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Measuring Performance in the Hospitality Industry:

An evaluation of the Balanced Scorecard approach in the UK's Licensed Retail Sector

Aidan Michael James BA (Hons)

A thesis submitted to the University of Huddersfield in partial fulfilment of the requirements for the degree of Master of Philosophy.

The University of Huddersfield

August 2009

Volume 1 of 2

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ABSTRACT

The research investigates the role of performance measurement within the hospitality industry and in particular, the UK's licensed retail sector. The research aimed to: 1) Analyse what is meant by performance management and to establish its application and use in various types of business; 2) Explain the balanced scorecard approach to performance measurement and to assess its theoretical and business value; 3) Establish the methods of performance measurement utilised by licensed retailers and to evaluate the effectiveness of these methods; 4) Apply the balanced scorecard method in selected collaborating organisations and to compare its usefulness to more traditional methods of performance measurement; and 5) Make recommendations and evaluate how a balanced scorecard approach might improve performance management in the licensed house sector.

The research highlighted a shortage of hospitality-related research with the industry predominantly using financial performance measures. The balanced scorecard was therefore put forward as a solution as it measures both the financial and non-financial performance of an organisation.

The financial and non-financial performance measures used by financial analysts and pub companies were identified through questionnaire surveys and semi-structured interviews, the results of which demonstrate the licensed retail sector's reliance on financial performance measures. Case studies were developed on a number of Managed and Leased/Tenanted pub companies (PubCo's) which also demonstrated this reliance, although the Managed PubCo's are beginning to embrace non-financial measures and two of the Managed PubCo's had adopted the balanced scorecard approach.

The fast pace of consolidation which is evident within the UK's licensed retail sector had impacted upon the research as three of the PubCo's featured in the case studies had been acquired by competitors during the study. The PubCo's sampled for the questionnaires also changed during the data collection process, mainly due to consolidation.

It was recommended that further research would be necessary to develop a balanced scorecard for the UK's licensed retail sector. It was also suggested that further empirical research could be conducted within those PubCo's identified as using the balanced scorecard, to determine the extent to which the balanced scorecard assists them in managing and improving both their financial and non-financial performance.

The author suggests that The Centre for Licensed Retailing at Nottingham Trent University might provide the resources to continue with the research with a need also to develop standardised definitions of the financial performance measures used by PubCo's. This development would enable performance data to be compared across the sector whilst also removing the opportunities for data manipulation by PubCo's which was identified during the research.

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3 Adam Collett, Marketing Director, Greene King Pub Company.

4 Ian Frost, Commercial Director, Avebury Taverns.

5 Jim Hill, Company Secretary, W.H. Brakspear & Sons plc.

6 Stuart Price, Financial Analyst, Panmure Gordon.

7 Julian Sargeson, Operations Director, Wizard Inns.

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Finally, the greatest acknowledgements go to Professor Colin Bamford who has supervised me for the past six years. I also wish to acknowledge my parents, my brother and also my two daughters (Elysia & Emmie) who have provided me with the support and encouragement to succeed with this research study.

ABBREVIATIONS

List of abbreviations used throughout the thesis, in alphabetical order: -

ABC	=	Activity-Based Costing
ABM	=	Activity-Based Management
Ad Costs	=	Administration Costs to Sales
AGM	=	Annual General Meeting
AIM	=	Alternative Investment Market
ALMR	=	Association of Licensed Multiple Retailers
AOD	=	Advance of Discount
Av EBITDAR	=	Average EBITDAR
AWP	=	Amusement-With-Prizes
AWP Inc	=	Amusement-With-Prizes Income
AWS	=	Average Weekly Sales
AWT	=	Average Weekly Turnover
BBC	=	British Broadcasting Corporation
BBPA	=	British Beer & Pub Association
BCG	=	Boston Consulting Group
BDM	=	Business Development Manager
Beer Mar	=	Beer Margin
BES	=	Business Expansion Scheme
BII	=	British Institute of Innkeeping
BLRA	=	Brewers & Licensed Retailers Association
BNFL	=	British Nuclear Fuels Limited

BPC	=	Brakspear Pub Company
BP	=	British Petroleum plc
bps	=	Basis Points
b/s	=	Balance Sheet
BSC	=	Balanced Scorecard
BT	=	British Telecommunications plc
CAGR	=	Compound Annual Growth Rate
CapEx	=	Capital Expenditure
CAMRA	=	Campaign for Real Ale
CBP	=	Centre for Business Performance
CCH	=	Country Club Hotel Group [Whitbread]
CEMP	=	County Estate Management (Pubs) Limited
CEO	=	Chief Executive Officer
CFD	=	Contracts for Difference
CHK	=	Caterer & Hotelkeeper
CHME	=	Council for Hospitality Management Education
CIMA	=	Chartered Institute of Management Accountants
CPS	=	Crown Prosecution Service
COO	=	Chief Operating Officer
Cranfield	=	Cranfield School of Management
CROCCE	=	Cash Return on Cash Capital Employed
CSFB	=	Credit Suisse First Boston
CSFs	=	Critical Success Factors
C-T	=	Carlsberg Tetley

DB	=	Deutsche Bank
DCF	=	Discounted Cash Flow
DEA	=	Data Envelopment Analysis
Dep/Sales	=	Depreciation to Sales
DIC	=	Dubai International Capital
DLL	=	David Lloyd Leisure
DMP	=	Dynamic Multi-dimensional Performance model
DSCR	=	Debt Service Cover Ratios
DTI	=	Department of Trade & Industry
DTLR	=	Department of Transport, Local Government & the Regions
E Anglia	=	East Anglia
EBITDA	=	Earnings before interest & divisional overheads, tax, depreciation & amortisation
EBITDA Mar	=	EBITDA Margin
EBITDAR	=	Earnings before interest, tax, depreciation, amortisation & rent
EBITDARM	=	Gross operating profit of the tenant/lessee before extraordinary & exceptional items, interest, tax, dividends, rent & before repairs & maintenance spend & depreciation.
EFQM	=	European Foundation for Quality Management
EGM	=	Extraordinary General Meeting
EIS	=	Enterprise Investment Scheme
EMEA	=	Europe, Middle East & Africa
E Mids	=	East Midlands
EPS	=	Earnings per Share
EPoS	=	Electronic Point of Sale

EQA	=	European Business Excellence Model
EV	=	Enterprise Value
EVA	=	Economic Value Added
EV/NCI	=	Enterprise Value Over Net Capital Invested
ETI	=	Enterprise Inns plc
FEI	=	Financial Executives International
Fix Asset	=	Fixed Asset Turns
FLVA	=	Federation of Licensed Victuallers' Associations
FMCG	=	Fast Moving Consumer Goods
FMT	=	Fair Maintainable Trade
FRI	=	Fully Repairing & Insuring
FSA	=	Financial Services Authority
FTSE	=	Financial Times Stock Exchange
Fuller's	=	Fuller, Smith & Turner plc
GK	=	Greene King plc
GKPC	=	Greene King Pub Company
GKPP	=	Greene King Pub Partners
GM	=	General Manager
Grand Met	=	Grand Metropolitan plc
Gross Mar	=	Gross Margin
Gross/Pub	=	Average Gross Take per Pub
Growth/Barrel	=	Annual Growth in Barrels
Growth/Rent	=	Annual Growth in Rent
H&H	=	Hardys & Hansons

HBR	=	Harvard Business Review
HboS/HBOS	=	Halifax Bank of Scotland plc
HCIMA	=	Hotel & Catering International Management Association
HHC	=	Hilton Hotels Corporation
HM	=	Her Majesty
HMRC	=	Her Majesty’s Revenue & Customs
HMSO	=	Her Majesty’s Stationary Office
HR	=	Human Resources
HQ	=	Head Quarters
IAA	=	Intellectual Asset Analysis
IAS	=	International Accounting Standards
IASB	=	International Accounting Standards Board
IEL	=	Inntrepreneur Estates Leases
IFRIC	=	International Financial Reporting Interpretations Committee
IFRS	=	International Financial Reporting Standards
IHG	=	InterContinental Hotels Group plc
IMS	=	Interim Management Statement
Inc	=	Incorporation
Int Cov	=	Interest Cover
Invest Sq Metre	=	Investment per Square Metre
IPA	=	Indian Pale Ale
IPC	=	Inntrepreneur Pub Company
IPO	=	Initial Public Offering
IT	=	Information Technology

JDW	=	JD Wetherspoon plc
JTD	=	JT Davies Group
JV	=	Joint Venture
KPIs	=	Key Performance Indicators
KPMG	=	Klynveld Peat Marwick Goerdeler
Lab Turnover	=	Labour Turnover
L&ES	=	London & Edinburgh Swallow
L-f-L	=	Like-for-Like
L-f-L Profit Growth	=	Like-for-Like Profit Growth
L-f-L Sales	=	Like-for-Like Sales
LFR	=	Loch Fyne Restaurants
LIBOR	=	London Inter Bank Offered Rate
Lse	=	Leased Pubs
LPC	=	Leased Pub Companies
Ltd	=	Limited Company
L&G	=	Legal & General
MAS	=	Management Accounting System
M&A	=	Mergers & Acquisitions
M&B	=	Mitchells & Butlers Plc
MBD	=	Market & Business Development
MbO	=	Management by Objectives
MBO	=	Management Buy Out
MD	=	Managing Director
mgd	=	Managed Houses

MGPE	=	Morgan Grenfell Private Equity
MIS	=	Management Information System
MMC	=	Monopolies & Mergers Commission
MoD	=	Ministry of Defence
MPs	=	Members of Parliament
Mys Guest	=	Mystery Guest
NCI	=	New Century Inns
NE	=	North East
NGC	=	Next Generation Clubs
NHS	=	National Health Service
N Ireland	=	Northern Ireland
NPFG	=	Nomura Principal Finance Group
NOPAT	=	EBITA plus lease rental, taxed at the group's cash tax rate
No.s	=	Numbers
NVQ	=	National Vocational Qualification
NW	=	North West
OFT	=	Office of Fair Trading
Op Gearing	=	Operational Gearing
PA	=	Personal Assistant
p.a.	=	Per Annum
P&L	=	Profit & Loss Account
PB&R	=	Premium Bars & Restaurants
PBT	=	Profit before tax
PE	=	Price/Earnings Ratio

PhD	=	Doctor of Philosophy Degree
PKF	=	Pannell Kerr Forster
PLC/Plc	=	Public Limited Company
PMA	=	Performance Measurement Association
PMI	=	Post-Merger Integration
PMM	=	Peat Marwick McLintock
PMs	=	Performance Measures
PMS	=	Performance Measurement System
PMMSs	=	Performance Measurement & Management Systems
PubCo	=	Pub Company
PTI	=	Premier Travel Inn
PwC	=	Price Waterhouse Coopers
Qual Audits	=	Quality Audits
QUEST	=	Quick Environmental Scanning Technique
R&D	=	Research & Development
RBM	=	Retail Business Manager/Regional Business Manager
RBS	=	Royal Bank of Scotland Group plc
REIT	=	Real Estate Investment Trust
Rent/Barrel	=	Rent per Barrel
Rent/Pub	=	Average Rent per Pub
Rent/Turn	=	Rent to Turnover
RHC	=	Real Hotel Company
ROC	=	Return On Capital
ROCE	=	Return On Capital Employed

ROE	=	Return On Equity
ROI	=	Return On Investment
ROIC	=	Return On Invested Capital
RPI	=	Retail Price Index
S&N	=	Scottish & Newcastle plc
S&NPE	=	Scottish & Newcastle Pub Enterprises
SBU	=	Strategic Business Unit
SE	=	South East
SMA	=	Strategic Management Accounting
SOTP	=	Sum of the Parts
SPSS	=	Statistical Package for the Social Sciences
Stock Res	=	Stock Results
Sq ft	=	Square Feet
SW	=	South West
T&ISC	=	Trade & Industry Select Committee
TCG	=	Tattershall Castle Group
TDB	=	Tableau de Bord
tens	=	Tenanted Pubs
Tenants Pro	=	Tenants Profit
Ten Stability	=	Tenant Stability
THF	=	Trusthouse Forte plc
TOC	=	Theory of Constraints
Trad Profit	=	Trading Profit
TSR	=	Total Shareholder Return

TQM	=	Total Quality Management
VAT	=	Value Added Tax
VBM	=	Value Based Management
VCs	=	Venture Capitalists
VCT	=	Venture Capital Trusts
VW	=	Volkswagen
WACC	=	Weighted Average Cost of Capital
W/C	=	Week Commencing
WIC	=	Whitbread Investment Company
W Mids	=	West Midlands
W Sales	=	Wages to Sales
WTB	=	Whitbread plc
WTD	=	Working Time Directive
UK	=	United Kingdom
U.S.	=	United States
USA	=	United States of America
Y&H	=	Yorkshire & Humberside
YOY	=	Year on Year

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CHAPTER ONE: - INTRODUCTION

1.1 INTRODUCTION

The licensed retail sector has experienced considerable structural change over the past twenty years. In 1989, six brewers controlled 40% of the UK's public houses. By 1992 the Monopolies & Mergers Commission (MMC) required a considerable estate divestment, forcing the industry to reorganise as the market 'opened up' through deregulation. By 2002, retail pub-owning companies controlled 32,000 of the UK's 60,000 public houses [Knowles & Egan, 2002].

Public house ownership was still an attractive investment. For example, Deutsche Bank estimated that over £18bn of property changed hands between 1993 and 2001 [Deutsche Bank, 2001]. Consequently, operators became increasingly reliant on their pub estates to meet financial targets and failure to meet these targets could reduce share value, often leading to a change in ownership or divestment of underperforming assets [Ludmon, 1999]. A number of reasons for poor performance have been identified and these can be seen in Table 1.1.

Table 1.1: - Reasons for poor Pub Company Performance

- Underperforming acquisitions;
- Falling high street sales;
- A black hole in the accounts;
- Bad weather;
- Not enough students;
- New sites not living up to expectations;
- Lack of internal cash flow;
- Lease costs rising faster than sales; and
- Greater price competitiveness on the high street.

Source: Deutsche Bank. [2002d]

The changes in ownership and to the structure of the sector since 1989 have caused operators to constantly monitor and measure the performance of their estates. This was not the case before the Beer Orders as the focus was predominantly on the sale of beer through tied pubs and not the sale of spirits, wine, soft drinks, food and accommodation [Williams & Lincoln, 1996].

British hospitality organisations, in comparison to U.S organisations, have relied predominantly on financial performance measures to measure their performance due to the pressure to produce short-term results [Brander-Brown & Harris, 1998]. Paradoxically, many other sectors of British industry have adopted a broader approach to performance measurement [Atkinson & Brander-Brown, 2001].

This research project aims to evaluate the extent to which the UK's licensed retail sector has relied on financial performance measures and will aim to assess whether a broader approach to measuring performance is likely to be of benefit to the sector.

1.2 RESEARCH TOPIC

Performance measurement has been defined in various ways, amongst which are the following [Zairi, 1994 p.4]: -

- Measurements are the yardsticks that tell us how we've done and motivate us to perform.

- Quality improvement without measurement is like hunting ducks at midnight without a moon – lots of squawking and shooting with only random results and with a low probability of change.

- Things for which we can devise indicators can be managed; things for which we have no indicators can be out of control before we realise it.

Neely [1999] emphasised the increasing importance of performance measurement due to the changing nature of work, increasing competition, specific improvement initiatives, national and international quality awards, changing organisational roles, the power of technology and changing external demands.

Performance measurement systems were originally designed for manufacturing industries as industrialists recognised that productivity could be improved by implementing common standards. Optimum performance times were established and ‘piece rates’ used to improve efficiency [Eccles, 1991]. In contrast the widespread use of profit-based performance measures has been criticised for their relative incompleteness, lack of accuracy and neutrality, short-terminism and lack of “balance” [Brander-Brown & McDonnell, 1995]. These weaknesses are particularly evident within service industries where it is more difficult to determine and specify objective, tangible, measurable outputs [Brander-Brown & McDonnell, 1995].

During the last twenty years managers have become less reliant on financial indicators and have developed new methods of measuring performance. In the United States and Western Europe ‘quality’ and ‘customer care’ have grown in significance. Moreover, the success of ‘Asian Tiger’ companies, particularly in the field of vehicle and electronics manufacture, with their emphasis on rapid product development and industrial innovation, has led to a call for “new” methods for assessing performance [Letza, 1996].

Kaplan & Norton have developed the ‘Balanced Scorecard’, which aims to provide management with a comprehensive framework in order to translate a company’s strategic objectives into a coherent set of performance measures [Kaplan & Norton, 1992]. This approach includes financial measures, complemented by operational measures of customer satisfaction, internal processes, and the organisation’s innovation and improvement activities. The scorecard encourages companies to continually improve their products and processes and to introduce new products with expanded capabilities [Kaplan & Norton, 1992].

A review of performance management literature has shown that hospitality-related applied research is limited and largely focused on U.S. hotels. Furthermore, the emphasis has predominantly been on financial measures [Brander-Brown & Harris, 1998].

Brander-Brown & McDonnell [1995], Denton & White [2000], Gray, Matear & Matheson [2000] and Atkinson & Brander-Brown [2001] have conducted hospitality-related research on the balanced scorecard methodology. No comprehensive studies of the balanced scorecard, however, have been applied to the UK’s licensed retail sector.

Performance measurement is undertaken within the licensed house sector in order to gain competitive advantage, understand customers and to better explain the rapidly changing environment [Fitzgerald et al, 1991].

This research project examines the impact that performance management has on long-term planning and business development and evaluates the use of the balanced scorecard in measuring performance in the UK's licensed house sector.

The research focuses at the corporate level and concentrates on companies operating managed, leased or tenanted pubs. Managed pubs are directly run by the company whereas leased and tenanted pubs are also owned by the company but are individually run by tenants as their own businesses [Walsh, 2005c].

The UK's licensed house sector can be divided into five categories [Deutsche Bank, 2001 p.5]: -

- Pure managed pub groups (JD Wetherspoon, Regent Inns);
- Pure leased/tenanted groups (Enterprise Inns, Punch Taverns);
- Regional brewers, where managed and leased/tenanted pubs account for the bulk of profits (Greene King, Marston's, Fuller's);
- National pub operators, where pubs are a material, but not the largest profit generator (Whitbread); and
- Private equity backed groups (Barracuda Group, Admiral Taverns).

1.3 RESEARCH AIMS

This project has the following aims: -

1. To analyse what is meant by performance management and to establish its application and use in various types of business.

2. To describe the balanced scorecard approach to performance measurement and to assess its theoretical and business value.

3. To establish the methods of performance measurement utilised by licensed retailers and to evaluate the effectiveness of these methods.

4. To apply the balanced scorecard method in selected collaborating organisations and to compare its usefulness to financial methods of performance measurement.

5. To make recommendations and evaluate how a balanced scorecard method might improve performance management in the licensed house sector.

Table 1.2 shows the chapters in which the aims of the research will be addressed.

Table 1.2: - Aims Relating to Chapters

Aim Number	**Chapter Numbers**
Aim 1	2, 3
Aim 2	3
Aim 3	5, 7, 8
Aim 4	8
Aim 5	9

A hypothesis was developed and this was subsequently tested by addressing all of the research aims. The developed hypothesis is as follows: -

'A broader, more holistic range of performance measures will assist licensed retailers to meet long-term business needs and opportunities in a better way than using purely financial measures'.

1.4 RESEARCH METHODOLOGY

A literature review will identify and analyse the concepts involved and provide the theoretical framework for the study. These findings will then be tested and applied using case study and survey approaches. The findings of both the literature review and the primary research will enable the proposed model to be assessed critically.

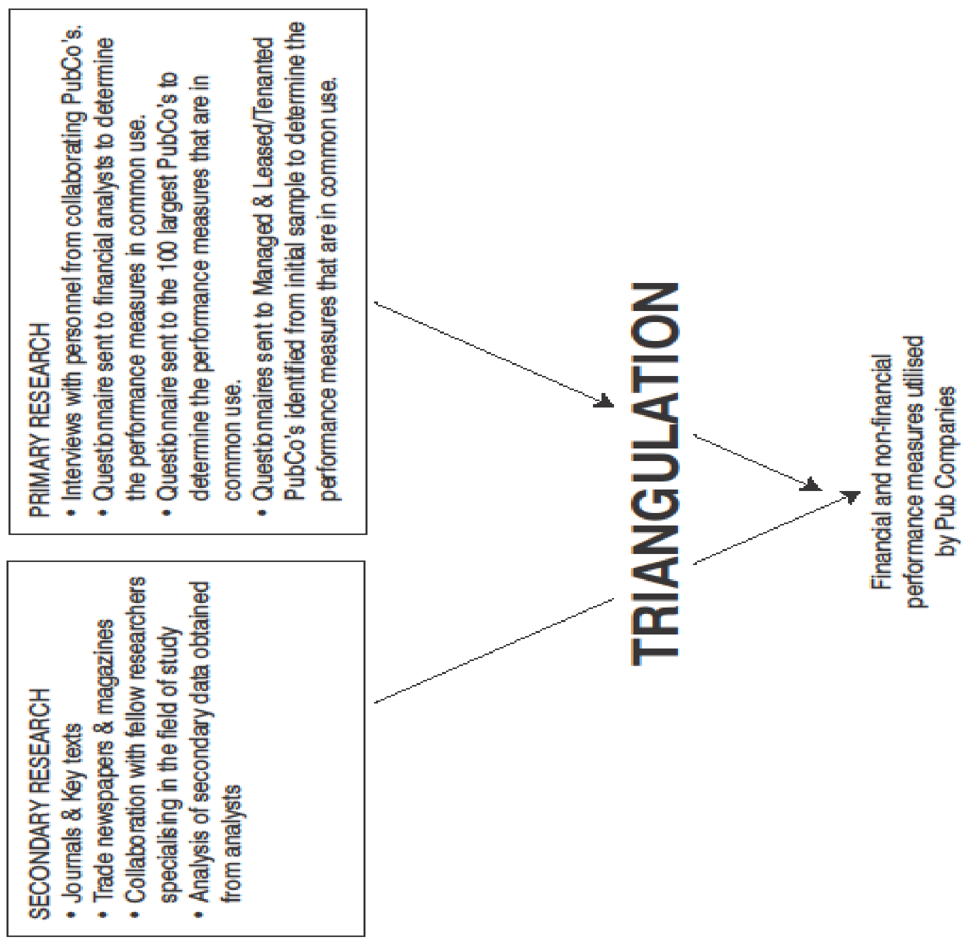
A multi-method approach has been selected, combining both quantitative and qualitative methods and utilising both primary and secondary data. These two approaches will provide a triangulation of the issues being addressed (see Figure 1.1).

A survey approach is used to determine the performance measures in common use as it enables data to be collected economically from a large population.

Questionnaires were designed: 1) to determine the performance measures currently utilised by licensed retailers; 2) to determine the performance measures currently utilised by financial analysts; 3) to evaluate the effectiveness of those performance measures and 4) to ascertain whether the balanced scorecard is already in use within the UK's licensed retail sector.

A case study approach is used to investigate empirically the use of performance measures within a sample of pub companies. This enables the use of multiple sources of evidence and data collection and provides an opportunity to modify and change the focus of the study if problems arise. Moreover, this approach allows the researcher to 'test' theories already in existence through a comparison of results [Saunders et al. 2003].

Figure 1.1: - Identification of Performance Measures through Research



The balanced scorecard will be applied to a sample of collaborating organisations to enable comparisons to be made between it and the more traditional methods of performance measurement.

1.5 OUTLINE OF THE RESEARCH

This thesis is organised into nine chapters. Chapter ***one*** outlines the background of the research topic, the aims of the research and provides an outline of the thesis. This will provide a foundation for later chapters.

Chapter ***two*** features a literature review of performance measurement and an analysis of hospitality-related literature in order to provide an overview of the subject area.

Chapter ***three*** provides an overview of the balanced scorecard approach and includes an analysis of both hospitality and service-industry related literature.

Chapter ***four*** focuses on the UK's licensed retail sector and contains an historical overview. An analysis of the forces impacting on the sector is also undertaken using Porter's [1980] 'Model of Competitive Forces' as a framework. The chapter has been presented in this way in order to improve awareness of the sector.

Chapter ***five*** features a review of performance measurement literature relating to the UK's licensed retail sector. The content of this chapter has been gathered from trade publications and company accounts.

