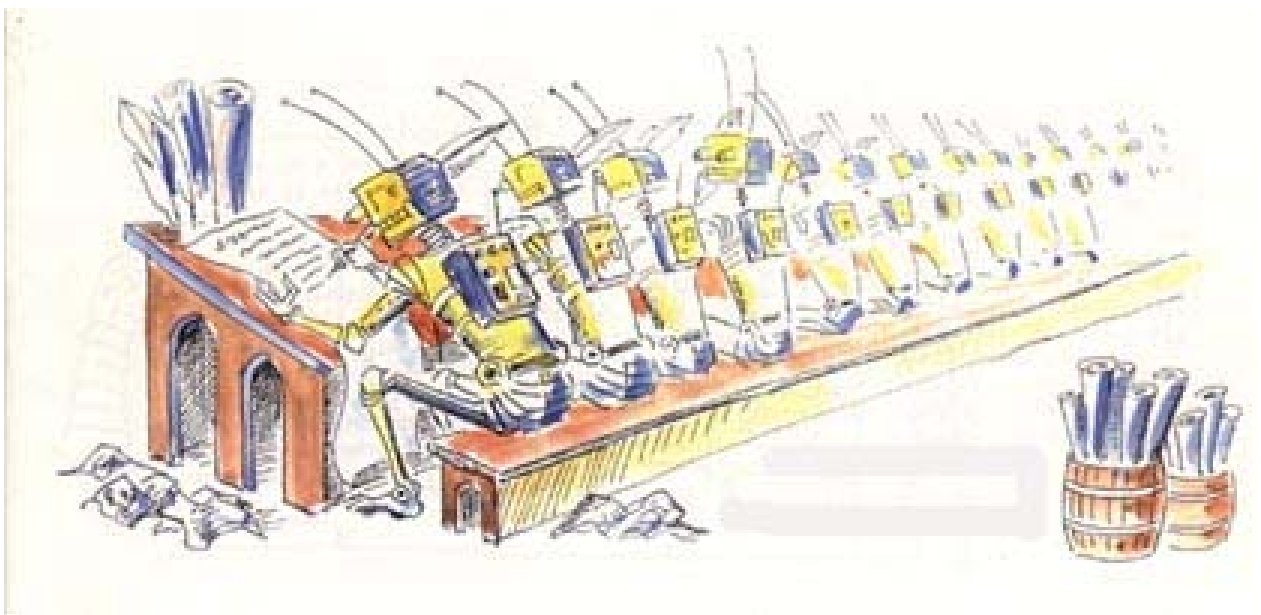


# New Labour Company

by

## William Shepherd



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Canterbury, England  
April 1988

**Pray silence for his worship the Chairman of Grand Metropolitan**

'The group's wine and spirits interests almost doubled in size in 1987, achieving global sales of 85 million cases and consolidating our position as one of the world's largest wines and spirits businesses. Trading profits showed an increase of 51 percent.

*Heublein, Almaden and Saccone & Speed* were acquired during the year. These actions strengthened our position particularly in the United States, Brazil, Japan and the United Kingdom.'

Licensed retailing reported significant growth in trading profits with an increase of around 50%. The outcome from our continuing investment programme is looking very satisfactory. Here are the summary results for 1987 for Wines and Spirits.'

	<b>Turnover</b>	<b>Trading Profit</b>	<b>Capital Employed</b>
Wines and Spirits	34.2%	40.3%	27.4%
Brewing	11.7%	18.2%	40.0%
UK Consumer Services	20.0%	14.3%	2.4%
Foods	15.7%	8.0%	6.3%
Hotels	6.3%	6.9%	18.9%
US Consumer Products	12.1%	12.3%	5.0%

*UK Consumer Services* is a nice respectable name for Mecca's betting & gambling operations. *Mecca Bookmakers* operates a chain of 750 licensed betting offices situated throughout the UK and Eire. Gambling operations are looked after under the London Club's umbrella and include casino operations in Central London, Cannes and on board *Cunard* liners.

Retailing, which is given equal billing in the annual report with the Betting & Gambling side of *UK Consumer Services* is reported as having a turnover of £ 500 million which leaves Betting & Gambling with £ 550 million.

The total trading profit on this £ 1050 million was £ 79 million with retailing establishing 'a year of major profit growth'...which means that they must have lost their shirts on their Betting & Gambling operations in 1987. There is a hint of this in a comment on *Mecca Bookmakers*. Pray silence etc. etc.:

'The year produced a satisfactory increase in turnover although margins were affected by disappointing race results during the summer.'