Chapter ***six*** concentrates on the research methodology, providing a link between the theoretical framework and the empirical study. It presents methods of data collection, the development and piloting of the research instruments, data collection procedures, the target population, sampling and data analysis procedures. The procedure followed to obtain the data is also described along with the consequent limitations of the study.

Chapter ***seven*** discusses the research findings from the questionnaires sent to financial analysts, Pub Companies; Managed Pub Companies and Leased/Tenanted Pub Companies.

Chapter ***eight*** consists of six case studies undertaken on Pub Companies which demonstrate the variety of measures utilised by both Managed and Leased/Tenanted operators. The case for a more 'balanced' approach is made through primary research.

Chapter ***nine*** presents the conclusions of the research findings in the light of the aims of the study. The research contribution, overall results and the limitations of the study are highlighted and issues for further research are suggested.

CHAPTER SUMMARY

The licensed house sector has experienced considerable structural change over the past twenty years with over £18bn of property changing hands between 1993 and 2001 alone. These changes have caused operators to constantly monitor and measure the performance of their public house estates [Deutsche Bank, 2001].

British hospitality organisations have relied predominantly on financial performance measures due to the pressure to produce short-term results [Brander-Brown & Harris, 1998]. Paradoxically, many other sectors of British industry have adopted a broader approach to performance measurement such as Kaplan & Norton's 'Balanced Scorecard' [Atkinson & Brander-Brown, 2001].

This research aims to explore whether the UK's licensed house sector has taken such a narrow view to performance measurement and, if so, seeks to assess whether a broader approach to measuring performance can be of benefit to the sector.

The research will focus on companies operating managed, leased or tenanted public house estates. Managed pubs are directly run by the company whereas leased and tenanted pubs are owned by the company but are individually run by tenants as their own business [Walsh, 2005b].

The aims are to analyse what is meant by performance management; to explain and to assess critically the balanced scorecard; to establish the performance measures used by licensed retailers and to evaluate their effectiveness; to apply the balanced scorecard to selected collaborating organisations and to make recommendations as to how the balanced scorecard might improve performance within the licensed house sector.

The following hypothesis has been developed to drive the research process: 'A broader, more holistic range of performance measures will assist licensed retailers to meet long-term business needs and opportunities in a better way than purely financial measures'.

A literature review will identify and analyse the concepts involved and provide the theoretical framework for the study. The findings will then be tested and applied using case study and survey approaches. The findings of both the literature review and the primary research will enable the proposed model to be assessed critically.

A survey is used to determine the performance measures in common use as it enables data to be collected economically from a large population – more of this later.

A case study approach will be used to investigate empirically the use of performance measures within pub companies. This enables the use of multiple sources of evidence and data collection and will provide an opportunity to modify and change the focus of the study if problems arise. Moreover, this approach allows the researcher to 'test' theories already in existence through a comparison of results [Saunders et al. 2003].

Primary research will provide a balanced scorecard that is specific to the licensed retail sector and secondary research will determine the meaning of performance management, establish its use and application in various types of businesses, explain the balanced scorecard approach and assess its theoretical and business value.

CHAPTER TWO: - PERFORMANCE MEASUREMENT FRAMEWORKS

INTRODUCTION

This chapter provides a review of the literature relating to performance measurement and its application to the hospitality industry.

The first section of the chapter provides an explanation of the concept and highlights the strengths and weaknesses of financial performance measures. The evolution of performance measurement is also described and its two phases are highlighted.

The second section concentrates on Performance Measurement Systems (PMS) and identifies and explains the financial and non-finance models which have been developed over the past twenty years.

The third and final section provides a review of literature relating to performance measurement and its application to the hospitality industry.

2.1 PERFORMANCE MEASUREMENT: AN OVERVIEW

2.1.1 PERFORMANCE MEASUREMENT DEFINED

Amaratunga & Baldry [2003] describe performance measurement as a process of assessing progress towards achieving pre-determined goals, including information on the efficiency by which resources are transformed into goods and services, the quality of those outputs and outcomes, and the effectiveness of organisational operations in terms of their specific contributions to organisational objectives.

Neely et al. [1995], on the other hand, describe performance measurement as the process of quantifying action, where measurement is the process of quantification and action correlates with performance. Neely et al [1995] further propose that performance should be defined as the efficiency and effectiveness of action.

Moullin [2007] advocates that a clear performance measurement definition can help management go in the right direction and identifies the definition put forward by Neely et al. [2002] as being the most quoted. Neely [2002 xiii] defines performance measurement as 'the process of quantifying the efficiency and effectiveness of past actions'.

Dixon et al. [1990] describe performance measures as false alarms and gaps, respectively, as follows: -

- False alarms: using the wrong measures to motivate managers so that they spend time improving something that has few positive and perhaps many harmful, consequences for the company.

- Gaps: failing to use the right measure so that something important for the company stays neglected.

Performance measurement has become increasingly important due to the changing nature of work; increasing competition; specific improvement initiatives; national and international quality awards; changing organisational roles; the power of technology and changing external demands [Neely, 1999].

Performance management, on the other hand, describes the use of performance measurement information to effect positive change in organisational cultures, systems and processes, by helping to set agreed performance goals, allocating and prioritising resources, informing managers either to conform or change current policy or directions to meet these goals, and sharing results of performance in pursuing goals, thus emphasising the relationship between the strategy and the measurement system [Amaratunga & Baldry, 2002].

An organisation seeks to create an efficient and effective performance management system for a number of reasons. Amaratunga & Baldry [2002] suggest that an organisation should translate its organisational vision into clear measurable outcomes that define success, and that are shared throughout the organisation and with customers and stakeholders. An organisation should also replace existing assessment models with a consistent approach to performance management and should provide a tool for assessing, managing and improving the overall health and success of business systems. Finally, the organisation should include measures of quality, cost, spend, customer service, and employee alignment, motivation, and skills to provide an in-depth, predictive performance management system [Amaratunga & Baldry, 2002].

2.1.2 HISTORICAL DEVELOPMENT OF PERFORMANCE MEASURES (PM's)

According to Ghalayini & Noble [1996], the literature concerning performance measurement evolved through two phases. The first phase was started in the late 1880s, while the second phase was in the late 1980s.

The first phase was characterised by its cost accounting orientation and was aimed at managers who were seeking to evaluate the relevant costs of operating their firms [Ghalayini & Noble, 1996]. This approach was later modified in an attempt to incorporate some financial measures such as profit and Return on Investment, however, this approach received considerable criticisms [Ghalayini & Noble, 1996]. Critics argued about focusing solely on financial measures, when measuring performance tends to encourage short-term thinking [Kaplan, 1983]. This argument was further reinforced on the grounds that traditional financially-based performance measurement systems failed to measure and integrate all the factors critical to business success [Kaplan, 1983; 1984].

The mid 1980s were a turning point in the performance measurement literature, as it marked the beginning of the second phase. This phase was associated with the growth of global business activities and the changes brought about by such growth. The book published by Johnson & Kaplan [1987] entitled, *Relevance Lost – The Rise & Fall of Management Accounting*, perhaps signified the end of the first phase and the start of the second phase. This book underscored the need for better integrated performance measurement, as it criticised the traditional performance measures, due to their focus on the minimisation of variance rather than on continuous improvement. The authors contended that traditional accounting/financial measurement systems are, for the most part, irrelevant because they ignore clients and their needs. Based on similar grounds, McNair & Masconi [1987] and Santori & Anderson [1987] stressed the importance of non-financial measures and frameworks which started to appear in the late 1980s and which attempted to present a broader view of performance measurement.

2.1.3 STRENGTHS & WEAKNESSES OF PM's

Kald & Nilsson [2000] identify a number of strengths attributed to the use of performance measures. Performance measurement contributes to a better understanding of how the business works; it enables management to test hypotheses on which the strategy is based; it enhances employee commitment and encourages experiments with new measures and methods of monitoring performance and, finally, it makes it easier to implement changes within the organisation [Kald & Nilsson, 2000].

Ghalayini & Noble [1996] identified eight general limitations of traditional performance measures, which are: they are based on a traditional cost management system; use lagging metrics; are not incorporated into strategy; are difficult to implement in practice and tend to be inflexible and fragmented; contradict accepted continuous improvement thinking and neglect customer requirements.

A number of researchers have argued that traditional (financial) metrics have major inadequacies such as being not suitable for strategic decisions [Kaplan & Norton, 2005], being historical and hard to correlate [Lawson et al. 2003], providing little information on the root problems [Malone & Sinnett, 2005] and ignoring the organisation's intangible assets such as research [Norrekilt, 2000]. Financial performance measures largely ignore value creation [Bicheno, 2004] and the connection between financial and non-financial measures is fragile [Marshall & Heffes, 2004]. Also, little attention is paid to cross-functional processes as opposed to functional ones and there are often too many measures deployed [Frigo, 2003].

Powell [2004] highlights that there could be political and cultural issues which exist within the organisation, notably peoples' fear of measurement. Also, measures need to be reviewed on a regular basis as organisations are constantly changing and so measures will need to be refined to keep up with the changes.

Kaplan & Norton [1992] and Ghalayini & Noble [1996] argue that the terms of competition have changed and that traditional financial measures do not improve customer satisfaction, quality, cycle time, and employee motivation. In their view, financial performance is the result of operational actions, and financial success should be the logical consequence of doing the fundamentals well.

2.2 PERFORMANCE MEASUREMENT SYSTEM DESIGN

Numerous factors have contributed to the debate concerning Performance Measurement Systems. Tangen [2004] summarises these factors as follows: -

- Traditional accounting systems allocated overheads on the basis of direct labour and this was appropriate in the 1960s as direct labour often constituted in excess of 50 per cent of the cost of goods sold. In the 1990s, it rarely contributed more than 5 per cent of the cost of goods sold [Neeley et al, 2005].

- The increased level of global competition concentrating on service, flexibility, customerisation and innovation [Womack & Jones, 2005].

- Varying external demands whereby customers expect both high levels of service and that firms operate in identifiable ways [Neely, 1999].

Tangen [2004] advocates that the choice of a suitable measurement technique depends on a number of factors, including the purpose of the measurement; the level of detail required; the time available for the measurement; the existence of available predetermined data and the cost of measurement. It is also argued that the use of a Performance Measurement System solely consisting of financial performance measures can cause problems for a company [Tangen, 2004].

To use a Performance Measurement System (PMS) that solely consists of financial performance measures can cause problems for a company in that financial measures are not directly related to manufacturing strategy, they are not applicable to new management techniques which give personnel responsibility and autonomy, they pressure managers for short-term results and they are focused on controlling processes in isolation rather than as a whole system [Tangen, 2004].

There are also a number of reasons why Performance Measurement Systems fail (see Table 2.1) and it is therefore essential that these factors, along with those mentioned previously, are taken into consideration when designing a Performance Measurement System [Blenkinsop & Burns, 1992; Oakland, 1993].

A Performance Measurement System (PMS) should therefore support strategic objectives; have an appropriate balance; guard against sub-optimisation, making decisions that are contray to the desires of management; have a limited number of performance measures; be easily accessible and consist of performance measures that have comprehensible specifications [Tangen, 2004].

Table 2.1: - Reasons why Performance Measurement Systems Fail

Problems associated with performance measurement systems: -

- They do not define performance operationally.
- They do not relate performance to the process.
- The boundaries of the process are not defined.
- Produce irrelevant or misleading information.
- There is no distinction between control and improvement.
- There is a fear of exposing good & poor performance.
- There was no obvious shift away from financial performance measures/targets.
- There is a perception of reduced autonomy.
- The measures are misunderstood or misused or measure the wrong thing.

Performance measurement systems need to pay attention to the following:

- Departmental goal setting without creating inconsistencies in policy.
- An appropriate mix of integration and differentiation.
- Part ownership of the problem.

Source: Malone [1995]

2.3 PERFORMANCE MEASUREMENT SYSTEMS

According to Toni & Tonchia [2001], the main models of Performance Measurement Systems can be referred to under one of five typologies: -

1. Performance Measurement Systems that are strictly hierarchical (or strictly vertical), characterised by cost and non-cost performance on different levels of aggregation, until they ultimately become financial.

2. Performance Measurement Systems that are balanced scorecard, where several separate performance measures that correspond to diverse perspectives (financial, customer, etc), are considered independently.

3. Performance Measurement Systems that can be called *frustum*, where there is a synthesis of low-level measures into more aggregated indicators, but without the scope of translating non-cost performance into financial performance.

4. Performance Measurement Systems that distinguish between internal/external performances.

5. Performance Measurement Systems that are related to the value chain.

Several Performance Measurement Systems have been developed since the late 1980s such as the Performance Measurement Matrix, Results & Determinants Matrix, Performance Pryamid and the Performance Prism. These, along with more innovative frameworks, will now be explained.

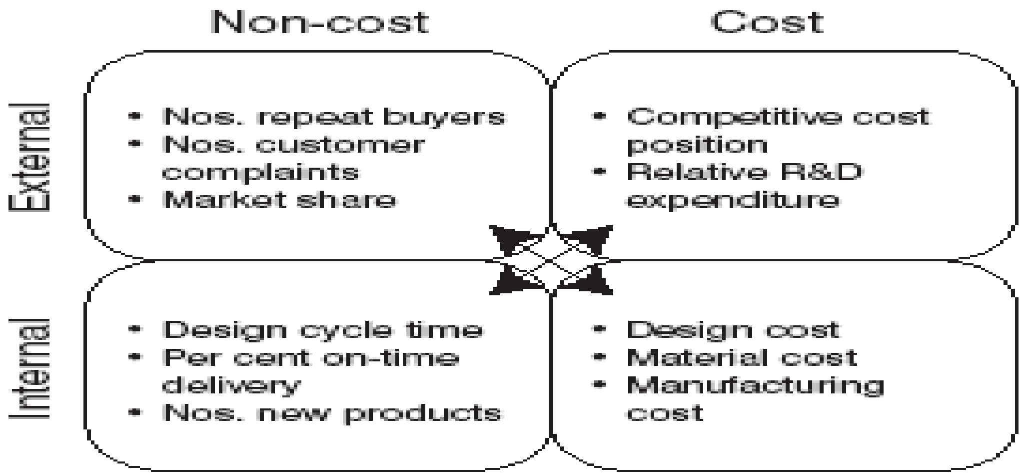
2.3.1 PERFORMANCE MEASUREMENT MATRIX

This framework was introduced by Keegan et al. [1989] and is based upon the idea that performance measurements are a guide for management activities. Thus, the measurements should be derived from business strategy.

The framework consists of four dimensions which are: internal, external, cost and non-cost performance measurements (refer to Figure 2.1) and is based upon the need and importance to support an organisation’s multi-dimensional environment by the performance measurements [Keegan et al. 1989]. In addition, the performance measurements must be based on a thorough understanding of cost relationships and cost behaviour [Zuriekat, 2005].

The strength of this framework lies in the way it seeks to integrate different classes of performance measurements. The main weakness is that it does not provide specific criteria to choose the measurements, and it does not mention any dimensions relating to the innovation perspective and time. Finally, the framework also does not list any popular financial performance measurements such as return on investment [Zuriekat, 2005].

Figure 2.1: The Performance Measurement Matrix



Source: Neely et al. [2000]

2.3.2 PERFORMANCE MEASUREMENT QUESTIONNAIRE

In 1990, Dixon, Nanni and Vollmann developed the performance measurement questionnaire to assess the fit between an organisation's performance measurement system and employees' perception of factors that are important to the success of the organisation [McMann et al. 1994].

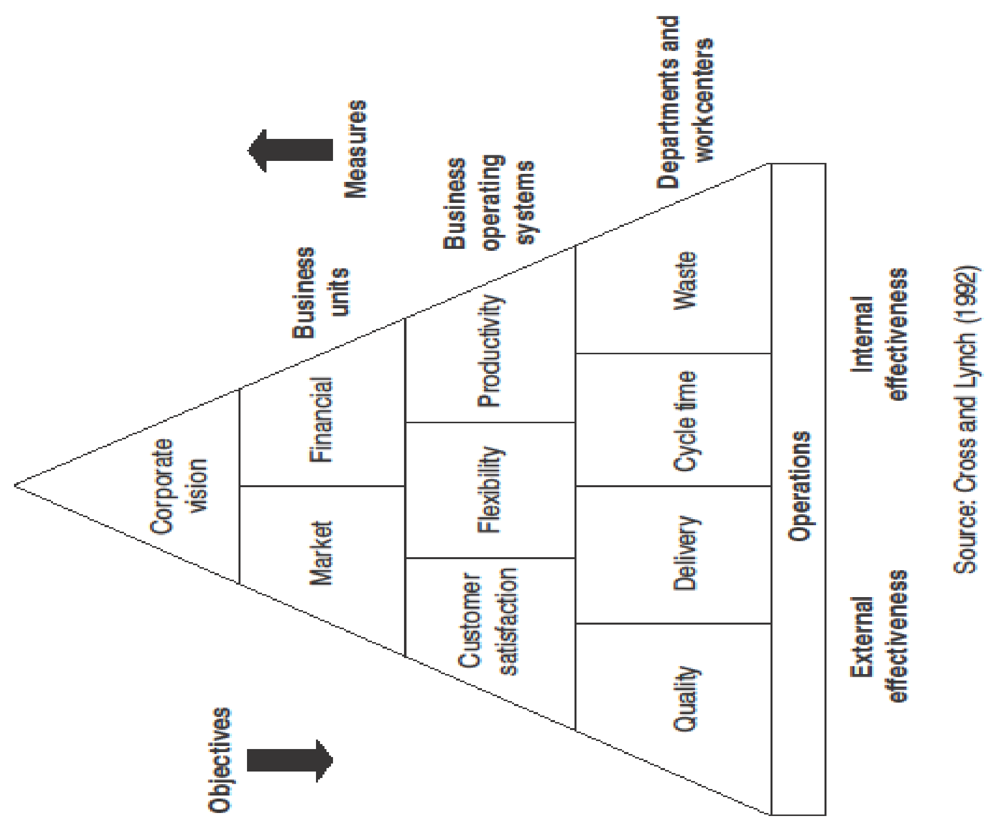
The questionnaire relies on evaluating the effectiveness and efficiency of internal performance measurements and also ensuring consistency between the organisation's strategies and measurements. The questionnaire consists of four sections: the first section provides general data and section two evaluates the organisation's competitive priorities and their current performance measurement system. The third section is concerned with the indicators of performance measurements and the fourth section is for respondents to know the best measurements to evaluate their own performance [McMann et al. 1994].

This framework provides information about the existing performance measurement system and a feedback about areas that need enhancements in the current performance measurement system. The main disadvantage of this questionnaire is that it cannot be used as a comprehensive integrated performance measurement system and it also fails to take into consideration the continuous improvement concept [Ghalayini & Noble, 1996].

2.3.3 PERFORMANCE PYRAMID MODEL

The purpose of the Performance Pyramid, proposed by Cross & Lynch [1992], is to link an organisation's strategy with its operations by translating objectives from the top down (based on customer priorities) and measures from the bottom up.

Figure 2.2: - The Performance Pyramid



The performance pyramid (see Figure 2.2) includes four levels of objectives that address the organisation's external effectiveness (left side of pyramid) and its internal efficiency (right side of pyramid). The development of a company's performance pyramid starts with defining an overall corporate vision at the first level, which is then translated into individual business unit objectives. The second-level business units are set short-term targets of cash flow and profitability and long-term goals of growth and market position (e.g. market, financial). The business operating system bridges the gap between top-level and day-to-day operational measures (e.g. customer satisfaction, flexibility, productivity). Finally, four key performance measures (quality, delivery, cycle-time, waste) are used at departments and work centres on a daily basis [Tangen, 2004].

Ghalayini et al. [1997] suggest that the main strength of the performance pyramid is its attempt to integrate corporate objectives with operational performance indicators. However, this approach does not provide any mechanism to identify key performance indicators, nor does it explicitly integrate the concept of continuous improvement [Ghalayini et al., 1997].

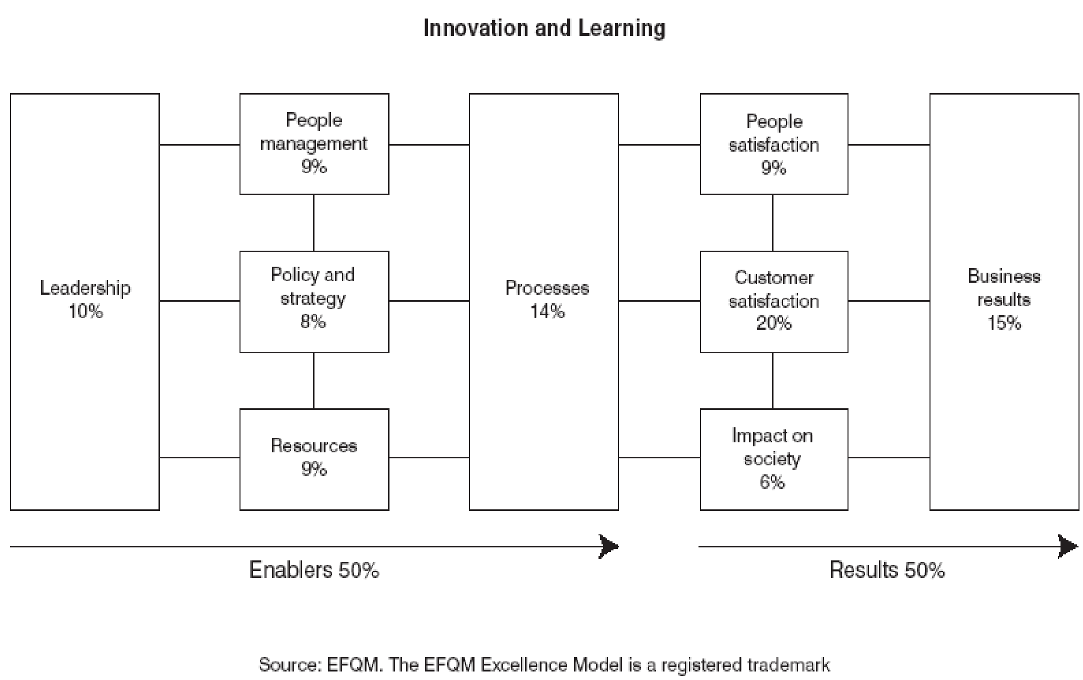
2.3.4 EFQM BUSINESS EXCELLENCE MODEL

In 1988, 14 major European companies, with the endorsement of the European Commission, founded the European Foundation for Quality Management. This was followed in 1992 by the first EFQM, European Quality Award. These awards are presented to companies that demonstrate excellence in the management of quality as their fundamental process for continuous improvement [Shergold & Reed, 1996].

Winners of the European quality awards and other national quality awards are regularly verified using reference criteria, which allow the organisations to identify their strengths and improve their opportunities. The European Quality Award criteria are based on the EFQM Excellence Model that places emphasis on self-assessment and improvement planning [Wongrassamee et al. 2003].

The specific purpose of the EFQM Excellence Model is to provide a systems perspective for understanding performance management. The Excellence Model is a non-prescriptive framework based on nine criteria reflecting validated, leading-edge management practices as shown in Figure 2.3 [Porter et al. 1998]. With their acceptance nationally and internationally as the model for performance excellence, the criteria represent a common language for communicating and sharing best practices amongst organisations. Five of the criteria cover what an organisation can manipulate, called "Enablers", while the other four represent what an organisation will achieve, named "Results". Due to the non-prescriptive approach of the model, there are many ways of carrying out excellent quality management and self-assessment. The model itself contains no detailed instructions for its use, although all nine criteria must be considered in the award assessment process. These nine criteria are listed and briefly described as follows [Porter et al, 1998]: -

Figure 2.3: - The EFQM Excellence Model



Source: Wongrassamee et al. [2003]

“Enabler” criteria

Leadership: relates to the behaviour of the executive team and all other managers in as much as how leaders develop and clarify a statement of vision that proposes total quality and continuous improvement in which the organisation and its people can achieve.

People management: regards how the organisation handles its employees and how it develops the knowledge and full potential of its people to improve its business processes and/or services continuously.

Policy & strategy: reviews the organisation’s mission, values, vision and strategic direction; how the organisation implements its vision and mission via the concept of total quality and continuous improvement.

Resources: refers to how the organisation manages and utilises external partnerships and internal resources effectively in order to carry out effective business performance as stated in its mission and strategic planning.

Processes: concerns how the organisation designs, manages and improves its activities and processes in order to satisfy its customers and other stakeholders.

“Results”

People satisfaction: investigates what the organisation is achieving in relation to its employees.

Customer satisfaction: measures what the organisation is fulfilling in relation to its targeted customers.

Impact on society: concerns what the organisation is achieving in satisfying the needs and expectations of local, national and international society as appropriate.

Business results: examines what the organisation is achieving in relation to its planned business performance in satisfying the needs of its shareholders.

In the scoring system of the award assessment, each of the Enabler criteria is scored on the basis of the combination of two factors: (1) the degree of excellence of the approach, and (2) the degree of deployment of the approach. Similarly, each of the Result criteria is examined and scored on the basis of the combination of two factors: (1) the degree of excellence of the results, and (2) the scope of the results [Lascelles & Peacock, 1996]. The key document in the scoring process is the "blue-card" – named by its colour – which represents a set of guidelines to assist in assessing the capability of each candidate.

The EFQM Excellence Model has been used in a wide range of commercial organisations, especially in Europe, to carry out both self-assessment and continuous improvement [Wongrassamee et al. 2003].

2.3.5 BALANCED SCORECARD

The Balanced Scorecard was developed by Kaplan & Norton and provides a multifaceted view of an organisation's performance. More specifically, the scorecard not only includes financial measures – which again highlight the results of actions already taken by the organisation – but it balances these with operational measures concerning customer satisfaction, internal processes and the organisation's innovation and improvement activities [Kaplan & Norton, 1992].

Chapter Three provides an overview of the balanced scorecard and includes an in-depth literature review.

2.3.6 TABLEAU de BORD

The Tableau de Bord was developed by French accounting practitioners in the 1930s and is described as being similar to a "dashboard" used by "pilots" to guide organisations to their destinations. From its origin, the Tableau de bord was conceived as a “balanced” combination of financial and non-financial indicators [Bessire & Baker, 2004].

Often the Tableau de bord is constructed in the form of ratios or graphs that can be used by decision makers to inform them of their current position and to enable them to guide their firms [Bessire & Baker, 2004].

Lebas [1996] advocates that the Tableau de bord is now established as a coherent concept that firms implement effectively, although few have succeeded in developing all aspects of the theoretical ‘pure’ model found in the literature.

The Tableau de bord is often referred to as being similar to the Balanced Scorecard but it is argued that it is based on a conceptual framework which is generally richer than the one underpinning the Balanced Scorecard. Both models though are similar in that they have a tendency to view an organisation as being a machine like an automobile or airplane which can be piloted to its destination [Bessire & Baker, 2004].

2.3.7 PERFORMANCE PRISM

The Performance Prism (see Figure 2.4) is one of the more recently developed conceptual frameworks which suggests that a Performance Measurement System should be organised around five distinct but linked performance perspectives [Neely et al. 2001]: -

Stakeholder satisfaction. Who are the stakeholders and what do they want and need?

Strategies. What are the strategies required to ensure the wants and needs of our stakeholders?

Processes. What are the processes that have to be put in place in order to allow our strategies to be delivered?

Capabilities. The combination of people, practices, technology and infrastructure that together enable execution of the organisation's business processes (both now and in the future): what are the capabilities we require to operate our processes?

Figure 2.4: - The Performance Prism

Source: Neely et al. (2001)

Stakeholder contributions. What is wanted and needed from stakeholders to maintain and develop those capabilities?

The performance prism has a much more comprehensive view of different stakeholders (e.g. investors, customers, employees, regulators and suppliers) than other frameworks. Neely et al. [2001] argue that the common belief that performance measures should be strictly derived from strategy is incorrect. It is the wants and needs of stakeholders that must be considered first. Then, the strategies can be formulated [Neely et al. 2001]. Thus, it is not possible to form a proper strategy before the stakeholders and their needs have been clearly defined [Neely et al. 2001].

The strength of this conceptual framework is that it first questions the company's existing strategy before the process of selecting measures is started [Tangen, 2004]. In this way, the framework ensures that the performance measures have a strong foundation. The performance prism also considers new stakeholders (such as employees, suppliers, alliance partners or intermediaries) who are usually neglected when forming performance measures [Tangen, 2004].

However, although the performance prism extends beyond "traditional" performance measurement, it offers little about how the performance measures are going to be realised [Tangen, 2004]. Neely and co-workers have previously published many useful tools in this area and should, if possible, create a better link between such tools and the performance prism. Another weakness is that little or no consideration is given to the existing Performance Measurement Systems that companies may have in place [Medori & Steeple, 2000].

2.3.8 CRITICAL SUCCESS FACTORS

One of the earliest Performance Management Systems developed was Critical Success Factors which provided a basis to determine performance measures in relation to management goals. Critical Success Factors is a business term for an element, which is necessary for an organisation or project to achieve its mission [Rockart, 1979].

The concept of "success factors" was developed by D. Ronald Daniel of McKinsey & Company in 1961 and was refined by Rockart in 1986 [Rockart, 1986].

2.3.9 RESULTS & DETERMINANTS MATRIX

The 'Results & Determinants Matrix' was developed by Brignall et al. [1991] as a performance measurement framework for service businesses and sought to provide such organisations with a framework, which integrates new management accounting theories with relevant operations management concepts and models [Atkinson & Brown, 2000].

Figure 2.5: - Results & Determinants Matrix

	Dimensions of Performance	**Types of Measures**
RESULTS	Competitiveness	Relative market share and position Sales growth Measures of the customer base
	Financial performance	Profitability Liquidity Capital structure Market ratios
DETERMINANTS	Quality of service	Reliability Responsiveness Comfort Access Aesthetics/appearance Friendliness
	Flexibility	Volume flexibility Delivery speed flexibility Specification flexibility
	Resource utilisation	Productivity Efficiency
	Innovation	Performance of the innovation process Performance of the individual innovations

Source: Brignall et al. [1991 p.107]

As can be seen from Figure 2.5, by using six key performance dimensions the model specifically incorporates both financial and non-financial metrics while also balancing internal and external perspectives [Brignall et al. 1991].

The performance dimensions suggested by Brignall et al. [1991] are: competitiveness; financial; quality; flexibility; resource utilisation and innovation. These six dimensions can further be placed into two different categories. The first two factors can reflect the 'results' of a chosen strategy and the remaining four are factors that determine the competitive success of an organisation or the 'means' [Brignall et al. 1991].

2.3.10 INPUT-PROCESS-OUTPUT MODEL

The Input-Process-Output Model developed by Fitzgerald et al. [1994] was created in the context of service organisations and reinforces effectively the connections between various activities of the business.

Fitzgerald participated in the research that led to the development of the 'Results & Determinants Matrix', hence the similiarities to to its predecessor [Fitzgerald et al, 1994].

Fitzgerald et al. [1994] argue that there are six generic performance dimensions: competitive performance, financial performance, quality of service, flexibility, resource utilisation and innovation. The key element of their proposition is that these dimensions may be divided into two categories: resultant and determinant factors (see Table 2.2).

As can be seen in Figure 2.6, a number of measures may then be developed which relate to both determinants and results [Fitzgerald et al. 1994].

2.3.11 ACTIVITY-BASED COSTING

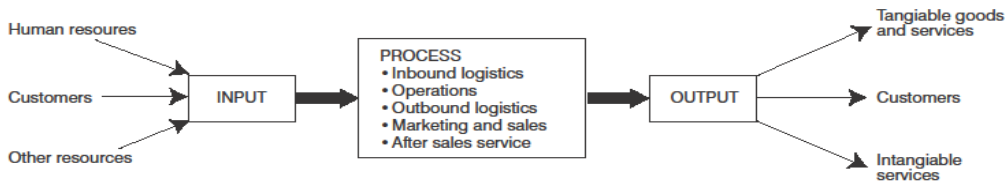
Activity-based costing was developed by Johnson and Kaplan [1987] in the late 1980s as an attempt to resolve some of the fundamental inadequacies of traditional cost accounting. Activity-based costing is concerned with the cost activities within a company and their relationship to the manufacture of specific products rather than to basic functional areas [Hill, 1995]. The basic technique is to analyse the indirect costs within a company and to discover the activities that cause those costs. Such activities are called "cost drivers" and can be used to apply overheads to specific products. In this way, it is believed that activity-based costing results in a more accurate identification of costs than traditional cost allocation [Hill, 1995].

Table 2.2: - Performance Measures across Six Dimensions

	Dimensions of performance	**Types of measure**
Results	**Competitiveness**	Relative market share and position Sales growth Measures of the customer base
	Financial performance	Profitability Liquidity Capital structure Market ratios
Determinants	**Quality of service**	Reliability Responsiveness Aesthetics/appearance Cleanliness/tidiness Comfort Friendliness Communication Courtesy Competence Access Availability Security
	Flexibility	Volume flexibility Delivery speed flexibility Specification flexibility
	Resource utilisation	Productivity Efficiency
	Innovation	Performance of the innovation process Performance of individual innovations

Source: Fitzgerald et al. [1994 p.8]

Figure 2.6: - Input-Process-Output Model



Source: Fitzgerald et al. [1994]

According to Maskell [1991], several example cases indicate that activity-based costing can be of practical value for product pricing, production decision-making, overhead cost reduction and continuous improvement. However, there are researchers who claim that the argument that activity-based costing provides more accurate product costs has never been proved [Neely et al. 1997]. More importantly, an improved cost accounting system will not entirely solve the problem with financial measures – measures other than cost are needed to adequately gauge manufacturing performance relative to a competitive strategy [White, 1996]. This is why many researchers have focused on developing more complex performance measurement systems during the last decade [Tangen, 2004].

2.3.12 COMPETITIVE BENCHMARKING

Competitive Benchmarking is where it is necessary to discover where a company's performance is compared with an immediate competitor. This can be across the entire spectrum of business comparators, i.e. finance, products and services, organisation, technology, research and development, personnel policies, etc. [Hutchins, 2008].

The main goals of benchmarking are to identify key performance measures for each function of a business operation; measure one's own performance levels as well as those of the leading competitors; compare the performance levels and identify areas of comparative advantage and disadvantage and implement programmes to close a performance gap between one's own operations and the operations of the leading competitors [Furey, 1987].

2.3.13 SINK & TUTTLE MODEL

The Sink & Tuttle Model (refer to Figure 2.7) claims that the performance of an organisation is a complex interrelationship between the following seven performance criteria [Sink & Tuttle, 1989]:

Effectiveness, which involves "doing the right things, at the right time, with the right quality": in practice, effectiveness is expressed as a ratio of actual output to expected output;

Efficiency, which simply means "doing things right", and is defined as a ratio of resources expected to be consumed to resources actually consumed;

Quality, where quality is an extremely wide concept; to make the term more tangible, quality is measured at six checkpoints;

Productivity, which is defined as the traditional ratio of output to input;

Quality of work life, which is an essential contribution to a system which performs well;

Innovation, which is a key element in sustaining and improving performance; and

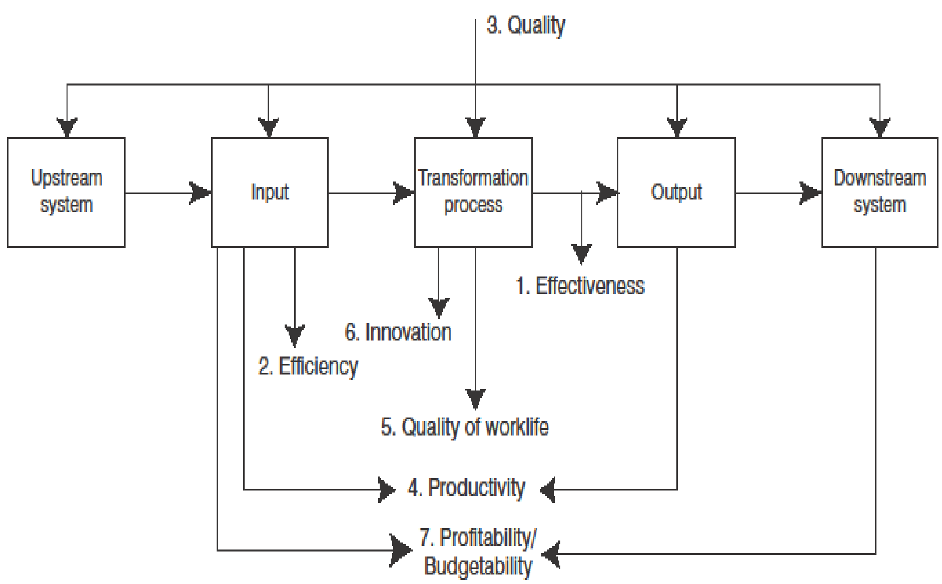
Profitability/budgetability, which represents the ultimate goal for any organisation.

Although much has changed in industry since this model was first introduced, these seven performance criteria are still important. However, the model has several major limitations [Tangen, 2004]. For example, it does not consider the need for flexibility, which has increased markedly during the last few decades. The model is also limited by the fact that it does not consider the customer perspective [Tangen, 2004].

2.3.14 THEORY OF CONSTRAINTS

Goldratt [1990] developed an approach called the "theory of constraints" which emerged in the mid 1980s as a process of ongoing improvement. Theory of Constraint researchers have mainly focused on production planning and scheduling methods, but have also been involved in performance measurement [Tangen, 2004].

Figure 2.7: - Sink & Tuttle Model



Source: Sink and Tuttle (1989)

Within a system, a constraint is defined as anything that limits the system from achieving higher performance relative to its purpose. However, while the concept of Theory of Constraints is simple, it is far from simplistic. To a large degree, the constraint/non-constraint distinction is almost totally ignored by most managerial techniques and practices [Moore & Scheinkopf, 1998]. Theory of Constraints offers a systematic and focused process that organisations use to pursue ongoing improvement successfully and the "five steps of focusing" are identifying the system constraints; deciding how to exploit the system's constraints; the subordination of everything else to the above decisions; the elevation of the system's constraints and returning to the start once a constraint is broken [Goldratt, 1990].

Within the Theory of Constraints three global performance measures are used for assessing a business organisation's ability to obtain the goal (i.e. making money) and these measures are net profit, Return on Investment and cash flow [Tangen, 2004].

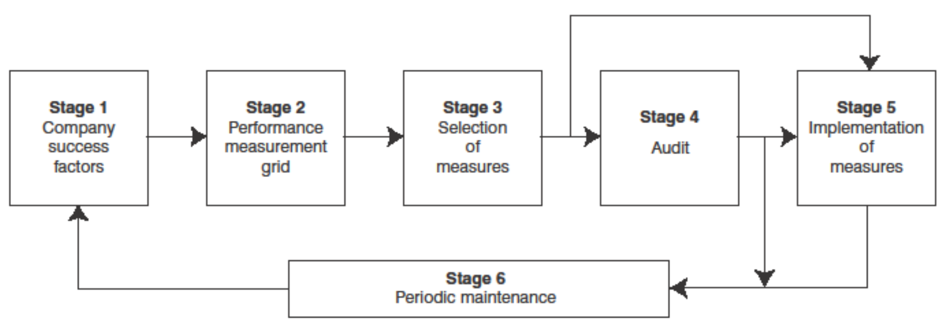
The major strength of this approach is that it provides focus in a world of information overload and the performance measures within the model are both easy to access and easy to comprehend [Tangen, 2002a]. However, it is far from being a complete PMS and one could argue that it simplifies the reality a little too far, since ToC assumes that there is always a legible constraint in the system, which is not necessarily true [Tangen, 2004].

2.3.15 MEDORI & STEEPLE'S FRAMEWORK

Medori & Steeple [2000] present a six-stage integrated framework for auditing and enhancing Performance Measurement Systems (see Figure 2.8).

Similar to most frameworks, the starting point begins with defining the company's manufacturing strategy and success factors (stage 1). In the next stage, the primary task is to match the company's strategic requirements from the previous stage with six defined competitive priorities (e.g. quality, cost, flexibility, time, delivery and future growth; stage 2). Then, the selection of the most suitable measures takes place by the use of a checklist that contains 105 measures with full descriptions (stage 3). After the selection of measures, the existing PMS is audited to identify which existing measures will be kept (stage 4). An essential activity is the actual implementation of the measures in which each measure is described by eight elements: title, objective, benchmark, equation, frequency, data source, responsibility and improvement (stage 5). The last stage (6) is based around the periodic review of the company's Performance Measurement System [Tangen, 2004].

Figure 2.8: - Medori & Steeple's Framework



Source: Medori and Steeple (2000)

In contrast to many other frameworks, this framework is beyond being simple guidelines, and can actually be followed by a measurement practioner. A major advantage is that it can be used both to design a new PMS and to enhance an existing PMS. It also contains a unique description of how performance measures should be realised. Its limitations are mainly located in stage 2, where a performance measurement grid is created in order to give the PMS its basic design. Little guidance is given here, and the grid is only constructed from six competitive priorities which are quality, cost, flexibility, time, delivery and future growth [Tangen, 2004].

2.3.16 DMP FRAMEWORK

The Dynamic Multi-dimensional Performance Framework (DMP) is multi-dimensional in nature, depiciting success as a dynamic, on-going concept that is judged on various timeframes, and represents multiple stakeholders [Maltz et al. 2003].

Around 12 potential “baseline measures” are advocated across five major success dimensions which are identified by Maltz et al [2003] as being Financial, Market, Process, People and Future.

Moreover, the Dynamic Multi-dimensional Performance Framework is a natural augmentation of the “balanced scorecard” and “success dimensions” models [Shenhar & Dvir, 1996].

The DMP Framework has various characteristics which, taken together, distinguish it from other frameworks and it also addresses certain limitations of previous models. A major contributory factor is its multi-dimensional perspective, which accordingly offers a more comprehensive view of what organisational success candidly means. The “customer” dimension addresses the aspirations of many prominent academics and practioners [Allio, 2006]; the “process” dimension concentrates on the internal dynamic management; “people development” recognises the critical role of the firm’s employees and the “future” dimension is focused on preparing for change whilst sustaining an organisation’s vitality for years to come [Tangen, 2004].

Moreover, the DMP Framework provides an opportunity to examine an organisation’s performance in multiple time horizons, i.e. the “financial” represents the very short-term, whereas the “future” looks at the very long-term. The “people” dimension explicitly acknowledges the critical roles of multiple stakeholders and addresses a major limitation of the balanced scorecard. Equally, the DMP Framework is flexible enough to be used by different organisations in different industries [Tangen, 2004].

One of the main contributory factors in the decision to use the DMP Framework as a foundation evolves around the model's ability to explore the dynamic progression representing multiple time horizons. The DMP model builds upon the balanced scorecard in recognising the importance of establishing cause-and-effect relationships; if improved operational performance fails to improve financial performance, this indicates that the chain of cause-and-effect has not been established correctly and needs revision [Hepworth, 1998].

2.4 APPLICATIONS OF PERFORMANCE MEASUREMENT

The literature available on performance measures is particularly vast and so the purpose of this section is to provide a review of the literature on performance measurement in order to demonstrate the depth of material available.

Maskell [1991] refers specifically to performance measurement systems in a manufacturing context and identifies seven characteristics that are common for every organisation. Maskell [1991] advocates that for a measurement system to be successful, it must be related to the manufacturing strategy and developed to support overall business objectives. He also claims that companies in recent years have been experimenting with various performance measurement systems and that they vary considerably from company to company [Maskell, 1991].

Brignall et al. [1991] conducted a study into performance measurement in for-profit service businesses and advocated the measurement of service business performance across six dimesions.

Brignall et al. [1991] proposed that managers service organisations need to develop their own set of performance measures across the six dimensions to monitor the continued relevance of their competitive strategy. Also, the set of performance measures will be affected by the interaction of their competitive environment, competitive strategy and service type, which three contingent variables primarily determine respectively the why, the what, and the how of performance measurement [Brignall et al. 1991].

Johnson et al. [1997] studied management control at 100 Swedish companies and concluded that measures reflecting cost effectiveness are considered most important. Other significant measures identified relate to quality, reliability of delivery and external customer satisfaction whilst areas viewed as less necessary to monitor include employee satisfaction and development potential [Johnson et al. 1997].

Siha [1999] applied the Theory of Constraints (TOC) to service organisations and proposed a model based on Schmenner's classification of service organisations.

Siha [1999] concluded that the general principles of Theory of Constraints can be applied to improve the performance of service organisations, although it is important to identify the flow of "material", inventory and throughput at various service organisations of the four quadrants of the service matrix.

Kald & Nilsson [2000] performed research in 800 Nordic businesses and concluded that financial and non-financial measures were well developed in these businesses. The research also uncovered a strong connection between measures used and different planning routines, such as strategic planning and budgeting, with performance measurement principally used to support decision-making.

Gomes et al. [2004] examined the literature concerned with issues related to the different facets of manufacturing organisational performance and identified and discussed several issues relevant to both theory and practice. The research concluded by presenting a conceptual framework outlining the evolution of manufacturing performance measures and measurement in an organisational context [Gomes et al. 2004].

Anderson & McAdam [2005] explored the understanding and use of lead benchmarking and performance measurement as a possible means of achieving increased organisational change within a survey of 800 UK organisations, which yielded 157 responses. The findings of the research indicated that new lead, forward looking, predictive benchmarks would need to be developed to support lead benchmarking and performance measurement activities and that larger organisations are more likely to adopt these practices.

Bhasin [2008] examined the need for organisations to adopt a more holistic and comprehensive approach to performance measurement and suggested the Dynamic Multi-dimensional (DMP) model as means of doing so. Bhasin [2008] concluded that the DMP framework is more robust than its predessors, such as the balanced scorecard, but stressed the need to utilise a smaller set of multidimensional metrics which are closely aligned to an organisation's strategies.

2.4.1 APPLICATIONS OF PERFORMANCE MEASUREMENT IN HOSPITALITY ORGANISATIONS

Fay et al. [1976] identified ratios to be the most commonly used performance measures in hospitality businesses in order to monitor and control operations. This information is compared and measured against goals, to indicate where problems and successes are. Andrew & Schmidgall [1993 p.58], state that by tracking a selected set of ratios, hospitality managers are able to maintain a fairly accurate perception of the effectiveness and efficiency of their operations. The results of financial statements have significance if they are compared with some form of yardsticks. The main source of comparative information comes from internal performance, which is past results and budget performance and external performance, which are inter-company results and industry studies [Fay et al. 1976; Harris, 1992].

Schmidgall [1988] collected data from 115 hospitality businesses to rank the most commonly used ratios and concluded that the monthly occupancy %, the cost of labour % and the cost of food % were the most commonly used.

Further research determined that different groups of users assign different importance to the ratios and the main users were identified as being management, the owners and the creditors [Andrew & Schmidgall, 1993; Coltman, 1998]. The users all rated different measures to be important such that management used operating ratios more than others, owners considered profitability ratios extensively and creditors utilised solvency ratios for making decisions [Andrew & Schmidgall, 1993; Coltman, 1998].

Schmidgall [1997] classified and defined the common ratio measures in hospitality businesses into the following five groups: -

Liquidity – ability to meet short-term obligations.

Solvency – ability to meet long-term obligations through debt and equity finances.

Activity – management's effectiveness in using its resources.

Profitability – management's overall effectiveness.

Operating – supports other measures by analysing the operations of a hospitality establishment.

Collier & Gregory [1995], in association with the Chartered Institute of Management Accountants, conducted research into the use of financial and non-financial performance measures in a sample of six UK hotels.

Collier & Gregory [1995] concluded that Return on Investment, which is believed to be the favourite measure in manufacturing businesses, is used only when new investments are undertaken and the most common way of measuring performance in hotels is through a comparison of actual with budgeted figures. They also concluded that the hotels measured quality through the use of guest questionnaires, mystery guests and quality standard forms [Collier & Gregory, 1995].

Brander-Brown et al. [1998] provided evidence that achieving a balance of performance information, in terms of type, financial-operation dimensions and the links between key performance areas are necessary for the design of appropriate performance management systems in full-service hotels. Additionally, effective communication of performance information at all levels, therefore, producing and communicating clear and understandable performance information is also a core element of the performance management system [Brander-Brown et al. 1998].