In *Global MegaSpeak* this means they lost control of either race fixing or money laundering ...we're accepting bets on the most likely. Or do you have a better idea? And just for the record, US Consumer Products is Dog Food, Pearl 'Vision Center' Operations and the Pepsi Cola Bottling Franchises in The West, South West and Southern USA.

So this is a *Global MegaMob* operation and, not surprisingly, the statutory small print sections of the annual report are constructed so as to defy any who might want to get at any business sector breakdowns. But before going into Wines & Spirits, here are some useful numbers:

**Cost of Sales Analysis**

Purchases from Supplies of Goods & Services	£ 2 966.7 million	52.0%
Wages & Pensions	£ 1 017.4 million	17.8%
Taxes, Duties, Levies, Rates	£ 1 011.6 million	17.6%
Interest, Dividends & Minorities	£ 226.1 million	4.1%
Retained for Investment (incl. Depreciation)	£ 483.7 million	8.5%
<b>Total Group Expenses</b>	<b>£ 5 705.5 million</b>	<b>100.0%</b>

**Global MegaMob**

The *Profit & Loss Account* is also worth a cursory glance. Just look at the 'Extraordinary Items' and 'Retained Earnings' passing through the company. You need the five-year picture to see this. But I'll walk you through the numbers. All figures are in £ millions.

	1983	1984	1985	1986	1987
Turnover	4470	5075	5590	5290	5700
Operating Costs	4063	4631	5137	4803	5128
<b>Trading Profit</b>	<b>407</b>	<b>444</b>	<b>453</b>	<b>487</b>	<b>572</b>
<i>plus</i> Property Profits	10	23	5	9	14
<i>less</i> Reorganisation Cost	19	36	41	27	9
<i>less</i> Usury (Risk Category A)	112	110	106	101	120
<i>less</i> Usury (Risk Category B)	5	4	5	3	3
<i>less</i> Usury (Risk Category C)	58	67	79	88	103
<b>Profits after Usury</b>	<b>223</b>	<b>250</b>	<b>227</b>	<b>277</b>	<b>349</b>

I have my own ways with words...like calling a spade a spade...but for those of you who wondered, this is my classification of the risk categories in the various usury items.

**Category A** is interest...what most people normally think of as first-degree usury.

**Category B** are payments of Minorities & Preference Dividends which are a riskier form of first-degree usury for which higher interest is extracted.

**Category C** are payments of Ordinary Dividends

But *Grand Metropolitan's* accountants are not through yet. They still have a lot of profit they must spirit away. Paying off the Money Boys is just for starters...and here is how they did it.

	1983	1984	1985	1986	1987
Turnover	4470	5075	5590	5290	5700
Operating Costs	4063	4631	5137	4803	5128
<b>Trading Profit</b>	<b>407</b>	<b>444</b>	<b>453</b>	<b>487</b>	<b>572</b>
Property Profits	10	23	5	9	14
Usury Losses	194	217	231	219	237
<b>Profits after Usury</b>	<b>223</b>	<b>250</b>	<b>227</b>	<b>277</b>	<b>349</b>
Taxes	83	86	64	92	120
Extraordinary Items	+2	- 20	+ 30	- 12	+128
<b>Retained Profits</b>	<b>142</b>	<b>144</b>	<b>193</b>	<b>174</b>	<b>358</b>

The Extraordinary Item in 1987 is worth looking at. Here is what's been going on:

Trading Profit	£ 572 million
Property Profit	£ 14 million
Profit from Trading in Businesses	£ 98 million
Tax Claw Backs (at taxpayers' expense)	£ 30 million
<b>Total (All Profits)</b>	<b>£ 714.0 million</b>

This comes from deep in the small print buried at the back of the Annual Report. Here it is:

Business Disposals and Discontinuance	UK	+ £128.1 million
Business Disposals and Discontinuance	US	- £ 31.8 million
Investment Disposals and Provisions		+ £ 1.4 million
<b>Total (Before Tax Back)</b>		<b>£ 97.7 million</b>
Tax Relief Relating to Extraordinary Items	UK	+ £ 2.0 million
	Overseas	+ £ 25.9 million
	Deferred	+ £ 2.2 million
<b>Total (Extraordinary Items)</b>		<b>£ 127.8 million</b>

So when you look into the extraordinary items for 1987 you find they're exactly that.