Southern [1999] demonstrated the value of a systems approach in considering performance management at an operational level in the hospitality sector. Southern [1999] applied systems concepts and techniques to a hypothetical hotel company in order to describe and analyse influences between subsystems. Work measurement and quality performance standards were identified for the company and an operations management analysis framework was then used to consider the design of operating systems with specific reference to performance measures which drive, and perhaps support, an organisation's competitive stance based on competitive factors.

Southern [1999] concluded that much management of performance in the hospitality industry is ruled by intuition and past experience and a more systematic approach to process design, as practised in the manufacture and financial services industries may well pay dividends.

Atkinson & Brander-Brown [2000] undertook research to ascertain whether UK hotel companies were still focusing on the more 'traditional' performance measures and assessed the extent to which UK hotel companies were addressing the folly of measuring the wrong things and the steps they were taking to rethink their performance measurement systems. Atkinson & Brander-Brown [2000] concluded that a proportion of the UK's hotel industry does place an emphasis on non-financial performance dimensions such as customer satisfaction and quality of service but, in the main, the industry appeared to concentrate on financial dimensions. Moreover, the researchers concluded that the non-financial dimensions were overwhelmingly dominated by 'lag' (result) indicators, thus focusing management's attention even further toward the results of past actions rather than toward determinants of future success. The evidence therefore suggested that performance measurement systems in UK hotels were by no means 'balanced'.

Haktan [2000] undertook research into the practice of performance measurement in independent hotels and made reference to 'The Uniform Systems of Accounts for the Lodging Industry', which is the commonly practiced method of recording and analysing accounting data in hospitality businesses.

Atkinson & Brander-Brown [2001] undertook research in UK hotels and concluded that the industry relies predominantly on financial performance dimensions, despite the progress taking place with regard to the design of more effective performance measurement systems. Their research also suggested that some organisations placed an emphasis on non-financial measures such as quality of service and customer satisfaction.

Guilding [2002] describes financial management procedures and analytical techniques in the context of hospitality decision-making and criticises financial performance measures for focusing on symptoms rather than causes and being orientated towards the short-term performance of the past. Guilding [2002] concludes that continued management emphasis on financial controls is to be expected due to the needs of the investing community.

Banker et al. [2005] studied data from a number of U.S. lodging properties managed by a large hospitality firm that implemented an incentive system based on non-financial and financial performance measures. Their research addressed the following two research questions: 1) Are the non-financial performance measures leading indicators of financial performance? and 2) Does the adoption of an incentive compensation plan that increases the emphasis on non-financial performance measures for key managers lead to improvements in both financial and non-financial performance?

Banker et al. [2005] concluded that non-financial measures of customer perceptions are related to future financial performance and that both financial and non-financial performance improves following the implementation of an incentive plan that includes non-financial measures of performance.

Haktanir & Harris [2005] explored performance measurement practices in a 392-room resort hotel in Northern Cyprus. Their research indicated six main themes, which were grouped under business dynamics and overall performance; employee performance; customer satisfaction; financial performance; and innovative activities performance measures. These six themes were discussed so that the communication process and purpose of utilising the performance measures could be described and analysed.

Ramdeen et al. [2007] examined the effect of using financial information with non-financial performance information and surveyed 1200 departmental managers in 400 US hotels to determine why users may be interested in non-financial measures, and whether or not the users would receive incremental benefits from incorporating non-financial measures in budgetary reports. He concluded that resource allocation decisions made by individuals were significantly associated with financial information. In addition, the research concluded that non-financial information was influential in the performance evaluations of both department personnel and the department manager and that both financial and non-financial information significantly affected the performance evaluations of the departmental managers.

The literature reviewed in this section is predominantly based on U.S. [Atkinson & Brander-Brown, 2001] hotels and has been developed mainly through the use of case study strategies. This therefore does not provide a representative overview of performance measurement in the hospitality industry and there is clearly a shortage of European related research.

CHAPTER SUMMARY

A number of definitions exist for performance measurement with the most quoted being: '*the process of quantifying the efficiency and effectiveness of past actions*' [Neely et al., 2002 xiii].

Performance management describes the use of performance measurement information to effect positive change in organisational cultures, systems and processes, by helping to set agreed performance goals, allocating and prioritising resources, informing managers either to conform or change current policy or directions to meet these goals, and sharing results of performance in pursuing goals, thus emphasising the relationship between the strategy and measurement system [Amaratunga & Baldry, 2002].

Performance measurement has evolved through two phases [Ghalayini & Noble, 1996]. The first phase started in the late 1880s, the second phase in the late 1980s. The second phase was associated with the growth of global business activities and the changes brought about by such growth and these factors led to the development of frameworks which have attempted to present a broader view of performance measurement [Ghalayini & Noble, 1996]. Examples of these frameworks include the Performance Matrix, Performance Measurement Questionnaire, Balanced Scorecard, EFQM Business Excellence Model and the Performance Pyramid [Tangen, 2004].

Performance measurement is a particularly vast subject with hundreds of journal articles available focusing on particular themes. However, the vast majority of hospitality-related material is based on U.S. hotels [Atkinson & Brander-Brown, 2001] and has been developed using case study strategies. This therefore does not provide a representative overview of performance measurement in the hospitality industry and there is clearly a shortage of European related research.

CHAPTER THREE: - THE BALANCED SCORECARD APPROACH

INTRODUCTION

Many commentators have argued that the traditional financial and accounting measures, reputedly used by a large number of companies, provide an inadequate and insensitive tool for decision-making as they were developed for regulatory and financial reporting requirements rather than to run businesses. Moreover, these measures are designed to report on the stewardship of the money entrusted to management, rather than on the strategic direction of the business [Williams et al, 1994].

During the 1980s and early 1990s managers began to reject the traditional financial measures and were searching for a new means of measuring performance [Letza, 1996]. During this period, managers observed that successful companies in Europe and the Far-East seemed to place less reliance on narrow financial criteria than those in the so-called “Anglo-Saxon” countries [Letza, 1996]. The combination of these factors evoked a call for “new” methods of assessing performance. Kaplan and Norton seemed to address this need when they published their research on the balanced scorecard [Letza, 1996].

This chapter will provide an overview of the balanced scorecard approach, assessing its strengths and weaknesses as a means of measuring performance. An extensive and in-depth review of literature will also be provided in order to demonstrate the approach’s usefulness as a tool for measuring performance.

3.1 DEVELOPMENT OF THE BALANCED SCORECARD

3.1.1 THE BALANCED SCORECARD MODEL

In response to the need to incorporate key non-financial performance measures and integrate financial and non-financial measures, Kaplan & Norton [1992] devised the balanced scorecard as a set of performance measures to provide managers with a comprehensive view of the organisation, and a reliable feedback for management control purposes and performance evaluation.

The balanced scorecard approach consists of two types of performance measures. The first, a series of financial measures, describe the past actions. The second are non-financial measures of customer satisfaction, internal business processes, and innovation and improvement activities. Kaplan & Norton [1996c] further indicated that the measures of this approach represent a balance between external measures for shareholders and customers, and internal measures for critical business processes, innovation and learning and growth. These measures are balanced between the outcome measures (i.e. the results from past efforts) and the measures that drive future performance.

In their writings, Kaplan & Norton [1992; 1993] stressed that the balanced scorecard aims to provide answers to the following questions: -

How do customers see us? (Customer perspective);

What must we excel at? (Internal business process/operational perspective);

Can we continue to improve & create value? (Learning & growth/innovation); and

How do we look to shareholders? (Financial perspective).

According to Kaplan & Norton [1992], the balanced scorecard consists of the following four perspectives: -

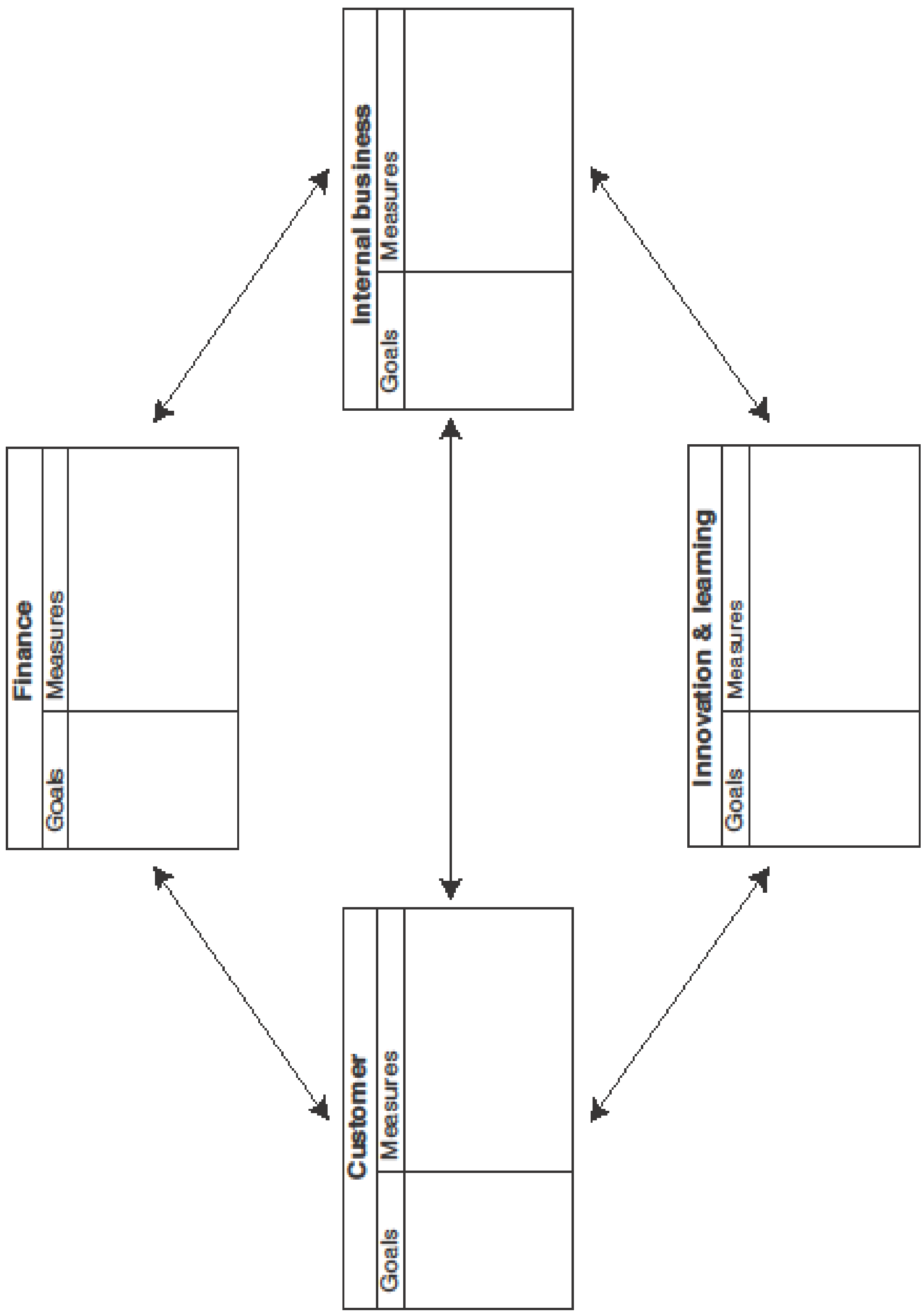
Customer perspective: The measures relating to this perspective require managers to translate their general mission statement on customer and market segments into specific measures that reflect the factors that really matter to the customers. Managers should develop performance measures in order to create satisfied loyal customers in the targeted segments. Customers' concerns relate to time, quality, service and cost. Therefore, the customer perspective includes different core objectives and measures that relate to the organisation's strategy. Examples include goals and measures relating to increasing market share, customer retention, and customer satisfaction.

Internal business process perspective: The measures within this perspective are related to the critical internal processes for which the organisation must excel to implement strategy. The identified processes should stem from the requirements needed to achieve the organisation's customer perspective. Kaplan & Norton identified several generic internal processes, such as the operation and post-service sales processes, and stressed the need to develop appropriate performance measures relating to these processes such as measures related to time, quality and cost.

Learning and growth/innovation perspective: These types of measures are concerned with building continuous improvement in relation to products and processes, and to also create long-term growth. Kaplan & Norton stressed that organisations can improve and innovate to achieve the objectives of the scorecard through the ability to launch new products, improve operating efficiencies and create more value for customers.

Financial perspective: Measures within this perspective are based on financial metrics such as return on investment and residual income. Kaplan & Norton argued that by incorporating non-financial performance measures in the scorecard, improved financial measures should follow. Moreover, this perspective provides feedback as to whether improved performance in the non-financial perspectives is translated into monetary terms in the financial perspective box.

Figure 3.1: - The Balanced Scorecard



Source: Kaplan and Norton (1992)

Figure 3.1 illustrates each of the four perspectives, in which managers identify aspects which affect performance. For each aspect, managers should identify objectives, measures and targets and then identify initiatives to create improvements. Thus, organisations should articulate the major goals for each of the four perspectives, and then translate these goals into specific performance measures [Kaplan & Norton, 1992]. This can be achieved by putting the scorecard in the middle in order to evaluate strategy in the light of performance measures.

Kaplan & Norton [1996a] identify the main characteristics of the balanced scorecard as: -

- The approach is connected to the organisation's information system;
- It reports a series of indicators providing a complete view of the organisations performance;
- It groups the indicators into four perspectives; each one reflecting a distinct measure on the organisation's performance; and
- The performance measures in the scorecard must be chosen on the basis of their link with the vision and the strategy of the organisation.

Based on the aforementioned characteristics, the balanced scorecard approach consists of the following levels of information [Kaplan & Norton, 1996a]. The first level describes corporate objectives, measures and targets and the second level translates corporate targets into business unit's targets. In the third level, organisations ask teams and individuals to articulate which of their own objectives would be consistent with organisational objectives, and what are the initiatives they would take to achieve their objectives [Kaplan & Norton, 1996a].

The balanced scorecard can be applied in different businesses under a variety of situations and according to Kaplan & Norton [1996c] the balanced scorecard is most successful when it is used to drive the process of change.

In their publications, Kaplan & Norton argue that the scorecard process works best in strategic business units, although some organisations have applied this approach at a single organisational level. Kaplan & Norton [2001b] also argue that this approach is applicable in manufacturing organisations as well as non-profit and government organisations and that many combine operational and financial performance measures for their activities [Kaplan & Norton, 1992; 1993]. They also argued that the appropriate set of scorecard measures should be derived from the organisation's strategic objectives.

3.1.2 DEVELOPING A BALANCED SCORECARD

Kaplan & Norton [1996] identified four steps in implementing a balanced scorecard. These are 1) clarifying and translating the vision and strategy, 2) communicating and linking, 3) planning and target setting, and 4) strategic feedback and learning.

The first step, clarifying and translating the vision and strategy, is generally accomplished by a team of upper management, although Kaplan & Norton indicate that this can be successfully accomplished by a single senior executive. The purpose of this phase is to develop an understanding of the firm's mission and strategy for obtaining its goals. Since mission statements are often vague, management must translate the mission into specific objectives and then develop a strategy that will use the firm's strengths to meet the objectives. In doing so, management should develop a set of measures that captures this strategy. This will become the organisation's balanced scorecard [Lipe & Salterio, 2000].

After the firm's balanced scorecard has been developed, each strategic business unit determines measures for its own scorecard as part of the communicating and linking step. Unit managers consider both the overall organisational objectives and strategy and focus on the most important ones. Care should be taken, however, not to reduce lower-level data into meaningless ratios [Lipe & Salterio, 2000].

Rohm [2002] has argued that organisations should use a six-step framework to build a balanced scorecard, with an additional three steps required to implement the scorecard throughout the organisation. At the end of the first six steps, the high-level corporate scorecard is developed and it forms the basis for subsequent scorecard development [Rohm, 2002].

It can take two to four months to build a scorecard system, although completion in six weeks is possible. The drivers of “shorter rather than longer” are: senior leadership support and continuous commitment, currency of existing assessment information, size of the organisation, and availability of scorecard team members, willingness to change and embrace new ideas, the relative seniority of the manager(s) involved and facilitation support [Rohm, 2002].

There are a number of important implications which management in all forms of organisations should consider with regard to the balanced scorecard. First, that the scorecard emphasises vision, strategy, competitive demands and the need to keep organisations both looking and moving forward – rather than the more traditional focus on control. Indeed, it has been demonstrated that the balanced scorecard appears to be most successful when it is used to drive the process of change [Rohm, 2002].

A second implication is that a properly designed scorecard should help management to understand the many important inter-relationships within their organisations, which more traditional measures generally mask or even ignore. Moreover, the measures incorporated in a scorecard should provide a balance between external and internal measures – and thereby reveal the potential trade-offs between them [Rohm, 2002].

Third, to be fully effective the development and implementation of a balanced scorecard requires involvement of a range of senior managers and not just the organisation’s financial executives. Indeed, it has been noted that the balanced scorecard indicates a need for the traditional role of the financial controller to change so that it “links” involvement in strategic corporate development with the maintenance of budgets, short term performance measurements and historical records [Rohm, 2002].

At least three different definitions of the stages of the evolution of the balanced scorecard exist in the literature [Morisawa, 2002; Miyake, 2002; Lawrie & Cobbold, 2004]. All authors agree that the first generation balanced scorecard combines financial and non-financial indicators with the four perspectives (financial, customer, internal business process and learning and growth).

Figure 3.2: - Key Performance Indicators

According to each perspective of the Balanced Scorecard, a number of Key Performance Indicators (KPI's) can be used such as:

Financial

- Cash flow
- Return on Investment
- Financial Result
- Return on capital employed
- Return on equity

Customer

- Delivery Performance to Customer – by Date
- Delivery Performance to Customer – by Quality
- Customer satisfaction rate
- Customer Loyalty
- Customer retention

Internal Business Processes

- Number of Activities
- Opportunity Success Rate
- Accident Ratios
- Overall Equipment Effectiveness

Learning & Growth

- Investment Rate
- Illness Rate
- Internal Promotions %
- Employee Turnover
- Gender/Racial Ratios

Source: Rohm. [2004]

Lawrie & Cobbold [2004] argue that the second generation balanced scorecard emphasised the cause-and-effect relationships between measures and strategic objectives. It became a strategic management tool, usually utilising a strategy map to illustrate the linkage between measures and strategies. In contrast there is a view in the literature that the key contribution of the second-generation balanced scorecard was the formal linkage of strategic management with performance management [Miyake, 2002].

According to Lawrie & Cobbald [2004], the third generation balanced scorecard is about developing strategic control systems by incorporating destination statements and optionally two perspective strategic linkage models. It used “activity” and “outcome” perspectives instead of the four traditional perspectives [Lawrie & Cobbald, 2004]. Speckbacher et al. [2003] suggested that the third generation balanced scorecard was the second generation containing action plans/targets and linked to incentives. A third view (e.g. Morisawa, 2002; Miyake, 2002) is that the concept of the strategy-focused organisation reflected the third-generation application of the balanced scorecard.

3.2 STRATEGIC MANAGEMENT SYSTEM ASSUMPTION

Management accounting has developed measurement systems to reflect strategy. Therefore, performance measures are designed to help personnel keep track on whether they are moving in the chosen direction [Neely & Adams, 2001]. The connection between performance measures, organisational objectives and strategy is very important and also challenging [Nanni et al, 1992; Kloot & Martin, 2000]. By implementing the balanced scorecard, organisations will move beyond the vision for the scorecard to discover its value as a cornerstone of a new strategic management system [Kaplan & Norton, 1996a]. In this context, Kaplan & Norton [1996b p.85] state that:

The balanced scorecard provides a framework for managing the implementation of strategy while also allowing the strategy itself to evolve in response to changes in the company’s competitive market and technological environments.

Kaplan & Norton's experiences of innovative companies implementing the balanced scorecard indicated that they were using it, not only to clarify and communicate strategy, but also to manage strategy. They concluded that this approach has evolved from an improved performance measurement system to a core strategic management system. Subsequently, Kaplan & Norton [2001b] argued that the early balanced scorecard adopters all used the scorecard to support major strategic and organisational change, and that many organisations' management control systems are designed around the financial performance measures, which give little relation to the organisation's progress in achieving long-term strategic objectives. Therefore, they indicated that by implementing the balanced scorecard, organisations can introduce the following management processes that aim to align long-term strategic objectives with short-term activities [Kaplan & Norton, 2001b]: -

Clarifying and translating the vision: This process helps managers in building a consensus around the organisation's vision and strategy. Developing a mission statement is a major responsibility of the senior management team, and this statement must be expressed as an integrated set of goals and measures to managers in order to translate the vision into day-to-day actions [Kaplan & Norton, 2001b].

Communicating and linking: In this process managers have to communicate the strategy and link it to departmental and individual objectives and this process can be achieved by aligning employees with overall strategy. Communicating and linking strategy needs the following activities [Kaplan & Norton, 2001b]: -

- Communicating to and educating the employees who have to execute the strategy and this activity can inform managers that long-term strategies are in place.

- Specifying the organisation's strategic objectives and measures must be translated into measures for the operating units and individuals.

- Linking rewards to scorecard measures in order to play a major role in the determination of incentive compensation plans.

Business planning: Many organisations are implementing change programmes, and these changes will result in diversity with several initiatives, which might affect achieving goals. Therefore, the balanced scorecard set of goals and measures will help managers to undertake and co-ordinate only the initiatives that move the organisation towards the long-term strategic objectives [Kaplan & Norton, 2001b].

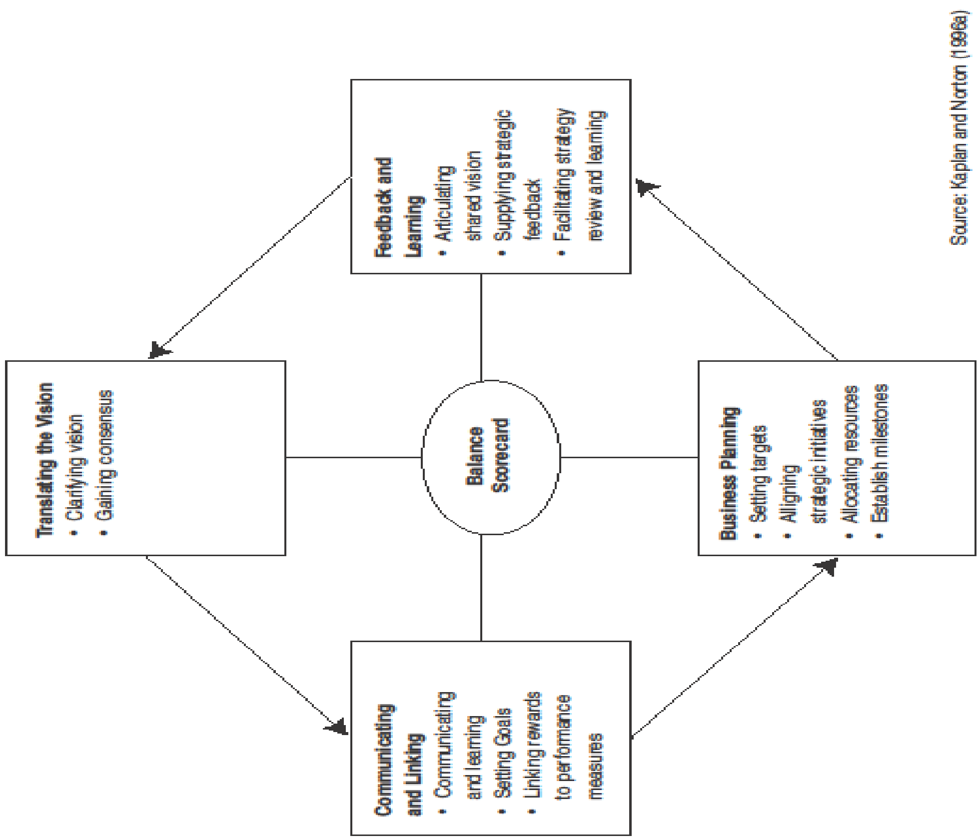
Feedback and learning: This process provides organisations with the feedback and review processes to evaluate whether departments or employees have met their budgeted financial targets [Kaplan & Norton, 2001b].

Kaplan & Norton [1996a] highlighted that the new management processes will individually and collectively contribute to the linkage between long-term strategic objectives and short-term actions. They also argued that the balanced scorecard approach is <u>not</u> primarily an evaluation method, but a strategic planning and communications device to provide guidance to divisional managers and to describe links among lagging and leading measures of financial and non-financial performance. Kaplan & Norton [1996b] added that this approach is not just a strategic measurement system but also a strategic control system that may be used to clarify and gain general agreement about the strategy; align divisional and personal objectives to strategy; link strategic objectives to long-term targets and budgets; identify and align strategic initiatives and obtain feedback to learn about and improve strategy [Kaplan & Norton, 1996a].

In the same vein, Amaratunga et al. [2001] has argued that the balanced scorecard approach is a strategic management system because it is efficient, effective and provides services to customers and employees. They also identified that a good balanced scorecard should tell the story of the organisational strategy by concentrating on the cause-and-effect relationships; performance drivers which represent a mix of lead and lag indicators and linking organisational objectives to financial indicators [Amaratunga et al, 2001].

Based on their argument that the balanced scorecard is considered a strategic management system, Kaplan & Norton [1996c] conducted a survey of management practices related to performance measurement and performance management systems at a conference in the United Kingdom. The survey was designed to explore how companies were currently managing the four components of a strategic management system. They received responses from more than one hundred managers supporting the idea that the balanced scorecard approach is a strategic management system. In the same context, Hepworth [1998] argued that successful implementation of this approach is based on its ability to communicate and align business strategy between the four perspectives. Kaplan & Norton [1997] stress that the balanced scorecard differs from other performance measurement systems in the way it describes strategy. Thus, a properly constructed balanced scorecard should describe the business unit's strategy which in turn is a set of hypotheses about cause-and-effect chains [Kaplan & Norton, 1997].

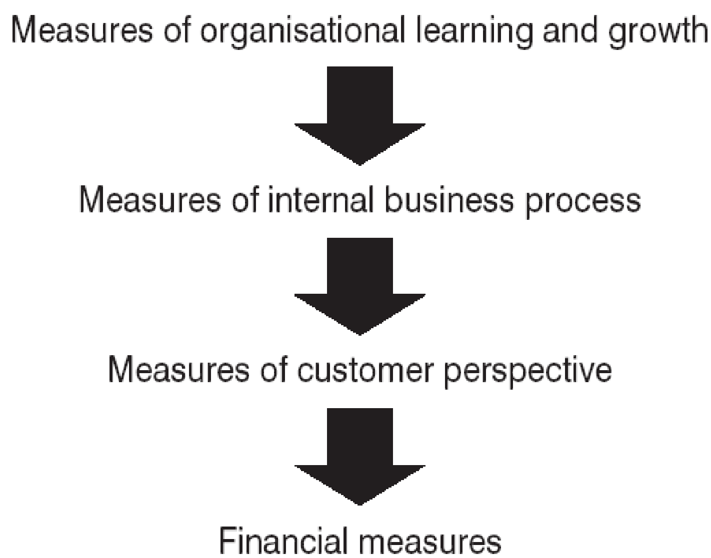
<u>Figure 3.3: - Managing Strategy</u>



3.3 THE CAUSE-&-EFFECT ASSUMPTION

In their later writings, Kaplan & Norton [1996a; 1996b; 1997] assume that the balanced scorecard is based on cause-and-effect relationships, in which the measures of organisational learning and growth are the drivers of the internal business processes. The measures of these processes are in turn the drivers of measures of customer perspective, while these are the driver of the financial perspective. They assume the following causal relationship, which can be seen in Figure 3.4.

Figure 3.4: - The Cause & Effect Assumption



Kaplan and Norton (1996b)

The assumption that there is a cause-and-effect relationship is necessary because it allows measurements in non-financial perspectives to be used to predict future financial performance. Kaplan & Norton [1996b] indicated that the chain of cause-and-effect relationships encompasses all four perspectives of the balanced scorecard, for example, return on common equity may be an outcome measure in the financial perspective. The driver of this measure could be an expansion of sales from existing customers. So, customers' loyalty could be a preference for on-time delivery. Thus, the improved on-time delivery is expected to lead to higher customer loyalty which in turn leads to higher financial performance. The on-time delivery is part of the internal business process perspective and to achieve it, the business needs to achieve short cycle time in operating processes which can be achieved by training employees.

In order to clarify the cause-and-effect relationships, Kaplan & Norton [2000] introduced the strategic map concept. This provides a visual representation of a company's objectives, and the crucial relationships among them that drive organisational performance. Strategy maps show the cause-and-effect links by which specific improvements create desired outcomes. It also shows how an organisation will convert its initiatives and resources into tangible outcomes [Kaplan & Norton, 2001c].

3.4 APPLICATIONS OF THE BALANCED SCORECARD APPROACH

Since its introduction in 1992, the balanced scorecard has attracted a great deal of interest as a new management accounting technique. This interest has been evidenced by the large number of publications in management journals and also in the number of seminars and workshops which have been devoted to it. Many researchers have focused on different aspects of the balanced scorecard, and this has provoked a considerable amount of argument and debate with researchers describing the balanced scorecard as a broad scope mechanism of financial and non-financial information [Epstein & Manzoni, 1998].

The volume of published literature on the balanced scorecard is vast and so the focus of this section is on the most relevant theoretical and empirical studies which have been undertaken.

Chenhall & Longfield-Smith [1998] conducted a research study which focused on investigating the extent to which Australian manufacturing companies adopted both recently developed management accounting practices and traditional practices. They discovered, through a sample of 78 organisations, that there were high adoption rates for using traditional financial performance measures such as budgets and return on investment. However, the balanced scorecard approach was included in the medium ranking adoption category [Chenall & Longfield-Smith, 1998].

Frigo & Krumwiede [1999] carried out a survey in the USA to examine the implementation levels of balanced scorecards, based on 132 responses from the Institute of Management Accountants' Cost Management Group Members & Executives. Their findings showed that 19% of the respondents reported that their companies were already balanced scorecard users and 18% indicated that their companies had begun to implement the balanced scorecard. Although 16% reported that their companies planned to use it in the future, 14% were still considering whether to implement the balanced scorecard and only 2% reported rejecting or abandoning the balanced scorecard.

Frigo & Krumwiede [1999] further discovered that large companies (in terms of both employees and annual sales) were using the balanced scorecard approach and that they also appeared to have higher quality information systems. They also asked respondents to rate the perspectives of their balanced scorecards. The financial perspective received the highest ratings - the customer, internal business processes and innovation perspectives showed lower ratings. Likewise, employee, supplier, information systems capability and environmental perspectives were rated less than Kaplan & Norton's four perspectives. Finally, Frigo & Krumwiede [1999] found weak linkages between the financial and non-financial perspectives for the non-balanced scorecard users whereas the balanced scorecard users reported considerably higher linkages between the perspectives.

Oliveras and Amat [2002] conducted an empirical survey on 254 companies in Spain, based on the assumptions lying behind the cause-and-effect of the perspectives of the balanced scorecard. The results of their study showed that there was a possible cause-effect relationship between the drivers of profitable company growth. The improvement in the internal business process perspective might have an impact on the satisfaction of customers, which would improve customer's loyalty leading to a growth in sales. Thus, more committed employees can stimulate a constant improvement in the business's internal processes. Finally, the findings of this study provide evidence regarding the possible cause-and-effect relationships between balanced scorecard perspectives. They concluded that the scorecard approach is deployed in differing organisations in Spain and is also a successful performance measurement system [Oliveras & Amat, 2002].

Giannetti et al. [2002] conducted a survey to investigate the integration process of both financial and non-financial performance measures in a sample of 39 Italian-based organisations. The analysis was based on whether or not the companies were using non-financial measures based on the balanced scorecard's perspectives [Giannetti et al. 2002].

Giannetti et al's [2002] analysis showed that the non-financial performance measures were generally used in management accounting systems in an integrated way with financial performance measures. However, only one company declared the balanced scorecard approach, while the remainder of the sample used an approach which included all of the balanced scorecard's perspectives, without declaring that they used this approach. The researchers explained their results by claiming that both Italian universities and consulting firms hadn't fully advocated the balanced scorecard approach, and although sampled companies were aware of its value, implementing a formal balanced scorecard systematically might imply or lead to changes within their organisations [Giannetti et al. 2002].

Braam et al. [2002] carried out a study to explore the ways in which the balanced scorecard approach was deployed in the Netherlands. The study revealed that since its launch in 1992, the balanced scorecard has enjoyed considerable attention from practioners and academics in the Netherlands. The study did not, however, support the notion of the actual use of this approach. Therefore, the researchers concluded that it would be necessary to conduct further empirical research in order to assess the usage of the balanced scorecard in the Netherlands.

Guenther & Gruening [2002] conducted a study to investigate the performance measurement systems utilised by 181 companies in Germany. The study looked at the use of performance measures and the development and establishment of those measures. Specifically, the researchers concentrated on how widely the performance measurement systems are used and the frameworks that were implemented by the companies. Moreover, the study looked at the types of performance measures and their relationship with strategy and incentive schemes. As a result, the findings of Guenther & Gruening's [2002] study showed that the balanced scorecard was the dominating framework used by the sample, and most of the companies used a self-developed performance measurement system based on the original balanced scorecard approach. However, the performance measurement systems have to be adjusted to the strategy, and incentive plans based on performance measurement frameworks should incorporate both financial and non-financial measures [Guenther & Gruening, 2002].

Nielson & Sorenson [2003] undertook a study to investigate the motives, diffusion and utilisation of the balanced scorecard approach in 53 Danish medium-sized and large manufacturing companies. The study aimed at investigating the extent to which the balanced scorecard practices were used following Kaplan & Norton's perspectives. They discovered that Denmark was still in the initial phase of implementing the balanced scorecard approach and that the level of knowledge of the balanced scorecard was about 82%, whereas only 17% gave priority to this approach. The study confirmed that the most critical factor for a successful balanced scorecard was the translation of strategy to operational terms [Nielson & Sorenson, 2003].

Epstein & Manzoni [1998] conducted a comparison study between the tableaux de bord and the balanced scorecard and indicated that the balanced scorecard was a better approach as the tableaux de bord measures were gathered internally inside the organisation rather than externally, and without collecting the measures from the organisation's strategy. Also, the researchers concluded that managers were using the tableaux de bord as a device to support management rather than using it interactively. They also highlighted that organisations can expect to encounter difficulties in implementing the balanced scorecard approach if top management can not articulate a clear view of their strategy. Also, developing this approach can create an additional workload for many people in the organisation and this may lead to resistance amongst the workforce. Furthermore, they suggested that organisations must pay more attention about linking the balanced scorecard to salary rewards. Finally, they emphasised that the balanced scorecard represented a good approach to both theory and practice.

Bourguignon et al. [2004] undertook a comparison study between the balanced scorecard and the tableaux de bord based on literature reviews. The research investigated whether the underpinning ideological assumptions of the two approaches could explain or reflect the wider ideologies of American and French society. They concluded that the main differences between the two approaches may be explained in terms of ideological assumptions, which means that the two approaches are consistent with the dominant ideologies in their countries of origin [Bourguignon et al. 2004]. In addition, they also reviewed the similarities and differences between the two approaches (see Table 3.1).

Table 3.1: - Differences & Similarities between the Balanced Scorecard & the Tableaux de Bord

	Balanced Scorecard	**Tableaux de bord**
Differences	• Uses Michael Porter's strategic model. • Assumes cause-and-effect relations between measures. • A hierarchical top-down process from top management to lower levels. • Encourages linking rewards to performance measures. • A fashionable method without a tradition.	• Does not explicitly rely on specific strategic model. • Does not assume any systematic link between measures. • The deployment depends on the interaction and negotiation between the various levels. • Has no emphasis on linking rewards to performance measures. • Depends on a tradition for using, changing & developing concept.
Similarities	• Both approaches link top management strategic decisions to the actions of employees. • Both approaches use non-financial performance measurements for anticipation & control.	

Source: Bourguignon et al. [2004]

Table 3.1 shows the main differences between the two approaches and how they relate to the strategic model and the underlying assumptions applicable to each approach. In contrast, the similarities concentrated on the importance of both approaches to the management of strategic decisions and the emphasis placed on using non-financial measures [Bourguignon et al. 2004].

Otley [1999] advocated a framework for the operation of a management control system that focused on the measurement of organisational performance. He also examined three major systems of organisational control (budgeting, economic value added and the balanced scorecard) from different perspectives (i.e. objectives, strategies, targets, rewards and feedback). The results of this study are summarised in Table 3.2.

Otley [1999] analysed the balanced scorecard in terms of its advantages and disadvantages and concluded that it is a stakeholder approach and is enhanced by the incorporation of other perspectives. He also emphasised that little guidance is given in the literature about the linkages between the four perspectives and the reward system and that more concentration should be given to setting targets in the balanced scorecard. Finally, Otley [1999] indicated that no single control technique has been developed to meet the issues outlined in Table 3.2 and that the balanced scorecard should be used by organisations simultaneously with other control systems [Otley, 1999].

Wongrassamee et al. [2003] conducted research into the similarities and differences between the EFQM excellence model and the balanced scorecard and based the research on the key sets of issues expressed by Otley [1999]. The analysis of both models based on five central areas of management control systems showed that neither of them gave a clear answer to Otley's questions, but this doesn't mean that both models are insufficient (see Table 3.3). Both models are quite similar with the only difference being that the key objectives in the EFQM are assigned on the principles of total quality management, whereas the key objectives in the balanced scorecard are based on strategy.

Norreklit [2000] investigated the extent to which there is a cause-and-effect relationship among the four perspectives of the balanced scorecard. He also investigated whether the balanced scorecard could link strategy to performance metrics by analysing the assumptions and relationships of the balanced scorecard. The research used an analytical tool to answer the research questions and the theory of science to investigate the cause-and-effect relationships [Norreklit, 2000].

Table 3.2: - Comparison of the Three Control Techniques

Question	Budgetary Control	Economic Value Added (EVA)	Balanced Scorecard
Objectives	Financial objectives: • Profit • Cash flow • ROCE	Single financial objective.	Multiple objectives based on strategy.
Strategies & plans	Means/end relationships not formally considered although budget is based on a plan of action.	Delegated to responsible managers, may be considered when setting targets.	Implicit in selecting some performance measures; no formal procedures suggested.
Targets	Best estimates for financial planning; literature on target setting gives some guidelines for control.	Some guidance is given with respect to inheritance effect.	Not considered, despite being central to balance.
Rewards	Not addressed, despite many rewards now being made contingent on budget achievement.	Appropriate incentive schemes a central part of the methodology.	Not addressed.
Feedback	Short-term feedback of budget variances, incremental budgeting from year to year.	Some discussion of longer-term impact.	Reporting of performance assumed, but no explicit guidance given.

Source: Otley [1999, p.378]

Norreklit [2000] argued that the four perspectives are interdependent, and there was a time lag between cause-and-effect relationships, and the time dimension was not part of the scorecard. The analysis showed that the causality claimed between perspectives was problematic and made invalid assumptions, and that there is not a causal but rather a logical relationship between the four perspectives. Moreover, the research investigated whether the balanced scorecard approach was a strategic control tool. The analysis showed that this approach was not a valid strategic management tool because it had a problem of ensuring organisational and environmental issues were incorporated.

Table 3.3: - Comparison between the Balanced Scorecard & the EFQM Excellence Model

Question	**Excellence model**	**Balanced scorecard**
1) Objectives	Multiple objectives based on TQM principles, and emphasises nine areas: - Leadership - People management - Policy & strategy implementation - Resources management - Process management - People satisfaction - Customer satisfaction - Impact on society; and - Business results	Multiple objectives based on strategy, and emphasise four generic areas: - Financial - Customer - Internal business processes; and - Innovation & learning
2) Strategies & plans	Not particularly addressed, but all weighted criteria and weighted sub-criteria can be used as guidance.	Assign strategic measures. Uses strategy map to connect each measure to strategy.
3) Targets	None specific. Management can set their expected performance levels.	Not addressed. Due to non-perspective template, managers are required to assign target performance levels.
4) Rewards	Requires an appropriate reward and recognition system, but no explicit guidance given.	Suggests that individual compensation system should be linked to strategic measures.
5) Feedback	Not mentioned. However, the model itself provides feedback information as a default of the assessment method.	Requires double-loop learning which is more complicated than single-loop feedback.

Source: Wongrassamee et al. [2003, p.24]

Norreklit [2000] suggested several issues to reduce the problems of his approach. Instead of causality, it may be useful to establish coherence between measures. Further theoretical consideration and advanced analysis about the relationships between the four perspectives and coherence analysis to the level of strategy formulation is also needed [Norreklit, 2000].

Malmi [2001] studied how the balanced scorecard approach was applied in Finland and why companies adopted this approach. He also investigated whether the balanced scorecard approach was used as an improved performance measurement system or as a strategic management system. The sample consisted of 17 semi-structured interviews with companies and observed that 15 companies used the four perspectives of the balanced scorecard and two companies added a fifth which was an employee perspective. Noticeably, the interviews showed that the measures used in the sample were derived from business strategy. The number of measures in the balanced scorecard varied from four and twenty five among the sample [Malmi, 2001].

Malmi [2001] identified that there were several reasons for implementing the balanced scorecard approach in Finland. Malmi [2001] identified that several companies used this approach to translate strategy into action and that quality programmes required implementing the balanced scorecard approach. Several companies implemented the balanced scorecard as a new management fashion and to also support innovation and change. Malmi [2001] also identified inadequacies in traditional performance measures as being one of the reasons why the balanced scorecard was being implemented.

Malmi [2001] reported that this approach was applied in two different ways. Most organisations set targets for balanced scorecard measures and held managers accountable for achieving these measures. Other companies did not set targets for the measures, but used the scorecard as an information system. For most companies, it appears that the balanced scorecard was developed independently of the budget process. More specifically, control by budgets has changed to control by balanced scorecard in two companies. Finally, Malmi [2001] suggested that the measurement system should reflect strategy and should use the perspectives of the balanced scorecard irrespective of whether they are the original four or more or less. Also, the measurement system should use cause-and-effect relationships between the perspectives [Malmi, 2001].

Speckbacher et al. [2003] developed a new theoretical framework to analyse the spread, implementation and benefits of three types of balanced scorecard. A type one balanced scorecard is a specific multidimensional framework for strategic performance measurement that combines financial and non-financial strategic measures. A type two balanced scorecard is a type one that additionally describes strategy by using cause-and-effect relationships. A type three balanced scorecard is a type two that also implements strategy by defining objectives, action plans, results and connecting incentives with the balanced scorecard [Speckbacher et al. 2003].

The researchers conducted a survey on 201 companies in the German-speaking countries to investigate the application of the balanced scorecard. The results of the study based on 174 responses showed that 26% of the companies had implemented the balanced scorecard. Half of these were type one balanced scorecard's, 21% were type two and the remaining 29% qualified as type three organisations. Moreover, 26% of the sample had a very basic balanced scorecard in use. In particular, a third of balanced scorecard users had no learning and growth perspective, and nearly one-fifth of the companies had established additional perspectives such as supplier and environment perspectives. Interestingly, more than two thirds of the users linked their reward system to the balanced scorecard, which suggested that many firms did not see cause-and-effect relationships as a prerequisite for a balanced scorecard-based reward system. Less than 7% of all firms had fully developed type three balanced scorecard's in use. Additionally, Speckbacher et al. [2003] found that 55% of the companies were implementing the balanced scorecard at the corporate level, 98% at the business level, 23% at the plant level, 23% at the department level, 10% at the team level and only 3% at the employee level. The researchers also found that larger organisations were more likely to use the balanced scorecard, but organisation size did not discriminate between the types of balanced scorecard used. Finally, the analysis of the relationship between the types and the companies' perceived benefits and satisfaction showed that companies implementing a type three balanced scorecard were more satisfied with their balanced scorecard than those implementing type one or type two balanced scorecards [Speckbacher, 2003].

Malina & Selto [2001] performed a case study on a large international manufacturing company to investigate the effectiveness of the balanced scorecard as a strategy communication and management control device. Semi-structured interviews were used to gather data from balanced scorecard designers, administrators and managers. They discovered that the balanced scorecard provided an opportunity to develop, communicate and implement strategy. Evidence was also found of an indirect relationship between the balanced scorecard's management control function and improved performance on balanced scorecard measures. Moreover, divisional managers responded positively to its measures by reorganising resources and activities. Managers in the sample believed in the balanced scorecard when its elements are measured effectively and aligned with strategy; it plays a major role in change; its perspectives are linked causally and it provides a guide for modifications and improvements [Malina & Selto, 2001].

Furthermore, Malina & Selto [2001] identified that there were different factors which may affect perceptions of the balanced scorecard that cause conflict and tension between organisations and distributors. These factors are: 1) when measures are inaccurate or subjective, 2) when the balanced scorecard is not participative, and 3) when benchmarks are inappropriate but used for evaluation [Malina & Selto, 2001].

Lipe & Salterio [2000] undertook a study which attempted to understand the relationship between the balanced scorecard measures and management evaluation by examining the effect of the balanced scorecard as a set of common and unique indicators on top management evaluations of the unit's performance. Moreover, the balanced scorecard was costly to develop and therefore the researchers suggested that the benefits gained from adopting this approach depend on the extent to which it improves managers' decisions. They also examined how managers deal with both performance measures common to multiple divisions and unique performance measures for particular divisions. The sample consisted of two divisions of a clothing company which was in the process of implementing the balanced scorecard. The divisions sold to different markets and had differing business strategies. The results of the study suggested that common performance measures would have more effect on managers' decisions about a division's performance than the unique performance measures [Lipe & Salterio, 2000]. The researchers concluded that the divisions would not expect any benefits from adopting this approach [Lipe & Salterio, 2000].

Lipe & Salterio [2002] extended their 2000 study by investigating whether evaluations using the balanced scorecard would differ from evaluations based upon the same measures without using the balanced scorecard. The results showed that when multiple performance measures within a balanced scorecard approach show consistent performance, managers' evaluation judgements are reliably different from evaluations made using the same performance measures without the balanced scorecard approach. These judgement differences disappeared when the measures indicating strong performance were distributed throughout the four perspectives of the balanced scorecard.

Consequently, Lipe & Salterio's results suggest that managers may pay insufficient attention to leading and non-financial measures. This defeats the purpose of implementing the balanced scorecard, which is to expand the set of measures that managers use in decision making. If the unique measures on the scorecard do not affect manager's decisions, firms will not reap the expected benefits of balanced scorecard adoption [Lipe & Salterio, 2002].

Hoque & James [2000] conducted research into the relationship between balanced scorecard usage and organisation size, product life-cycle and strength of market share. The study also explored the contingent relationship between organisational performance and the match between balanced scorecard usage and the three contextual factors. They surveyed 66 Australian manufacturing companies and did not identify the strategic linkages of the balanced scorecard. Instead they concentrated on the company's tendency to use quantitative performance measures. The hypotheses of the study were: -

- Balanced scorecard usage is positively associated with large organisations and with company's products at the growth stage and companies with strong market positions.

- The effect of balanced scorecard reliance on organisational performance will be more beneficial for large organisations than small organisations.

- The effect of balanced scorecard reliance on organisational performance will be more beneficial for organisations with products for the growth stage than the maturity stage.

- The effect of balanced scorecard reliance on organisational performance will be more beneficial for organisations with strong market position than weak market position.

The study concluded that there was a significant association between size and balanced scorecard and also between product life-cycle and the usage of the balanced scorecard. However, there was no support for the association between strong market position and the balanced scorecard. Finally, balanced scorecard usage was associated with increased organisational performance, but this relationship did not depend on the fit between the three contextual factors [Hoque & James, 2000].

The Financial Executives International Research Foundation (FEI) commissioned a study to identify characteristics of companies that could benefit from employing the balanced scorecard, as well as to investigate scorecard practices that provide a competitive advantage. The study had four core objectives: to present factors that affect the satisfaction of chief financial officers with their performance measures; to identify characteristics of balanced scorecard users and non-users; to describe successful balanced scorecard user practices and contrast them with practices of non-users; and to examine the practices of four leading firms in the development of their balanced scorecard [Moriarty, 2001].

The results of this study enabled the research team to "put a face" on features that foster the development of an effective balanced scorecard. These features include culture, non-financial information, linkage and implementation of the balanced scorecard, effects on key constituents and change management and the balanced scorecard [Moriarty, 2001].