## Henkel's World

In *Forbes'* 1998 listing of the rich and famous, Bill Gates had kept his place at Number One with two other Microsofties in the US top ten. With 368 billion he was a cool 80 billion kronor better off than last year and on average these Americans, as a rich man's club, were up 24% over the year.

Not so the Japanese. The wealth of Asia's 57 richest moguls had fallen by 72% in a year. In total they had lost 488 billion kronor. Now that sound's like carelessness to me. My daughter lost her money in India recently, but she was insured. Perhaps those Hong Kong shares were reinsured art *Lloyds'*? That's what my son should have done. He took a hiding in the Asian crash. But then he'd left his money with the banks and their fund managers, thinking he could forget about it until he wanted to buy a summerhouse. Well now he knows that he was not investing but speculating and that he can't forget it because money has a way of going walkabout.

Do you want to hear about the European Top Ten? I think you should. Here they are:

Name	Country	Company	Swedish Kronor
Sacher Hoffman	Switzerland	Roche	145 600 000 000
Quandt	Germany	BMW	128 800 000 000
Bettencourt	France	L'Oreal/Nestlé	76 800 000 000
Haefner	Switzerland	Comp Associates	65 600 000 000
Berlusconi	Italy	Mediaset	54 400 000 000
Landolt	Switzerland	Novartis	53 600 000 000
Henkel	Germany	Henkel	47 200 000 000
Langman	Germany	Merck	42 400 000 000
Haub	Germany	Tenglemann	40 800 000 000
Belsheim	Germany	Metro	36 800 000 000

To give you some idea about what this means while you catch your breath try this. Take the last one, *Belsheim* with 36.8 billion Swedish kronor.

That would buy you and me 2 767 000 000 Pounds in the City of London. They swap these things about in places like that. For a fleeting moment we could be currency speculators. Then the computers would blow and the lights would go out in Threadneedle Street, but we will ignore that for the moment.

How do you see two thousand million pounds? Two hundred thousand pounds I can grasp. That's a very nice house with a big garden somewhere in the south of England...although just why it costs this is something we will be getting to shortly.

So Mr. Mega Metro Bells and Whistles Heim could get himself about ten thousand of these houses when he wasn't buying up castles in Ireland or islands off the west coast of Scotland. He'd play havoc with the house market of course, but who needs a green belt anyway? No money in that.

When I think of ten thousand houses I think of a small town the size of Rye or Mora. Not that everybody needs their own house. Most people prefer to live in households where there's somebody to talk to. You can talk to the wall and dream of an island in the Adriatic. But this is not everybody's cup of tea. If we're talking households then maybe we're talking Cambridge or Umeå.

The bottom line is it's an awful lot of bread. So much so in fact that dear old Joan Kroc...that's Ray McDonald hamburger Kroc's missus...felt the need to give *San Diego University* 200 million kronor the other day (she only has 13 400 million kronor left now, poor old dear).

Herr Henkel could of course afford to give twenty German universities ten times as much as this and still have some change to hand over to Ilya Prigogine at the *University of Brussels*...before flying off for a two-week package deal holiday in the Canary Islands. That's him on the towel next to you.

## Henkels on Walkabouts

And it should by now be clear even to those unschooled in the reading of balance sheets and annual reports that *Global MegaMob* can arrange to buy and sell businesses at any price they wish...we are seeing the tip of that particular iceberg in the *Guinness Old Bailey Fraud Trials* ...and Extraordinary Items can also be whatever *GMM* wishes them to be.

You thought you were through. There is artistry afoot. This is wizardry of the highest order. And there is much more yet to come.

The first thing the 'accounting profession' will say about all this is 'Yes of course it's correct as far as it goes. But it only gives a small part of the picture'. In this they are correct. Taxes, they will tell, you are a case in point. You cannot avoid taxes. All you can do is postpone them.

And as for dragging in depreciation in this way, this is a nonsense they will tell you. And they will go on to explain, quite correctly, that depreciation is merely a smoothing device. Big companies, just like little people, have to make large purchases of expensive capital equipment from time to time. These often last for many years. The only thing that depreciation does is to make sure the money is there when you need to replace worn-out equipment.

So much for theory. But let's see if practice measures up. Let's return to *Global MegaMob*. Capital Equipment you say. Fine. So we will look on *GMM's Balance Sheet* for its assets, which is where these things get tucked away.

	1983	1984	1985	1986	1987
Fixed Assets	2242	2430	2788	2756	2902
Other Assets	308	309	230	249	221
<b>Total Assets</b>	<b>2550</b>	<b>2739</b>	<b>3018</b>	<b>3005</b>	<b>3123</b>

So *Global MegaMob's* assets increased by £ 573 million between 1983 and 1987. Over the same period retained earnings went up by £ 869 million. Here are the figures:

	83/84	84/85	85/86	86/87	Total 83/87
Retained Earnings	144	193	174	358	869

Borrowings meanwhile have increased over the same period from £ 944 million to £ 1358 million which means that *Global MegaMob* have had another £ 414 million coming in. On the face of it one would have thought that was probably enough.

If you or I needed to buy a refrigerator for £ 573 and paid £ 414 on a credit card we would probably not have a problem scraping around for the other £ 159. Not so *Global MegaMob*. But that's their business and I'm sure they know what they're doing. Only too well.

Let's continue with our fridge. If instead of paying out the full whack you took three quarters of it on your credit card, you would expect your bank balance to look better than if you had paid it all in one go. In fact the reason you had to pay much more for the fridge...and that will be the consequence...was because you did not have enough money in the bank. I'm assuming some rational behaviour here for the sake of argument.

Obviously *Global MegaMob* finishes up with money coming out of their ears. Let's have a look. They held onto £ 710 million of their £ 869 of retained profits by spending only £ 159 million on their corporate fridge. Capital and Reserves. That must be the place to look.

	1983	1984	1985	1986	1987
Assets	2550	2739	3018	3005	3123
Borrowings	944	961	1019	933	1358
Capital & Reserves	1566	1744	1965	2046	1737

## Follow The Money

Hmm! Well money's certainly coming out of their ears. True. But Reserves only went up by £ 171 million which means that somewhere along the way £ 539 million went walkabout. Not a *Henkel*. But within spitting distance. We only need seven of these *Global MegaMobs* doing the same thing and we have a *Henkel* on walkabout drifting through our international casinos.

Do you want to carry on? I've made my point. You're curious now. OK. Follow the money... to the bitter end. Can we get any further? Yes a little. Let's try the notes which are the smallest of all the small print at the back of *Global MegaMob's Annual Report*. We are told, and I quote:

'the figures for 1983 to 1986 have been restated to reflect the change in accounting policy for routine sales of property and those reorganisation costs which were formerly included in extraordinary items'.

Oh, well that's alright then. Sellafield does this. Happens to unemployment statistics too.

Maybe the chairman of the board will be a little more forthcoming about this. What did Allen Sheppard have to say? And I do hope you are not giving us Shepherds a bad name. Incidentally that's a strange way to spell Alan? A comfort thing I suppose...anagram for Nalle. Cuddly.

'Our balance sheet is in good shape, despite writing off £ 1.5 billion goodwill in recent years.'

Well, well. A third of a *Henkel* just walked right off. Not even out on walkabout.

There's more.

'Our properties were last revalued in 1985 and the revaluation planned for the present financial year is confidently expected to result in a significant surplus, with a corresponding increase in capital reserves.'

And how! Just look at this. Fixed Assets Land & Buildings £ 1 981 million. Over the half *Henkel*...and rising. £ 1710 million of that is freehold and £ 190 million long leasehold.

If that lot's revalued in line with the doubling of property values we've been staring at... with feelings of some apprehension and much amazement...then hiding profit in 1987 is going to seem like a Teddy Bears Picnic compared to the contortions to be expected in 1988. I predict:

Trading Profit	£ 500 million
Property Profit	£ 2 000 million
Profit from Trading in Businesses	(£ 1 500 million)
<b>Total (All Profits)</b>	<b>£ 1000 million</b>

Methinks there will be an awful lot of *Grand Metropolitan* businesses being shuffled away into new companies and being swapped around at terrible prices with loss making subsidiaries of *Global MegaMob's* friends.

## Hidden Assets

But how insane this all is. And what fools we are to allow these jokers to play roulette with our dairies and our vineyards. Are these really the people we want 'owning' our breweries and our farms? Swapping milk quotas, swatting flies with DDT and poisoning our sheep and cattle with organo-phosphates. You think this is just rhetoric? Then hear it from the horse's mouth.

*Pray silence for his worship, The Chairman of Global MegaMob.*

'Brewing reported an excellent financial performance despite summer weather conditions which did not encourage high levels of beer consumption. Increased volumes in a static market gave us an increase in market share in both the ale and lager sectors.