The research team obtained 173 responses, which formed the basis for the analysis. Respondent companies had average assets of $6 billion, average annual sales of $3.7 billion, average annual net income of $200 million and 23,340 employees. The research team organised the results into three groups: satisfaction with performance measures; characteristics of balanced scorecard users; and balanced scorecard impact on organisational practices [Moriarty, 2001].

The most interesting results emanate from the section on satisfaction with performance measures. Of those respondents using the balanced scorecard, 55 per cent were satisfied, while 12 per cent were not satisfied. This stands in contrast to users of all performance measurement systems: the research discovered that only 29 per cent of all respondents were satisfied with their current measurement system [Moriarty, 2001].

Lawrie & Cobbald [2004] describe the changes to the definition of the balanced scorecard which have occurred since its inception in the early 1990s. These changes have resulted in three distinct generations of the balanced scorecard They concluded that in order to minimise risk of failure and avoid constraining and inflexible applications that merely serve as elaborate performance reporting systems as opposed to strategic management systems, balanced scorecard application needs to reflect ideas of information asymmetry and the understanding of strategic control processes within organisations.

Assiri et al. [2006] identified a comprehensive set of potential determinants influencing the successful implementation of the balanced scorecard through an extensive literature review and also an exploratory global survey of 103 organisations in 25 countries that had already implemented or were in the process of implementing the balanced scorecard. They concluded that a series of critical success factors must be carefully considered to ensure successful implementation of the balanced scorecard. In addition, when constructing the balanced scorecard implementation model, consideration must be given to structuring it to be as practical as possible.

Atkinson [2006] researched the role of the balanced scorecard in strategy implementation and concluded that the balanced scorecard could address the key problems associated with strategy implementation including communication, the role of middle managers and integration with existing control systems.

Gao [2006] critically analyses the use of balanced scorecards in not-for-profit health care organisations and concludes that the health of the patients is not as central as it should be in the development of the balanced scorecard.

3.5 APPLICATIONS OF THE BALANCED SCORECARD IN HOSPITALITY

A diverse range of research documenting the application of the balanced scorecard in differing industrial and public service contexts, for example health [Wachtel et al. 1999], education [Lawrence & Sharma, 2002], banking [Littler et al. 2000], retailing [Thomas et al. 1999] and local government [Kloot & Martin, 2000], has been reported yet the balanced scorecard has been scarcely applied within the hospitality industry [Donselaar et al. 1998; Gunasekaran et al. 2001].

Brander-Brown & McDonnell [1995] focused their research on one property in the south of England and identified that a scorecard for an individual hotel would be likely to vary from a scorecard for a group of hotels. The research also concluded that the measures would need to be continually reviewed in order to retain their relevance and that components might need to be prioritised [Brander-Brown & McDonnell, 1995].

Huckestein & Duboff [1999] reported on the experiences of Hilton franchisee White Lodging Services in implementing the balanced scorecard. They discovered that the balanced scorecard was a generally useful tool, in that it brought together previously disparate measures of performance into a coherent model. The research pointed to the implementation of the balanced scorecard as having been successful in reinforcing a coherent business culture, which is seen as vital in a business with so many separate operating units and with volatility in its personnel. Other benefits identified included encouraging managers to focus on both short-term and long-term measures, rewarding teamwork and allowing best practices and strategic information to be shared.

Denton & White [2000] conducted research in conjunction with White Lodging Services Corporation. This hotel company comprises Marriott franchises and began to develop its balanced scorecard in 1997 in order to monitor performance at the property and corporate level and thus to ensure that owners' long-term objectives were being satisfied. White Lodging Services developed their scorecard with the following characteristics: 1) The scorecard tracks financial performance; 2) It tracks non-financial measures that are important for long-term growth and value creation; 3) It communicates owners' objectives for growth, profitability, and physical maintenance; 4) It is simple to monitor; and 5) It is easy for operating managers to understand and accept.

The organisation decided to use initially a single measure for each of the four perspectives so that managers could concentrate their efforts on the single most important variables. The management team also agreed that the scorecard could be modified to incorporate multiple measurements at a later date if appropriate [Denton & White, 2000].

During the first two years of the balanced scorecard rubric, White Lodging Services recorded performance improvements in several areas. In addition to a number of quantitative improvements in revenue and profitability, managers and owners achieved a greater level of alignment of objectives than before. Property managers have a higher level of understanding of owners' long-term expectations than previously, and owners have received valuable feedback regarding the resources and processes needed to enable managers to achieve those objectives [Denton & White, 2000].

Property managers also commonly observed that by tying performance measurement to the scorecard objectives, the focus on non-financial measurements extends beyond property managers to corporate executives and owners. This corporate-wide alignment of objectives enables property managers to recommend and pursue long-term investments. In this way, the scorecard is creating the infrastructure that permits long-term goals and ownership objectives [Denton & White, 2000].

Atkinson & Brander-Brown [2001] in a study of UK hotels reported that such hotels predominantly focus on financial performance dimensions and also on the short-term, with little strategic use of the information. Two explanations for such a short-term financial orientation were offered [Atkinson & Brander Brown, 2001]: -

1. That increasing corporate ownership of hotels leads investors to set demanding financial targets whilst paying little attention to the processes driving the results; and

2. That many senior managers promoted from operational roles consequently tend to focus on “real-time operational control rather than future-orientated strategic intent”.

Harris & Mongiello [2001] examined the range of performance measurement concepts available to managers and identified the key indicators that hotel managers find useful in managing their businesses, acknowledging the value of the balanced scorecard.

Doran et al. [2002] studied San Diego hoteliers and identified both the perceived benefits and the potential pitfalls of implementing the balanced scorecard. Whilst noting the reported successes of Hilton and White Lodging Services, they suggested that such success may owe a great deal too both organisations unique circumstances and that the balanced scorecard approach should be modified to take into account individual circumstances.

Evans [2005] surveyed hotels in Northeast England in order to assess the usefulness of the balanced scorecard and concluded that a wide variety of measures were being used and that many hoteliers were using measures from all four of the category groupings identified in the balanced scorecard framework. The research also concluded that the strategy literature relating to travel and tourism and the hospitality sectors is somewhat weak but a limited literature applying the balanced scorecard in a hospitality context has developed [Evans, 2005].

Phillips [2006] studied the implementation of the balanced scorecard in a major UK hotel company over a three year period. The company successfully implemented the balanced scorecard using employee satisfaction, customer satisfaction, financial attainment against budget and strategic financial performance as its perspectives [Phillips, 2006].

He discovered that the balanced scorecard operates from the corporate level down to the hotel department level with senior management wishing to align the organisational objectives. Benchmarking among the hotel units takes place monthly and a three colour coding scheme is used to help employees assimilate and quickly interpret performance. Hotel managers aspire to be operating with green lights and this means meeting or beating targets. A yellow light shows better than last year but below target. Best practice is quickly identified and interventions are used to turn around underperforming ‘red light’ units, which have unsuccessfully implemented their balanced scorecard [Phillips, 2006].

Min et al. [2008] developed a balanced scorecard for measuring the comparative efficiency of Korean luxury hotels. The study also set the benchmark of performance standards for Korean luxury hotels through primary research from six hotel chains. The research utilised Data Envelopment Analysis (DEA) to develop performance measures for hotels under the balanced scorecard framework and concluded that the proposed DEA could be modified or extended to similar settings in other hotels or other countries.

Min et al. [2008] concluded that the proposed DEA model not only helps hotel management establish detailed business strategies in prioritising the use of limited resources, but also helps them evaluate the effects of investment on the revenue growth and profitability of hotels. The proposed DEA model also allows hotels to continue to improve their financial health and enhance their competitiveness as the model assists management in identifying areas of weakness.

Eaglen et al. [2000b] used McDonald’s Restaurants as a case study by exploring the training provision in two clusters of establishments. The restaurants were selected against the company’s own internal monitoring criteria to be better than average or worse than average trainers. The research used a balanced scorecard approach and concluded that restaurants with a better training approach recorded higher levels of both customer and employee satisfaction. The restaurants also had lower levels of staff turnover and a more flexible workforce with training shown to positively impact on employee productivity

Malone [1995] conducted research into the design and implementation of performance management systems in the UK brewing industry. He used Bass Taverns as a case study and identified a number of characteristics associated with the design and implementation of a performance measurement system. Malone concluded that performance measurement systems should be viewed as a management control tool that should support corporate objectives and that the systems should be well communicated and understood throughout the organisation. He also concluded that for performance measures to be of any value, the company must firstly identify a range of standards in order to measure and evaluate current performance. The research also identified that the design and implementation of performance measurement systems had a number of reasons for failure, which all must be identified and understood by any company adopting a performance measurement system.

He further advocated the balanced scorecard as a means to overcome many of the issues associated with the development and implementation of a performance measurement system as it provides a complete and balanced picture of the business issues that determine long-term success. His research into the role of performance measurement systems within Bass Taverns concluded that [Malone, 1995]: -

1. Financial performance measures were predominantly used for wet and dry operations in contrast to the performance measurement revolution, which advocated the need for a fine balance between financial and non-financial performance measures.

2. Performance measurement systems should be derived from an organisation's business strategy. Individual business units that use no strategy have no guidance on the overall business aims of the company and can therefore ultimately set performance measurement systems that are working towards individual goals rather than company specific goals.

3. Corporate and non-corporate personnel are using differing financial and operational performance measures. This could suggest that personnel are working towards different goals, which could be personal rather than company specific.

4. The Regional Business Managers all agreed that certain systems could be transposed from the wet side to the dry side of the business and that a standardised approach would ensure that all of its pubs were striving towards the same goals.

5. None of the licensees questioned were using a balanced scorecard but 71% of the Regional Business Managers claimed to be using it. This also suggests that the two levels of personnel could be working towards separate business goals.

Table 3.4: - Measures of Stakeholder Benefits

STAKEHOLDER	SUGGESTED MEASURES
Retailer	Sales growth Profit growth Food business growth Cost reduction Higher sales per staff member Higher transaction value Improved relationship with company Improved business value
Customers	Increased satisfaction More repeats Fewer complaints
Company	Increased sales Reduced turnover of retailers Increased profits Rental growth Increased purchasing power Improved relationships with retailers
Staff	Reduced staff turnover Increased staff satisfaction Fewer days absence

Rowson & Lashley [2007] surveyed 50 licensed retailers who had attended a PubCo's training programme. The research adopted a 'stakeholder' model for measuring and evaluating the impact of the training programme on business performance. They used a balanced scorecard approach to measure and evaluate the benefits of the training course and the research concluded that the majority of delegates saw significant benefits to the sales and profitability of their businesses after attending the training.

Table 3.4 includes measures applied by Rowson & Lashley [2007] to identify the benefits to the lessee retailer, customers, the company and staff.

It is clear that the volume of research conducted on the balanced scorecard within the hospitality context is very limited. Nevertheless, several hospitality organisations have begun to use the balanced scorecard of late. For example Mitchells & Butlers plc and Greene King plc have developed and implemented balanced scorecards within their managed public house estates [Publican, 2006b].

3.6 EVALUATING THE BALANCED SCORECARD

3.6.1 BENEFITS OF THE BALANCED SCORECARD

As this chapter has shown, there are many benefits attributed to the use of the balanced scorecard approach. These can be summarised as follows: -

- The balanced scorecard collects in a single report many of the seemingly disparate components of a company's competitive agenda and therefore satisfies several managerial needs, for example, directing managers' actions towards the achievement of long-term objectives [Kaplan & Norton, 1992].

- The approach provides a comprehensive framework for translating a company's strategic goals into a coherent set of performance measures by developing the major goals for the four perspectives and then translating these goals into specific measures.

- The balanced scorecard approach helps managers to consider all the important operational measures together. The scorecard lets managers see whether improvements in one area may have been at the expense of another.

- The approach improves communications within the organisation through making organisational strategy current and highly visible and by promoting the active formulation and implementation of business strategies [Kaplan & Norton, 1996a].

- The approach provides the organisation with an opportunity to clarify and update its strategy as well as conduct periodic performance reviews in order to improve strategy [Kaplan & Norton, 1996a].

- The approach avoids the many dysfunctional consequences encouraged by traditional financial performance measures by advocating a broad range of performance indicators [Kaplan & Norton, 1993].

- The balanced scorecard can also be deployed by non-profit organisations which like it because it isn't purely financial. The balanced scorecard has enabled non-profit organisations to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they require for future growth [Kaplan & Norton, 1992].

- The balanced scorecard guards against suboptimisation as it forces senior managers to consider all the important operational measures together. The scorecard lets senior managers see whether improvement in one area may have been achieved at the expense of another [Kaplan & Norton, 1992].

3.6.2 WEAKNESSES OF THE BALANCED SCORECARD

This chapter has further identified that there are many weaknesses to the use of the balanced scorecard approach. These can be summarised as follows: -

- The balanced scorecard concentrates on four perspectives. However, several organisations may be affected by the environment and competitors and therefore more perspectives should be considered [Lewis, 2005b].

- Kaplan & Norton's analysis showed that organisations implement this approach in order to face the intensive global competition. In contrast, the level of competition may differ between organisations. Therefore, the adoption of the balanced scorecard is likely to vary between organisations.

- The balanced scorecard approach neglects setting performance targets for the perspectives. Otley [1999] suggested that incorporating performance targets should be considered when implementing this approach.

- The cause-and-effect assumption has been introduced in a simplistic way, and the drivers that cause the effects on performance are varied. Therefore, this assumption requires a trade-off among the drivers and the relationship between non-financial and financial measures needs further investigation.

- Lewis [2005b] argues that the balanced scorecard does not give enough weight to the financial aspect of the business and that it lacks all other measurements, including competitiveness, employee satisfaction and supplier performance. It also doesn't measure quality, cost and flexibility within the data analysed.

- Lewis [2005b] also argues that the balanced scorecard is limited by considering the perspectives of only two stakeholders: the shareholder and the customer. The "performance prism" is cited as an alternative as it takes in the perspectives of other stakeholders i.e. employees, suppliers and pressure groups.

- The balanced scorecard can only be implemented successfully if the cultural change is right and that the new sets of indicators are accepted and communicated throughout the organisation. This is difficult, particularly in an organisation where different business units have been using their own systems [Thomas, 2004].

- A scorecard could take one year or even longer to develop and it must also be constantly updated therefore requiring a great amount of time and resources in order to keep it effective [Morgan, 1998].

- Measures can also be difficult to quantify and the approach can lead to too many measures as many organisations fail to devise appropriate metrics and to measure what is easy to measure rather than what is useful to measure [Thomas, 2004].

- Some organisations have a tendency to hurry and identify many measures, hoping that a few good ones in the group will “stick”. The problem with this approach is that the value of information generated is limited, and the burden of data collection and recording can quickly become overwhelming [Rohm, 2002].

- Having put a balanced scorecard in place, a surprising number of organisations then fail to act on its findings. This is a phenomenon described by The Cranfield School of Management as “drowning in data” [Thomas, 2004].

- Another weakness is what is known as the “strategy gap” – the fact that, over time, indicators may slip out of phase with corporate strategy. It is therefore essential that key individuals take responsibility for their own portfolio of Key Performance Indicator’s, amending them in line with the wider issues [Thomas, 2004].

- The balanced scorecard is primarily designed to provide senior managers with an overall view of performance and is constructed as a monitoring and controlling tool rather than an improvement tool [Ghalayini et al. 1997].

- The balanced scorecard provides little guidance on how the appropriate measures can be identified, introduced and ultimately used to manage business [Neely et al. 2000].

- It is argued that the scorecard’s claims to support interactive control and “double-loop learning” seem to be somewhat at odds with the rather hierarchical top-down approach thus far associated with balanced scorecard development, thus making it unsuitable for dynamic and fast changing environments [Goold & Quinn, 1990].

3.7 HOSPITALITY ORGANISATIONS USING THE SCORECARD

The balanced scorecard has become popular since its inception with both American and European companies adopting the approach. It has been deployed by more than 80 per cent of large US companies along with many government departments [Lester, 2004]. This figure can be contrasted to the results of a survey from Hackett Benchmarking Solutions in 1999 which concluded that 50 per cent of the 1,400 global businesses surveyed applied some form of the balanced scorecard approach [Littlewood, 1999].

The scorecard has also become popular with UK-based organisations and in 2005, it was claimed that the scorecard had been adopted by 44 per cent of the UK's FTSE 100 companies [Geary, 2005].

Lester [2004] acknowledged that the proportion of users in Europe is lower but predicted that the numbers would grow substantially and that there is no sign of a peak. He conducted extensive secondary research into the balanced scorecard and identified several organisations who had adopted the approach. These organisations are shown in Table 3.5 and cover a variety of sectors, including hospitality and leisure.

3.7.1 GREENE KING

Greene King has recently begun to use the balanced scorecard and has named it 'Excellence Every Time' [Publican, 2006b]. A letter was subsequently sent to Greene King (see Appendix 24) on two occasions to request information on its balanced scorecard but no response was received.

3.7.2 HILTON HOTELS CORPORATION

Hilton Hotels Corporation has developed a balanced scorecard in conjunction with CorVu, an organisation which develops and markets performance management software products. Hilton has subsequently claimed that its balanced scorecard has enabled it to achieve the highest operating margins versus its compeitors [CorVu, 2000].

A letter was sent to Hilton (see Appendix 24) on two occasions to request information on its balanced scorecard but no response was received.

Table 3.5: - Typical Organisations using the Balanced Scorecard

Industry Sector	**Company/Organisation**
Banking	Barclays; Lloyds TSB; NatWest; Leeds & Holbeck Building Society; Norwich Union
Consumer Goods	United Biscuits; Remy Cointreau; Vodafone
Government	Highways Agency; MoD; Barking & Dagenham Council
Health	National Health Service
Industrials	BP; Mobil Oil
Leisure	Mitchells & Butlers; Hilton Hotels Corporation; Greene King Pub Company; InterContinental Hotels Group
Media	BBC
Retailing	Tesco
Services	Price Waterhouse Coopers; Coopers & Lybrand
Transport	Volkswagen; Parcelforce
Utilities	BNFL; AWG; BT

Source: Refer to Appendix 20

3.7.3 INTERCONTINENTAL HOTELS GROUP

The InterContinental Hotels Group (IHG) uses the balanced scorecard extensively within its international hotel portfolio and an example can be seen in Appendix 22.

A letter was sent to IHG (refer to Appendix 24) to request information on its balanced scorecard and the following response (see Appendix 28) was received from Catherine Gordon (Director of Performance & Business Intelligence EMEA) who explained how it had implemented a number of balanced scorecards to measure its performance: -

"We use several scorecards. I work for the EMEA division and can talk about two specific scorecards that I am involved with.

A Brand scorecard tracks the performance and health of our brands. As such we exclude new and discontinued properties from the analysis so we can concentrate on the actual performance of the core properties that can represent the health and performance of the brands overall. The measures that we use are consolidated on a global, regional, and key market basis so we can identify performance issues and diagnose causes. We look at Year-on-Year performance and trended data – the scorecard is very visual and easy to understand at a glance, however, essential is the commentary that accompanies the visual. This scorecard is used by the Brand Management and Marketing functions primarily, but it is still useful to operators as at a key market basis it can reveal interesting trends and performances.

We also have a more Operational/Finance scorecard, which is regional in its focus (EMEA) and concentrates on key countries. Key operators use the scorecard to keep divisional performance on target – focusing largely on financial metrics and using a combination of comparable and total business. Again there is a detailed commentary, and a traffic light system summary to show where we are ahead and behind budget and draw attention to key variances.

The main body of the scorecard uses graphs and tables. We track performance against last year, against budget, and probably most importantly where data exists against our key competitors. This is essential. If a market is buoyant, we may be beating our budget and last year's performance, but if we are not performing as well as our competitors then we can diagnose any issues to improve performance".

3.7.4 MITCHELLS & BUTLERS

Mitchells & Butlers uses the balanced scorecard within its pub and restaurant operations and an example can be seen in Appendix 23.

A letter was sent to Mitchells & Butlers (see Appendix 24) on two occasions to request additional information on its balanced scorecard but no response was received.

CHAPTER SUMMARY

During the 1980s and the early 1990s, managers began to reject the traditional financial and accounting measures as many commentators had argued that these were developed for regulatory and financial reporting requirements rather than to run businesses [Williams et al, 1994].

During this period, managers observed that successful companies in Europe and the Far East seemed to place less reliance on narrow financial criteria and a combination of these factors evoked a call for “new” methods of assessing performance [Letza, 1996].

In response to this need, Kaplan and Norton [1992] developed the balanced scorecard as a set of performance measures to provide managers with a comprehensive view of the organisation, reliable feedback for management control purposes and performance evaluation.

The balanced scorecard consists of two types of performance measures. The first are financial measures to describe the past actions. The second are non-financial measures on customer satisfaction, internal business processes, and innovation and improvement activities [Kaplan & Norton, 1992]. Kaplan & Norton [1996c] indicated that the measures of this approach represent a balance between external measures for shareholders and customers, and internal measures for critical business processes, innovation and learning and growth. These measures are balanced between the outcome measures and the measures that drive future performance [Kaplan & Norton, 1992].

The measures relating to the customer perspective require managers to translate their general mission statement on customer and market segments into specific measures that reflect the factors that really matter to customers [Kaplan & Norton, 1992]. The measures relating to the internal business process perspective are related to the critical internal processes for which the organisation must excel to implement strategy. The measures relating to the learning and growth/innovation perspective are concerned with building continuous improvement in relation to products and processes, and to also create long-term growth. The measures relating to the financial perspective are based on financial metrics such as return on investment, and residual income [Kaplan & Norton, 1992].

The balanced scorecard can be applied to both profit and non-profit organisations and according to Kaplan and Norton [1996c], it is most successful when it is used to drive the process of change.

Kaplan and Norton [1996] identify four major steps in implementing a balanced scorecard: 1) clarifying and translating the vision and strategy, 2) communicating and linking, 3) planning and target setting, and 4) strategic feedback and learning.

Rohm [2002] advocated a six-step framework for building a balanced scorecard, with an additional three steps required to implement the scorecard. At the end of the first six steps, the high-level corporate scorecard is developed and forms the basis for subsequent scorecard development.

It can take two to four months to build a scorecard system. The drivers of "shorter rather than longer" are: senior leadership support and continuous commitment, currency of existing assessment information, size of the organisation, the availability of scorecard team members, willingness to change and embrace new ideas, level of organisation paid that is driving the scorecard and facilitation support [Rohm, 2002].

The scorecard provides a framework for managing the implementation of strategy while also allowing the strategy itself to evolve in response to changes in the company's competitive market and technological environments [Kaplan and Norton, 1996].

Kaplan and Norton [2001] have indicated that by implementing the balanced scorecard, organisations can introduce a number of management processes that aim to line long-term strategic objectives with short-term activities.

Kaplan and Norton [1996a] highlighted that the new management processes will separately and collectively contribute to the linkage between long-term strategic objectives and short-term actions. They also argued that the balanced scorecard approach is not primarily an evaluation method, but a strategic planning and communication device to provide guidance to divisional managers and to describe links among lagging and leading measures of financial and non-financial performance.

In their later writings, Kaplan and Norton [1996a; 1996b; 1997] assume that the balanced scorecard is based on cause-and-effect relationships, in which the measures of organisational learning and growth are the drivers of the internal business processes. The measures of these processes are in turn the drivers of measures of customer perspective, while these measures are the driver of the financial perspective.

In order to clarify the cause-and-effect relationships, Kaplan and Norton [2000] introduced the strategic map. This provides a visual representation of a company's objectives, and the crucial relationships among them that drive organisational performance.

The balanced scorecard has been widely adopted throughout Europe and Australasia. Despite differing cultural and ideological starting points, researchers have demonstrated that its impact and influence is increasingly pervasive, particularly in larger companies to improve performance throughout the organisation.

Whilst the balanced scorecard has been deployed widely by government and financial services organisations, it has been scarcely applied within the hospitality industry [Donselaar et al. 1998; Gunasekaran et al. 2001].

Brander- Brown & McDonnell [1995] developed a balanced scorecard for the U.S. hotel sector and concluded that it was more appropriate than other performance measures as its components would need to be reviewed and updated regularly if it was to remain both relevant and useful.

Denton & White [2000] conducted research in conjunction with White Lodging Services, a hotel company comprising of Marriott franchises. White Lodging began to develop its balanced scorecard in 1997 in order to monitor performance at both the property and corporate levels and to ensure that long-term objectives were being satisfied.