The group now holds more than 14% of the total UK lager market and over 21% of the premium lager market. Lager now accounts for 55% of our beer volume. Ruddles performed exceptionally well in its first year with the group and we have great hopes for *Ruddles County* and *Ruddles Best Bitter*.

'The licensing agreements covering *Foster's* and *Budweiser's* were renegotiated during the year, extending the terms of agreements and providing substantially increased marketing support. Since the year end an improved agreement has also been concluded with *Holsten*.'

That's breweries. Do you want to know what market support means? Another day. That will do for Wines & Spirits.

Take a look at *Grand Met's* Food division now. Recognise these names? *Aylesbury Foods*, *Eden Vale*, *Express Dairy*, *Express Foods*, *Fleur Lys Patisseries*, *Express Dairy Co.*, *Express Dairy (NI)*. This is blue-chip quality stuff...'Brands' to the uninitiated.

Do you really want the same mob who run casinos in Cannes and the betting shop on the corner to be responsible for making sure your milk is on the doorstep every morning?

But before returning to the beginning and our Wines & Spirits division. I mentioned the *Guinness Fraud Trial*. Most of that was about shares. Shares seem to be the in-place for shenanigans...shares and pensions. Where do these fit in with *Global MegaMob*? What are the stock market trading profits doing all this time?

In 1965 *GMM* was selling at 45 pence a share. By 1982 they were up at £ 1.41p a share...both figures adjusted there being more shares around in 1982 than in 1965. Shareholders are happy. I like happy people. Perhaps we can get together. I wonder who they are?

Let's delve into the small print once again. 77.8% of the shares are owned by 0.7% of the shareholders. So the small shareholders with holdings of less than 100 shares wield one share for every 1000 shares held by the big boys. Some power! No matter. Who are the happy boys?

Oh dear. It gets worse. Try this for size. Guess which shareholder category holds 52.3% of the shares. Here's your choice. Men, women, joint accounts (individuals), banks & insurance companies, pension funds, nominee companies, other companies.

I would have gone for pension funds...perhaps banks and insurance companies. I would have been wrong. Nominee companies hold more than half of *Global MegaMob's* shares. Who are they? You may well ask. Nobody knows.

4871 anonymous invisible nominee companies, 4.7% of the total shareholders, hold 440 million shares, 51.3% of the total of 857 470 725 shares. Some distance away come the banks and insurance companies with 165 million (19.3%) spread over 10 996 holders. Did you know there were this many banks and insurance companies?

## Pension People

And so to people. Remember them. Funny looking things. Balance on two legs. So unnatural. They look like they're about to fall over. Strange creatures too. Not like those other two-leggers ...you know the winged type. People toil and spin doing jobs. Slave away all day for these Labour Companies. Yes, that's one of them. *Global MegaMob Inc* and not at all limited. Dress up like magpies when they're on the job. Can't change fast enough when they finish work, though. Takes all sorts. I suppose they're happy. Wouldn't be doing it otherwise would they?

In CorporationSpeak people are employees. When you look at *Global MegaMob's* £ 5 000 million of costs every year, you find that about one pound in five goes to the employees. This either means Marx is wrong and for every one part of labour value there are four parts of something else. Or it means that Marx is right and the price of work is always forced down to subsistence levels. We won't go into that just now.

Most of the £ 1 017 million paid out to the employees in 1987, £ 904 million in fact, went on salaries and wages. Another £ 84 million went for safekeeping to the government for social security...some of the £ 904 million went there too...and the balance of £ 30 million went into pension funds.

Now there's something for you to wrap your mind around. One pound into the pension fund for every thirty pounds paid out as wages. Does that seem excessive to you? Or not enough? Think about it for a moment. You can you know. But you don't think you can. And I'll tell you why you don't think you can. It's because all the talk about pensions has been made incredibly complicated. It doesn't need to be. It's very easy to understand.

Tom Paine reasoned along the same lines in *Agrarian Justice* when he figured out that a death duty of threepence in the pound was all that was required to provide for the poor, the infirmed and the aged.

You work from the age of 25 until the age of 65 and then you die at 85. Forty years taking home your wages and then twenty years living on a pension. So one third of your wages should be saved for your pension years. End of calculation. Everything else confuses the issue.

There is a big difference between this figure of fifteen pounds for every thirty paid out in wages and the one pound *Global MegaMob* are putting away for its employees? Why?

Like the trader in the market, I'll throw in the social security contribution. Two pounds. But it's still a mighty long way from fifteen. Why? The Chairman wishes to say a few words.

'The pension costs for 1986 and 1987 reflect lower contribution rates to the UK pension funds for five years from 1st October 1985 resulting from the actuarial revaluation carried out as at that date'.

If I had been in Mr. Sheppard's shoes, I'd have kept my mouth shut about that. Well if you don't realise what's going on, then I suggest you start getting seriously angry and go and find out. It's a disgrace. Profits at an all time high. Stock market booming. The corporate response? Cut contributions to everybody's pension fund. The very opposite should be the case.



## Happy Birthdays

Never mind. Perhaps that nice Mr. Sheppard has a big surprise in store for everyone next year. Something along these lines might not be so silly for 1988.

'The revaluation of the company's lands and buildings has provided us with a windfall profit of two billion pounds and so we have arranged with city development corporations in London, Liverpool, Birmingham Glasgow and Sheffield, to provide our 71 680 full-time employees and our 18 996 part-time employees with a new house. The cost to us works out at about £ 20 000 a house. We could not think of any better way to spend the money you have earned for your company.'

I never did really return to the Wine & Spirits business as I promised. But there was a reason. I was in the cellar. Silver birch wine. You should try it. It's the perfect complement to fish, chicken and pâté. A dry wine. Distinctive. Best served chilled.

It's the way spring was celebrated once upon a time. Really. Cured baldness. The sap was extracted from the silver birch trees at that time of the year. Not that far back in time either. It was Queen Victoria's favourite wine. It's in her diaries. That's why she went to Balmoral.

There's a 16th century Fraser stronghold in the heart of the Scottish Highlands that makes it at Moniack Castle near Inverness. *Highlands Wineries* they call themselves. And silver birch wine is just one of their wines. There's a medium dry elderflower, a medium sweet meadowsweet, a medium red blueberry wine, a sloe gin liqueur and Moniack's very own mead.

It makes you wonder why the grape caught on at all.

If you're smart you'll buy out *Highland Wineries* and then sit tight until *Grand Metropolitan* comes with an offer you can't refuse. If you're lucky it'll be cash on the nail. If you're not it'll be boots in a concrete block. But they'll come. Because clearly they won't be satisfied until they own everything. Goodness knows where they get the money from.

But that's not your worry...although on second thoughts perhaps it is.

Do you know where your pension money is invested?

**Open Letter to the Group Executive Director  
Grand Metropolitan Limited**

**Date: 7th April 1988**

Dear Sir,

I was sorry to see from your *1987 Annual Report* that you have felt compelled to write off one and a half billion pounds worth of goodwill in recent years. But it would be quite easy to get it back again if you really wanted to.

I am sure that you are already giving serious thought to how you might use the two billion pounds of windfall profits you can expect in this year from a revaluation of your two billion pounds of freehold and leasehold properties. And perhaps renegotiations with the *EEC* are now at an advanced stage so that all your *Express Dairy* customers will be receiving free supplies of butter for the next several years.

But knowing how keen you are to support the work of the Prince of Wales, I was wondering whether it might not be a better idea for you to talk to Mrs. Thatcher's new development corporations for the inner cities with a view to providing each of your ninety thousand employees with a new house for their next birthday.

I notice you are very good with numbers so it is probably a little presumptuous of me, but according to my calculations, it will not be costing anybody anything, because I am quite sure that arrangements could be made to build the ninety thousand houses for around twenty thousand pounds each. After all we know that some seventy-five pence in the pound goes to the usurer when a house is bought over twenty years with a mortgage at ten percent per year.

I would also take the liberty just to add the point that, not only would all those ninety thousand people and their families have lots of spare money to spend betting in your *Mecca Betting Shops* and drinking *Ruggles Best Bitter* in your *Clifton Inns*, but with some timely assistance from some merchant banking friends, you could probably make a killing on the side by buying shares in a few construction companies.

Anyway I hope you will not think this last suggestion to be, how shall I put it, ethically inappropriate, after all, the end justifies the means. And the money you make on that could be used to persuade those five thousand nominee companies who own fifty percent of your company to give their shares to Prince Charles to hold in trust for the poorest countries in the *British Commonwealth*. I mean if Bob Geldorf gets a knighthood, think what you might get.

I apologise if I interrupted you from some important enterprise like selling dog food in Leningrad or buying run down steel mills in Pittsburg.

Not everybody thinks charity should start at home after all.

Yours sincerely

William Shepherd