Malone [1995] conducted research into the design and implementation of performance management systems in the UK brewing industry and identified a number of characteristics associated with the design and implementation of a performance measurement system.

Literature suggests that there are many benefits and weaknesses attributed to the balanced scorecard approach yet it has been deployed by more than 80% of large U.S. companies and many government departments [Lester, 2004]. The scorecard had also been adopted by 44 per cent of the UK's FTSE 100 companies by 2005 [Geary, 2005].

CHAPTER FOUR: - THE UK's LICENSED RETAIL SECTOR

INTRODUCTION

The licensed retail sector was for many years the sleeping giant of the UK hospitality industry. The sector was conservative, slow to change and very traditional in its outlook. The Beer Orders (March 1989) changed this and over the past decade the industry has been revitalised in responding to its constantly changing environment [Williams & Lincoln, 1996].

Since the Beer Orders, the UK pub market has gone through a period of unprecedented upheaval. Almost every aspect of the industry, from the structure of pub ownership to the range of products sold, has changed. In place of just the traditional pub, the market now finds room for pub/restaurants, food pubs, sports bars, Irish theme pubs, super pubs and micro-breweries, among others [Knowles & Howley, 1998].

This chapter will firstly outline the major developments which have taken place since the Beer Orders (March 1989). The reasons behind this increased activity and the forces driving competition will then be analysed leading to the identification of major trends and predictions as to how the industry might develop in the future. Porter's [1980] model for structural analysis will be used as the framework for the analysis and the predictions regarding future developments within the industry.

4.1 HISTORICAL OVERVIEW

The structure of the licensed retail sector has changed dramatically over the past twenty years. The Beer Orders and the involvement of private equity, has resulted in the market being ‘opened up’ [Knowles & Egan, 2002].

This section will focus on the changes which have taken place over the past thirty years with a greater emphasis being placed on the last twenty years, which has seen the divestment of pub estates by the national brewers and the involvement of private equity.

4.1.1 PRE ‘BEER ORDERS’

The British public house has its origins in the Saxon inns and taverns, which brewed beer and served food for villagers and travellers. As settlements grew in size and number, the pubs became communal meeting places for social interaction. The Industrial Revolution increased urban prosperity so that consumption of beer, particularly by thirsty factory workers, grew steadily. The Ale-house Act (1828) repealed and codified the many statutes then in existence and formed the basis of subsequent liquor licensing. In 1830, licences were issued in an attempt to reduce the consumption of spirits, but, in fact, more drunkenness resulted because beer became readily available [Jones et al. 1996]. By the following year, more than 30,000 new beer shops were opened and this process continued, bringing the total in existence to 50,000 by the middle of the century. By 1869 these ‘beerhouses’ had proliferated to such an extent that the British government felt the need to monitor their operation because of the crime and disorder associated with heavy drinking. Since then, both public house premises and their managers have needed to be licensed by local magistrates who have discretionary powers to restrict or revoke licences in the public interest. These licensing laws were further adapted during the First World War, when it was felt necessary to reduce the opening hours of licensed premises so as to concentrate the efforts of workers upon essential war work. Licensing regulations remained unchanged until 1988, when pubs were allowed to extend permitted opening hours in line with those of Continental Europe [Jones et al. 1996].

Ownership patterns have also evolved in a unique way. Until the nineteenth century, all public houses were independently owned. The brewers sought to make loans available to publicans in return for the exclusive right to sell the brewer's beers in the pubs [Jones et al. 1996]. By the end of the nineteenth century, with the stagnation of beer sales and tightening of licensing controls, the competitive forces increased. These informal loan arrangements were turned into outright acquisitions to prevent outlets falling into the hands of competitors [Jones et al. 1996].

The 1960s and 1970s saw the emergence of six national brewers, each of which had a sizeable public house estate. By 1989 these organisations owned 40% of the UK's public houses [Knowles & Egan, 2002].

Table 4.1: - Pub Ownership by the UK's Biggest Brewers – 1989

	Tenanted	**Managed**	**Total**
Allied Lyons	4,458	2,400	6,858
Bass	4,285	2,469	6,754
Courage	4,620	400	5,020
Grand Metropolitan	3,200	1,580	4,780
Scottish & Newcastle	1,504	850	2,354
Whitbread	4,600	2,000	6,600

Source: Williams [1996]

4.1.2 POST 'BEER ORDERS'

The Conservative government of the late 1980s became increasingly concerned about the monopoly which existed within the sector and initiated an investigation by the Monopolies & Mergers Commission [MMC].

The MMC investigated the sector and reported that there were two ways in which the brewers affected competition, namely they restricted the supply of drinks to the pubs they owned and secondly, they had captured about half of the freehouses by offering low interest loans if the free trade agreed to only sell the brewer's products [Knowles, 1993].

The subsequent report contained the following key provisions [Knowles, 1993]: -

1. Brewers owning over 2,000 licensed premises had to make half the number owned over 2,000 free of the exclusive tie to the brewer;

2. Brewers were required to allow the tied pubs to stock one 'guest' beer from another brewer, and

3. All pubs were free of any tie for the supply of non-beer products.

The 'Beer Orders' removed the ability of the brewing industry to guarantee the sale of their own products in their own pubs and effectively forced the major brewers to dispose [[1]] of large swathes of freehold pub property [Deutsche Bank, 2001].

At this time, the industry was divided into managed pubs and tenanted pubs. The managed pubs were 100% owned and operated by the landlords (mostly vertical integrated brewers), where the owner banked all the retail profit, employed all the staff and was responsible for all the property costs and all the operational risks.

The other pubs, called tenancies, were owned by the brewers, but run by sole traders, or, occasionally, multiple tenants. The property landlord extracted a modest rent in exchange for a product purchase tie [Deutsche Bank, 2001]. The main advantage of this system was that a sole trader could own a business with a low entry price, have a roof over his/her head and enjoy some social status. Exemption from the Landlord & Tenant Act meant that the owner had absolute power over whoever ran their properties. It also guaranteed the brewers distribution for their beers.

[1] The 'Big Six' sold 11,000 pubs between 1989 and 1992 [Lashley & Morrison, 2000].

However this system was not conducive to sensible property management for the current generation of shareholders [Deutsche Bank, 2001]. The tenant had practically no security of tenure and therefore saw the traditional three-year contract as a chance to take as much money from the business as possible [MMC, 1989a].

Apart from routine maintenance, investment in tenanted pubs in order to develop the business was a rarity. The industry's management stance towards the tenanted pub was principally one of policeman and cash collector. The general purpose of tenanted pubs was to generate cash to pay dividends, provide cash to re-invest in managed pubs and to sell the brewer's beers [Deutsche Bank, 2001].

Subsequently, five types of pub operators or retailers emerged as a result of the Beer Orders [Lashley & Morrison, 2000]: -

- National retailer with brewing interests;
- National retailer with no brewing interests (de-merged or fully independent);
- Regional or local retailer with brewing interests;
- Regional or local multiple retailer with no brewing interests; and
- Totally independent operator of freehouses.

Many of the new groups formed in the early 1990s concentrated on the apparently more lucrative managed pub market, as the Beer Orders also coincided with a more liberal attitude to new public house licensing. Some new players, like Enterprise Inns, focused on the tenanted pub market, where the underlying value of existing licensed property and cashflow was being materially undervalued by the equity market and, indeed, by the owners of the majority of the tenanted pubs [Deutsche Bank, 2001].

Many entrepreneurs saw this time as a golden opportunity to create a new business that would compete in an industry seen as long on tradition and control but short on imaginative retail skills and creative management, and one that had scant regard for current shareholder value. Given that the industry historically comprised mainly family businesses, where the principal aim of the boards was to minimise the inheritance tax bill for succeeding generations, the new entrepreneurs had a point. One of the side effects of this structure was that management mostly looked backwards for inspiration, often wondering what relatives would have done in any given situation. Such management styles inevitably led to protracted decision-making processes and delays in making the hard decisions required for an industry in the 1990s, entering a period of unprecedented change [Deutsche Bank, 2001].

There was a clear requirement to encourage fresh ideas into the sector. More importantly, shareholders had to find ways of extracting an economic return for establishing a new commercial proposition for major parcels of assets, given that the tie had just been practically extinguished [Deutsche Bank, 2001].

Grand Metropolitan began the modernisation with the creation of the Inntrepreneur lease. At that time, this was seen as a short-term solution and it forced all its tenants to sign up to long-term (20 year) leases. This attempt to try and place pub property onto the same basis as normal commercial property was generally reviled by traditionalists within the industry as a cynical attempt to ramp up the rent and maintain the product tie [Deutsche Bank, 2001].

The introduction of the Inntrepreneur lease was a radical departure for an industry not known for its creative solutions to fundamental problems. The long-term commercial lease is now standard in the industry and has been one of the principal causes of the change in outlook for pub property [Deutsche Bank, 2001].

The new entrepreneurial players were mostly from outside the industry. They did not need to consult the ancestral temple to determine future group strategy. Some had personal interests in the industry, whilst others simply saw an opportunity to make money for themselves and their potential shareholders and happened to pick the asset-rich, but underperforming pub industry as the target [Deutsche Bank, 2001]. What singled out the more successful ones was that they focused on one aspect of the industry – green-field managed pubs (JD Wetherspoon), night-clubs (Luminar), large-venue bars (Regent Inns) and the humble tenancy (Enterprise Inns).

The new private equity investors were often the entrepreneurs themselves, finding management teams to manage the packages of assets that they had acquired. Private equity has been responsible for a substantial amount of the intense activity that has characterised the sector in recent years. Deutsche Bank estimates that private-equity led companies had been responsible for around 60% of the £17bn-plus worth of transactions in the pub sector between 1993 and 2001 (see Figure 4.1). Over three-quarters of this £10bn-plus investment were in tenanted or leased pubs [Deutsche Bank, 2001].

Many of these new entrants were playing the arbitrage game between the natural double-digit yield on tenanted/leased pubs and the cost of long-term debt, usually in the form of securitisation. The fact that they happened to be investing in pubs was co-incidental to investing in an industry where cashflows were stable and where the equity market had apparently lost interest, resulting in asset values that bore little resemblance to the quality or stability of the income streams [Deutsche Bank, 2001].

One of the major attractions of developing the leased property market by buying tenancies and managed pubs and converting them to long-term leases was that for the existing equity investor, it helped solve the industry's problems by shifting the responsibility for capital expenditure onto the operator and away from the equity market. Deutsche Bank [2001] suggests that over-investment by quoted managed pub groups has been one of the principal causes of the sector's underperformance in recent years.

Deutsche Bank [2001] estimates that over £18bn of pub property changed hands between 1993 and 2001 and Appendix 2 lists this and more recent activity.

Figure 4.1: - Who Has Paid for What?

Type of Buyer	Complete Business	Managed Pubs	Lease & Ten Pubs	Concepts & Brands	Nightclubs	£m
National Quoted	1	4	1	1	0	4,027
Regional Brewer	7	5	1	4	0	1,404
VC/Private	5	3	20	4	1	10,093
Quoted Pub/Club	5	7	1	1	6	1,936
Value of Deals	**3,318**	**5,065**	**7,851**	**1,188**	**963**	**18,384**

Source: Deutsche Bank [2001]

Table 4.2 shows that the MMC's recommendations failed to reduce the monopoly that existed and, in effect, the national brewers have been replaced by the national pub companies, which are more defensive than the former ever were [Publican, 2006d].

Table 4.2 shows that a concentration of ownership still exists, with Enterprise Inns & Punch Taverns owning 28% of the UK's pubs between them, in fact, the six companies listed in Table 4.2 control over 42% of the UK's 60,000 public houses.

The structure of the licensed retail sector is constantly changing with the market being driven by private investors [[2]] snapping up chunks of estates disposed of after large deals by the leading players [Publican, 2005d].

The short-term nature of private equity and venture capital investments will provide several further opportunities for consolidation within the sector. Their involvement may also provide growth opportunities for smaller pub companies who will be attracted to the pubs which are disposed of from the larger estates [Publican, 2006d].

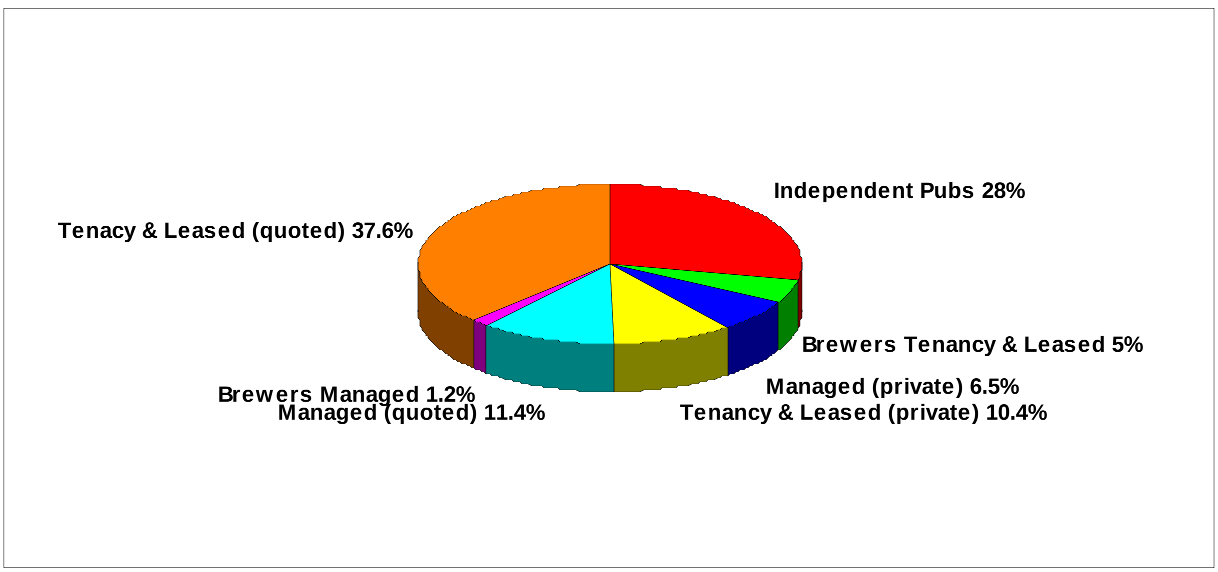
[2] Research by Pilmsoll Publishing shows that 752 of the UK's top 914 pub companies – 82% - remain in private hands in 2007 [Champ, 2007g].

Table 4.2: - Pub Landlords: Who Owns What?

Company	Number of Pubs
Punch Taverns	• 9,200 pubs
Enterprise Inns	• 7,700 pubs
Wolverhampton & Dudley [3]	• 2,352 (managed & tenanted)
Greene King	• 2,200 pubs
Mitchells & Butlers	• 2,200 (pubs & restaurants)
Admiral Taverns	• 1,825 pubs

Source: Muspratt & Seawright [2006]

Figure 4.2: - Ownership of UK Pubs 2008



Source: Deutsche Bank [2008w]

Cushing [2004b] identifies two core elements driving consolidation within the licensed house sector. Firstly, the big players are acquiring smaller groups to benefit from

[3] Wolverhampton & Dudley Breweries plc changed its name to Marston's plc in January 2007 [Pain, 2006]

synergies and economies of scale, for example, Punch Taverns acquired Avebury Taverns & InnSpired. Then there are short-term market forces squeezing the operators.

Secondly, there are also concerns about a reduction in consumers' levels of disposable income. This would encourage consolidation, particularly in managed houses, which are operationally very highly geared to sales and consumer spend [Cushing, 2004b].

Punch Taverns has been extremely acquisitive since its formation and also churns its estate regularly by disposing of pubs for a variety of reasons [Punch Taverns, 2003]: -

- Pub has not attracted recruitment interest – 6-12 months as a Tenancy at Will.
- Pub does not offer Pub Company or retailer a viable or sustainable profit opportunity.
- Inherent challenging operational features at pub and/or operational difficulties.
- Unviable pub due to large repairing or leasehold liabilities.

4.1.3 TRADE & INDUSTRY COMMITTEE REPORT 2004

The Trade & Industry Committee in 2004 investigated whether PubCo's had too much power amid claims that beer ties where pushing many pubs out of business [Sibun, 2008].

The report concluded that the cost of beer ties were usually balanced by the benefits to tenants, no single pub company held a dominant position in the market, and that removing the beer tie could see too much power handed back to the big brewers. However, the Committee called for greater transparency from the pub companies on rents and beer ties and said that the ties might be harming small brewers [Sibun, 2008].

The Business & Enterprise Committee announced in 2008 that it was launching a follow-up inquiry to see whether the Trade & Industry Committees' conclusions still stood and to see how the recommendations had been applied [Sibun, 2008].

4.2 MODES OF OPERATION

A pub company can either operate managed houses, leased pubs, tenanted pubs or a combination of the three, for example, Barracuda Group is purely managed whereas Punch Taverns operates a tenanted and a leased estate alongside its Spirit managed estate.

A managed public house is managed by a salaried employee of the pub's owner and the PubCo is entirely responsible for all the costs and liabilities of the pub and its staff and banks all of the retail profit [Deutsche Bank, 2003f].

Leased and tenanted pubs are owned by a brewery or a PubCo but managed by a lessee/tenant under a leasing agreement. The brewer/PubCo derives its income through three very different but related income streams. The wholesale profit (or 'wet rent') is the differential between the prices they pay their suppliers for tied products and the wholesale price for which they sell them on to tenants. Income from amusement with prizes machines in some cases goes solely to the PubCo or the tenant but is generally shared equally. The dry (commercial or property) rent charged is decided by the PubCo at the beginning of the lease/tenancy and is subject to review at regular intervals. Together, these three income streams plus any additional benefits offered by a PubCo should equal the 'rent' which would be paid by a free from tie tenant [Deutsche Bank, 2007j].

The decision as to whether a pub is managed or franchised (tenancy/lease) is to a large extent about minimising risk. This has often given rise to a four step yo-yo principle in the following manner [Lashley & Morrison, 2000 p.206]: -

- **Step One**: a pub is operated as a tenancy or lease.

- **Step Two**: it becomes successful.

- **Step Three**: the brewer takes it back into direct management so the property owners [Pub Company] can reap the profit from it.

- **Step Four**: The pub declines in popularity and is then put back to tenancy or lease.

The yo-yo principle occurred more frequently when companies had a greater mix of tenancies and managed pubs in their estates. There has been resurgence in recent years as rising costs have led operators to either acquire managed pubs or convert them to tenancies/leases or transfer managed pubs to their tenanted/leased estates, for example, Punch Taverns acquisition of Spirit Group was originally planned to provide 750 leased pubs [Newton, 2006a].

Enterprise Inns draw a distinction between forms of operation based on the volume of sales. Where a pub had weekly sales of over £10,000 – the pub is managed. When turnover is above £5,000 but below £10,000 the pub is leased, and where the sales are below £5,000 per week they recommend that the pub becomes a tenancy [Lashley, 2000].

In 1999, a pub would have been a tenancy if it made less than £5,000 but John Denning (Voyager) estimated in 2001 that the figure had risen to £8,000 [Ludmon, 2001e]. This was also true for managed houses with Punch converting those pubs to leases when average weekly turnover was in the region of £10k (see Appendix 36) compared with a £7k threshold in 1992 [Publican, 1999e].

Admiral Taverns evaluates pubs under three categories: first, those that are viable and continue their licensed trade, second, those that have potential and third, those with limited use that can be put up for disposal [Caterer, 2007b].

Cost and regulatory pressures have been the main factors in shaping the licensed retail sector over the past five years. The sector has witnessed rising utility, insurance and minimum wage costs along with employment legislation such as the Working Time Directive and the proposed smoking ban [[4]]. The sector has also been affected by the costs associated with the new licensing regime and by handing the business over to a lessee or tenant, the pub owner is passing on those costs [Caterer, 2006c], for example,

[4] ALMR reports that the cost of running the average pub is continuing to rise with over 60% of net turnover being spent on running costs [Publican, 2007c].

Charles Wells and Frederic Robinson both exited managed houses in 2007 to focus wholly on their tenanted estates [Caterer, 2007c].

William Robinson, Tied Trade Director of Frederic Robinson, states that [Publican, 2006e]: -

"You really need at least 40 or 50 pubs to justify the operations systems you need to run a managed estate. Having eight managed pubs just doesn't make sense anymore. It's very costly and getting costlier".

Margins on food and wet sales have also been squeezed tightly by many operators, driven by the demands of the City and shareholders to show continued growth in like-for-like sales [Publican, 2006e].

The cost and regulatory factors have also made acquisitions more attractive as a way of cutting costs while growing the business and, at the same time, has made it harder for targets to defend themselves from deeper pocketed rivals [Paton, 2006b].

The high-street pub phenomenon of the late 1990s has also come unstuck as a managed estate has to take enough cash to make it worthwhile. Rent alone can run into several hundreds of thousands of pounds a year [[5]] [Publican, 2003d].

The UK Public Houses Market Development Report published in April 2005 predicted that by 2008 there would be 8,435 managed pubs. This represents just 14% of the total 60,000 pubs compared with the current 25% share. The report also forecasted that pub numbers will decline by three per cent to 56,230 by 2011 [Druce, 2006b].

This prediction is realistic given that pub companies are constantly churning their estates in response to cost and regulatory pressures and the managed pub companies are targeting their investment on food-led operations [Druce, 2006b].

Table 4.3: - Structure of the Sector

Year	Managed	Tenanted/Leased
2001	12,700	29,000
2003	11,300	29,500
2005	10,800	29,900

Source: Druce [2006b]

4.2.1 MANAGED

The managed house came to the fore in the 1970s when the "Big Six" began to cream off the better performing pubs from their tenanted estates. These pubs were converted to managed houses so that the brewers could retain all of the profits for themselves [Mellows, 2000a]. Managed houses are generally easier to control and monitor than tenancies or leases and provide the best returns [Palmer, 1994]. Underperforming units soon stand out and can either be put right or culled [Temple, 1994a].

Managed estates can be costly to run since at least 50 houses are required to justify the back-up and resources such an operation needs to succeed. They are also more difficult to grow by acquisition and operators have to be selective about the sites that they buy for development [Burnyeat, 1996]. The cashflow from managed pubs is regarded as less stable than that from leased and tenanted pubs and they also require significantly more capital investment than both leased and tenanted pubs [Jones, 2003b].

4.2.2 TENANTED

In the past, tenancies were linked to the 'brand' in the form of a named brewery, but had limited impact on both operating systems and business format [Williams & Lincoln, 1996]. However, the brewers name could generate customer loyalty through the brewery product [Williams & Lincoln, 1996].

[5] Yates's in Lewisham attracts a rent in excess of £196,250 (see Appendix 25).

The relationship between the brewer/property owner and the tenant was generally loose. The tenant had to stock the beer products and purchase all supplies from the brewing company. Although the tenancy was a nominally independent organisation, it was tied to the brewer through property rental and source of supply [Williams & Lincoln, 1996].

Frequently properties were 'churned' [[6]] through periods of being let to tenants and subsequently taken back into the directly managed estate once the tenant had built up the business. The tenant had little security of tenure because tenancy agreements were short-lived and the tenancy could not be sold or accrue added value as the business developed [Lashley & Rowson, 2002].

In recent years, and particularly as a result of the changes in ownership patterns, the tenancy arrangement was criticised by pub companies because they believed that tenants had little incentive to grow the business. Tenants were not able to assign the tenancy and thereby gain from capital investment or improved business value [Whitbread Inns, 1995]. They could take profits from increased sales and higher volume business activity, but this was not translated into improved business value. With minimal risk to the brewer and minimal support to the tenant, many tenancies failed to meet their full potential because tenants had limited capital and managerial resources to grow the business. They also suffered from resource scarcity. Increasingly, over the last decade, the pub companies have explored leasing arrangements as a way of overcoming the perceived weaknesses associated with the tenancy [Key Note, 1997].

The tenancy works with the licensee (tenant) paying rent to his landlord in return for operating the business as his own. The ingoing tenant pays for the inventory, the stock at valuation and the glassware (see Table 4.5) with the cost of entry usually between £5,000 and £30,000 [Wellstead, 1995].

The PubCo's make money from their tenants and lessees directly from a combination of straight rent, a share of the machine income of the pubs and by selling beer to their pubs,

[6] The term churned refers to the process of selling underperforming pubs and replacing them with better quality, higher returning ones [Deutsche Bank, 2003f].

because the tenants and lessees are obliged to buy from their landlord as a condition of their agreements [Deutsche Bank, 2006i]. Deutsche Bank [2007j] estimates that 50% of a PubCo's income comes from straight rent, 10% from gaming machine income sharing and 40% from wholesale beer profits.

Table 4.4: - Tenancy & Lease Agreements in Licensed Retailing

	Tenancy	**Lease**
Term	• 5 years maximum	• up to 20 years
Cost	• smaller 'ingoing' • rent less than market share • capital investment: shared	• full leasehold purchase • realistic rent • capital investment: lessee
Conditions	• non-assignable • no minimum barrelage • usually tied for products • company imposed restraints	• assignable • minimum barrelage penalties • less wide ranging tie • fewer constraints
Maintenance	• joint responsibility	• lessee responsibility

Source: Lashley [2000]

The tenancy has similarities with franchising as follows [Lashley & Morrison, 2000]: -

- Restrictions on the supply of products for the pub, with a requirement that the tenant purchases all alcoholic beverages and soft drinks through the brewery and is often obliged to stock the range determined by the brewery.

- A requirement that the tenant sells the products at agreed prices.

- Operational support from head office. Usually an area/regional manager to give business management advice and support.

Some companies are now developing brands for their tenanted estates after observing their success in managed estates. Increasingly, tenants are being offered a package comprising pub design, marketing and menus, for example, Scottish & Newcastle Pub Enterprises has introduced the Cooper's Kitchen and James H Porter brands [Lane, 1998b].

Tenancies have several advantages. First, they provide a cost effective route to running a pub business [Perrett, 2005]. The tenant can also tailor the pub to the local market and can adapt the business quickly to changing circumstances without having to go through bureaucratic structures [Mellows, 2000a].

The pub company has more direct input into the maintenance of the property and it is easier to take the property back into full company possession for capital sale. A tenanted estate is also a way of spreading the risk associated with operating numerous businesses in dispersed properties, which can be difficult to control. The main advantage for the pub company is that the majority of the 'retail' risk is taken by the licensee and not the pub owners [Lashley & Morrison, 2000].

A tenancy has disadvantages for licensees in that there are no colleagues to turn to for support [Mellows, 2001]. The short-term nature of tenancy agreements also makes it difficult for potential tenants to obtain finance from lenders [Temple, 1991].

Many tenanted pub companies are perceived to have a large number of low-quality pubs in their estates and therefore their estates must be continually churned as these pubs fail to respond to investment [Caterer, 1996]. This can result in a pub changing hands, in turn resulting in a revised tenancy agreement.

4.2.3 LEASED

Leases differ from tenancies in that the tenant is responsible for the repair of the total building as well as insuring it. The general term of a lease lasts for between 10 and 20 years and the lessee pays a commercial rent for the property. A lease is also normally assignable and so can be sold after an initial period [Lincoln, 1996].

The aim of the lease is to encourage a more entrepreneurial relationship in which the lessee is said to have a financial incentive to invest in the development of the pub as a business opportunity [Lincoln, 1996].

There are currently two basic types of lease available [Wellstead, 1995]: -

1. There is a brand new lease, where the ingoing tenant/lessee is expected to spend a reasonable sum of money on the refurbishment of the outlet. There is no premium with a rent paid by the tenant.

2. Alternatively there are a number of second generation, or assignable, leases available. The premium for these includes the fixtures and fittings.

There are variations in both the levels of restriction placed on the lessee and the levels of support given by the PubCo. The branded operations are more likely to require the lessee to conform to brand standards, and provide structured management development and training programmes [Lashley & Rowson, 2002].

Leasing a pub offers a number of advantages. A lease has low barriers to entry and can offer a cheap route into running a pub – for as little as £15,000 [Mellows, 1999]. PubCo's tend only to be concerned with the applicant's ability to fund the up-front fee, and secure a license from the Licensing Magistrate [Lashley & Morrison, 2000].

A lease also provides the lessee with sufficient time to get a return on his or her investment as well as offering the prospect of making a profitable assignment when he or she decides to leave [Lyle, 1995b]. PubCo's now also treat lessees as long-term business partners and so are more likely to enter into joint investment programmes [Mellows, 1999].

Leases also provide a number of advantages for PubCo's. A leased estate can spread the risk associated with operating numerous businesses in dispersed locations and puts the onus on the lessee [Mellows, 1997c]. Leases also require less capital investment than tenancies with the lessee taking the risk [Lashley & Morrison, 2000]. A disadvantage for the PubCo is that a leased estate has to be continually churned in order to improve its quality [Mellows, 1997c].

Leases also provide a number of disadvantages to the lessee. A lessee may end up paying a lot more for tied products and the agreement may not allow the lessee to run the pub in the way they wish [Publican, 2005g]. The lessee may also encounter difficulties in obtaining finance with some lenders refusing to lend money [Temple, 1991].

The lessee also has to make allowances for "upwards only" rent reviews with no reduction made when trade declines. The lessee is also expected to pay for any repairs to the premises and also has to be aware of hidden planning conditions and controls from the local authority which can prohibit sales [Lewis, 2005a].

The lessee will also have contract liabilities, with existing agreements with suppliers and employees becoming the new owner's responsibility. These can involve a range of legal and legislative obstacles and can also be costly and time consuming [Lewis, 2005a].

The level of support provided by the PubCo also varies but on average each PubCo has one Business Development Manager to fifty pubs. Therefore BDM visits tend to be limited to monitoring beer quality and the solidity of the tie [Wormald & Hartley, 1999]. Other issues are generally handled only when a problem arises and BDM's will be most likely to be concentrating more on their problem pubs than on the pubs which are stable [Lashley & Morrison, 2000].

4.2.4 FRANCHISE

The owners of some leased/tenanted estates have developed and adapted 'business format franchising'. This arrangement makes the pub tenant a 'franchisee' who is permitted to replicate the pub owner's original concept, or blueprint [Martin Information, 1999].

Justis & Judd [2004 p.1] define franchising as **'a contractual business arrangement in which a firm grants an individual or company the rights to conduct business in a prescribed manner within a specified terrority during an agreed time in return for royalty contributions or other fee payments'.**

The process starts with a proven and successful business system, which can be easily learned by other people, operated in outlets, which can be simply acquired and converted. It must also be profitable enough for both parties (the franchisor and the franchisee) to make a good return on their investment. A recognised name, protected by the relevant trademarks, is also a pre-requisite [Duckett, 2008].

The business system must also be supported by excellent training facilities and management reporting processes, which make it easy to track progress and put things right if they start to go wrong [Duckett, 2008].

Greenalls introduced the concept of pub franchising to the pub industry in the late 1980s along with Grand Metropolitan which began to franchise its Berni Inns concept. In the later case the programme was short-lived although Grand Met did sign an agreement with Mansfield Brewery [Caterer, 1988b].

Greenalls, through its Inn Partnership division, developed and refined its franchising system (see Table 4.6) over nine years until it disposed of its estate to Nomura International in 1998 [Martin Information, 1998].

Scottish & Newcastle Pub Enterprises followed suit in the late 1990s by converting its tenanted estate to franchise agreements. The company began to offer low cost, five year leases which provided licensees with substantial back-up and also branded operations such as Football Crazy and James H Coopers [Mellows, 2000a].

Mitchells & Butlers (M&B) began to develop a franchise in 2001 and now has over 100 franchisees. M&B provides its franchisees with training and also provides a sophisticated support infrastructure; offering significant ‘back of house’ economies of scale and efficiencies (see Table 4.6). The group initially offered branded franchises under the Scream and O’Neill’s brands [Mitchells & Butlers, 2007a].

Table 4.5: - Key Features of the Inn Partnership Franchise

- Cost of entry between £15,000 and £20,000 with Inn Partnership taking three percent of turnover.
- Two kinds of franchise. The regular franchise allows more freedom than the branded franchise which gives licensees tight guidelines on how to run the pub. It includes themed outlets such as Porter's Ale House.
- Open-book accounts. Greenalls takes responsibility for accounts, allowing the publican to concentrate on the business.
- Nine-day induction programme for every new franchisee. Training for staff, including the Gateway Programme which gives those with the most potential the opportunity of one day running their own franchise.
- Quarterly meetings to put forward business building ideas.

Source: Mellows [1997b]

Franchising offers a number of advantages for the franchisee. The main advantage is that it allows the franchisee to operate a business without many of the drawbacks which cause new businesses to fail, whilst providing the franchisee with a proven name and system of operation [Churchill, 1993b]. Thus, a franchisor minimises risk for the franchisee.

The capital input from the franchisee can be minimal and the franchisor can also assist with the finance. As a percentage of turnover is paid each month, the franchisor doesn't have to worry about weekly variations in trade as he/she would if it was a lease or a tenancy [Temple, 1995d]. A franchise is usually for a longer term than a lease/tenancy, therefore allowing the franchisee to make a sizeable return on his/her investment.

A franchise system has a central marketing fund which is financed by all franchisees through their monthly fee [Duckett, 2008]. Franchisors can also offer a discount on the initial franchise fee for multiple units, which are an advantage when developing a business [Brickley & Dark, 1987].

Table 4.6: - M&B Franchise Package Key Elements

- 5 year franchise agreement renewable for a further 5 years.
- Co-terminus Property Lease [Fully Repair & Insure] assignable after a qualifying period.
- Advantageous prices on the supply of drinks, food, and a wide range of other services.
- Trading Goodwill – supplies 3 years trading history and market information.
- Up to 5 weeks on and off job training prior to taking over the pub.
- A complete set of Operating Manuals detailing our best practice and technical 'know-how' in all areas of pub operations.
- Front & back-of-house IT infrastructure providing stock, cash, and margin management.
- Business manager field support with regular business meetings.
- Access to non-operational specialist support including Menu Risk Assessment and Machine Management functions.
- Supplier's manual - detailing buying benefits and service level agreements, achieved through franchisor's scale advantage.
- National marketing and promotional support.
- Biannual visits from a consultant in food safety and health & safety.
- 3 Franchise Help-lines for general queries, property repairs, and EPoS technical assistance.

Source: Mitchells & Butlers [2007a]

Disadvantages to the franchisee include having to work long hours to establish the business together with the lack of security of having no company paid salary. The franchisee will also require considerable initial investment and banks can be reluctant to lend money unless the franchisor has a proven track record [Churchill, 1993b]. A franchisee is restricted due to the conditions placed on them by the operating system and the need to purchase supplies through the franchisor [Lashley & Morrison, 2000].

Franchising provides several advantages for PubCo's. The method provides a means for companies to expand by using investment from individuals. The organisation can expand more quickly than if it used its own capital [Churchill, 1993a].

The franchise system passes on some of the administrative costs to the franchisee and allows the PubCo to reduce its investment in management time and working capital whilst retaining a reliable cash flow in the form of rent [Martin Information, 1999].

Franchising enables the PubCo to maintain a high degree of commonality in the marketing mix of their specific pub brands, at the same time as providing tenants/franchisees with more freedom and a significant personal incentive to control and build their pub business. The process also enables the PubCo to differentiate their pub portfolio by branding them in different ways in order to appeal to specific markets [Martin Information, 1999].

Franchise agreements have to be policed by the franchisor and so the PubCo has control over standards and therefore can terminate the contract if quality is not maintained [Brickley & Dark, 1987]. Franchising can be disadvantageous to the PubCo as franchisees can sometimes harm the national brand image that the franchisor seeks to establish [Churchill, 1993a].

A franchise system can be expensive to set up, with a substantial amount of capital being required to set up the support systems. It is also essential for the PubCo to have a good spread of existing franchisees as without this it can be difficult to persuade other people to invest in the concept [Clavey, 1995c].

4.2.5 MANAGEMENT CONTRACTING/OUTSOURCING

Management contracting or outsourcing is a relatively new phonemeon in the licensed retail sector but has proved to be extremely popular and in the year 2000, around 4,000 pubs were managed in this way [Publican, 2000i].

Scottish & Newcastle Pub Enterprises (S&NPE) was one of the first PubCo's to experience this method when the Royal Bank of Scotland (RBS) bought a package of its pubs in the late 1990s. RBS had no experience of running pubs and so negotiated a management contract with S&NPE. This transaction enabled S&NPE to collect a management fee whilst retaining its existing beer supply deal.

A more recent deal involved the management by S&NPE of the 364 pubs bought by Robert Tchenquiz from Spirit Group in December 2004. S&NPE was also tasked with converting these pubs from managed houses to leases on Mr Tchenquiz's behalf.

Criterion Asset Management was also formed to take advantage of this market and at one stage controlled over 2,500 pubs for clients including Nomura and Hugh Osmond's Wellington Pub Company [Ludmon, 2001f].

Criterion extended its services to include back office management such as personnel management, payroll, credit control, rent evaluation and review, lettings and property repair and maintenance [Ludmon, 2001f]. This approach therefore enabled the client's management team to concentrate on beer volumes and business development without having to worry about repair and maintenance, rent and beer invoicing and other routine work [Publican, 2000i].

Another area of focus is managing pubs on behalf of investors who have put money into Enterprise Investment Schemes. These schemes allow investors to make money out of investing in a new venture whilst postponing payment of capital gains tax on their earnings [Publican, 2000i].

4.3 FINANCING EXPANSION & CONSOLIDATION

Running a pub can just as easily be a license to lose money as it is to make money and Deutsche Bank advises that pub companies follow the following rules as a route to success [Deutsche Bank, 2005e]: -

- Get your trading formats operating to maximum performance and roll-out through new sites across a geographic trading area that can be managed by your resources.

- Ensure that menu and bar pricing are suitable to the target market.

- Ensure that the staff are properly motivated and rewarded to provide the best service possible for your target customers.

- Do not sit back and simply bank the profits that should come from being exposed to a long-term real growth market, but remain absolutely focused on the detailed performance of your business, unit by unit.

- Do not over-invest; because consumer tastes are fickle and managements need to be nimble in being able to constantly tweak their formats to keep them contemporary.

In order to develop their businesses, PubCo's have in recent years used a variety of methods to raise additional capital in order to grow their business. This section will focus on the various methods which PubCo's have used in recent years in order to refinance their businesses.

4.3.1 BANK DEBT

There are many pub companies supported mainly by bank debt and sometimes, in the case of brewery-owned pub companies, longer term fixed rate debt [Rathbone, 2006].

The financial strategy of these companies varies greatly ranging from being actively managed, through their bank's requirement for interest rate hedging, to benign neglect.

Opportunities for refinancing longer term fixed rate debt seems to be regularly overlooked while the potential to use alternative funding structures, such as conduits, developed in other asset-backed sectors, seem to have been overlooked in the pub industry [Rathbone, 2006].

4.3.2 BREWERY LOAN

A brewery loan has been a traditional way of borrowing money in the trade and was more widespread in the days of the 'Big Six' [Publican, 1995b].

Brewery loans are typically Advance of Discount (AOD) or "write-off" loans, the interest rates are very favourable, offering significant discounts over bank loans but, at the cost of losing barrelage discounts and having to repay the principal over ten years [Publican, 1995b].

Brewery loans were responsible for the development of independent pub retailers such as JD Wetherspoon. Scottish & Newcastle originally loaned money to JD Wetherspoon in the early 1990s which Wetherspoon used to develop its estate.

Scottish & Newcastle Pub Enterprise also still loans money to its tenants as a means of investing in its pubs [Publican, 2006j].

4.3.3 ALTERNATIVE INVESTMENT MARKET/OFEX

The Alternative Investment Market (AIM) was created in 1995 as the Stock Exchange's public market for smaller, young and growing companies that did not want a full listing on the Stock Exchange [Publican, 1998c].

Benefits include access to greater capital and more potentially, a more sustained path of earnings growth as a result. However, downsides can mean loss of control, being beholden to short-term shareholder pressure, extra bureaucracy, tighter financial governance and the danger of simply hitting the market as it cools [Paton, 2006a].

This method is billed as a low-cost route into the market, with the formalities costing as little as £50,000 and providing listed companies with opportunities to raise additional capital and assume a greater degree of fluidity in the shares [Temple, 1995f].

AIM also enables entrants with bigger ambitions to progress to the main market at relatively low cost. The AIM also provides an opportunity for its members to stand out as being one of 100 AIM companies – possibly a more attractive option than being a lower-end constituent of the 2000-plus securities listed in the main market [Temple, 1995f].

A company wishing to list on AIM needs to appoint an adviser, such as a broker or accountant, from a register of firms kept by the Stock Exchange. It also needs a nominated broker, who will play the important role of bringing together buyers and sellers of its shares [Publican, 1998c].

Companies also must be established under UK law, have published accounts and ensure securities are freely transferable. There is also a code of conduct which prevents abuse such as insider dealing [Publican, 1998c].

Applying to AIM simply involves submitting a prospectus and supporting letters from the advisor and broker and can take a relatively short-time to process. A company's intention to join AIM has to be announced only 10 days or more before admission, and the documents themselves submitted five days or more before [Publican, 1998c].

If the company enters a phase of rapid growth or has grown on a large scale, it will almost certainly find the conventional bank funding to be inadequate and may look to find funding from venture capitalists or private investors [Newman & Cullen, 2002].

An alternative to AIM for smaller companies is OFEX which is a privately run facility that enables utilised companies to raise capital of £100,000 and upwards through the issue of share capital, mainly to private investors [Newman & Cullen, 2002].

4.3.4 INITIAL PUBLIC OFFERING

Initial Public Offerings (IPO's) have been utilised as a method to obtain additional finance through the placing of shares on the stock market, however, the short-term nature of the City has seen PubCo's utilise alternative methods [Porter, 2004b].

A number of PubCo's such as Enterprise Inns and Punch Taverns have successfully floated on the stock exchange and have since developed their businesses successfully. Not all PubCo's have been successful and have either been bought by another plc or have been taken into private ownership, for example, Tom Cobleigh & Yates Group.

Benefits include access to greater capital and, potentially, a more sustained path of earnings growth as a result. However, downsides can mean loss of control, being beholden to short-terminist shareholder pressure, extra bureaucracy, tighter financial governance controls and the danger of simply hitting the market as it cools [Porter, 2004b].

In order to get a full listing or to become a quoted stock, the business has to satisfy various requirements concerning trading history, disclosure of accounts and other aspects of the business It must also conform to certain rules regarding the conduct of its business and needs to be open to analysts from various stockbroker companies, to provide the public with fair assessments of it's performance. The bulk of the finance still comes from large institutions and investors such as pension funds [Newman & Cullen, 2002].

In order to list on the stock exchange a PubCo has to appoint an investment bank to handle the process [Newton, 2006b]. This can be costly and takes time away from the day to day running of the business and in some cases a PubCo could have its debut postponed due to the volatility of the market [Newman & Cullen, 2002].

4.3.5 SALE & LEASEBACK

Sale & leaseback has been a popular method for pub companies to raise funds for investment or reduce their debts [Perrett, 2002]. Scottish & Newcastle Pub Enterprises pioneered this model through its links with Royal Bank of Scotland but Laurel, Spirit Group and Punch Taverns have used this method in recent years (see Table 4.7).

Sale & leaseback sees property companies, PubCo's and investors buying properties and allowing other pub companies to manage or lease them back [Perrett, 2002].

The PubCo then sub-lets the site to a lessee, an individual licensee who will run it as any pub tenant or lessee would, paying an agreed annual rent back to the PubCo that should cover the rent being charged by the freehold property investor [Champ, 2006b].

London & Edinburgh Swallow Group used this method to aggressively expand its estate by buying freehold pubs. The group would then immediately sell the site on to a property investor, who would buy the freehold of the site thus returning the cash to the pub company. The property investor would also agree to lease it back to the PubCo at an agreed annual rent [Champ, 2006b].

For the operator, sale & leaseback provides extra capital to purchase more properties, which in turn increases buying power. This creates additional wholesale profit and helps improve the perception of tenant covenant strength [Gillham, 2006].

Table 4.7: - Sale & Leaseback Deals

Date Bought	From	Purchaser	No. of Pubs	Price Paid	Run By
04/1999	S&N	RBS	172	£50m	S&N
12/1999	W&DB	RBS	284	£40m	Pyramid
02/2000	S&N	RBS	447	£180m	S&N
07/2000	Pyramid	RBS	150	£19.6m	Pyramid
10/2001	S&N	RBS	456	£260m	S&N
12/2002	Laurel	London & Regional	220	£320m	Laurel
02/2003	Honeycombe	Punch Taverns	12	£11.7m	Honeycombe
03/2004	Spirit Group	Prestbury	220	£500m	Spirit Group
10/2004	Spirit Group	British Land	65	£174m	Spirit Group

Source: Perrett [2002]

Hotel groups extensively use turnover-based leases as it allows the investor to more fully share in the success of the property while at the same time allowing the operator flexibility through the trading cycle [Gammage, 2002].

Some sceptics argue that both the operator and landlord could disagree with each other over what work was required on a property, which in turn could cost time [Gammage, 2002].

4.3.6 SECURITISATION

Securitisation has become a popular method of refinancing and came to the fore in the late 1990s when it was used predominantly by leased/tenanted pub companies such as Punch Taverns and Pubmaster (see Table 4.8). It has also been used to refinance managed estates and in recent years both Greene King and Mitchells & Butlers have used this method [Deutsche Bank, 2003f].

Table 4.8: - Securitisation History in the Pub Sector

Existing	Date	Amount (£m)	Type of Estate
Wellington Original	02/1998	231.0	Free of tie lease
Punch Taverns Original	03/1998	535.0	Lease/Tenancy
Unique Original	03/1999	810.0	Lease/Tenancy
Pubmaster Original	06/1999	305.0	Lease/Tenancy
Alehouse Original	09/1999	183.0	Lease/Tenancy
Pubmaster First Tap	02/2000	109.0	Lease/Tenancy
Avebury Original	02/2000	134.0	Lease/Tenancy
Punch Funding 2 Original	06/2000	1,484.0	Lease/Tenancy
Punch Taverns Tap	10/2000	250.0	Lease/Tenancy
Unique First Tap	02/2001	335.0	Lease/Tenancy
Alehouse Tap	08/2001	34.5	Lease/Tenancy
Spirit Original	04/2002	656.5	Managed
Unique Second Tap	09/2002	855.0	Lease/Tenancy
Pubmaster Second Tap	11/2002	535.0	Lease/Tenancy
Proposed			
Mitchell’s & Butlers	10/2003	1,900.0	Managed
Punch Taverns Tap	10/2003	250.0	Lease/Tenancy
Potential			
Scottish & Newcastle Retail	12/2003	1,945.0	Managed
Total		**10,552.0**	

Source: Deutsche Bank [2003f]

Securitisation was developed in the USA in the 1980s and effectively mortgages not the assets but the income of the business. The method involves raising bonds on the strength of past and projected future performance. These bonds are then sold on to major financial institutions at relatively low rates [McLuhan, 1998].

The method was initially popular with tenanted and leased estates as their income streams were relatively stable and it was seen as a way of refinancing the original acquisition prior to selling it on for a profit [McLuhan, 1998].

Securitisation is a long-term source of finance, based on investing in the rent income from pubs over many years. Pub companies can also raise substantially more finance with securitisation than through traditional bank finance [Publican, 1998e].

In order to qualify, a company has to go through a credit-rating process with a specialist agency which undertakes a wide-ranging review of the business to establish the degree of stability and to forecast sales and earnings over a period of up to 30 years. The cashflows need to be stable, non-cyclical and not dependent on management influence and, for it to be viable; the company has to be of a certain size - £100m+ [McLuhan, 1998].

The credit-rating agency will talk to the PubCo’s management and industry experts to understand the changes and trends. They will also talk to banks and legal representatives in order to establish the financial structures needed for securitisation [McLuhan, 1998].

The securitisation process can take anything between four weeks to half a year, depending on how much work has been done, and, if the process is successful, the company receives a credit rating which corresponds to the perceived credit risk of the issued notes [McLuhan, 1998].

Securitisation appeals to investors because the debt has a long maturity period and has a financial safety net which pays out in the event of a downturn that reduces income. This means it can appeal to a broader section of the investment community [McLuhan, 1998].

Securitisation also allows the company higher levels of debt at lower cost, because the debt has a long maturity period and is supported by cashflow, not underlying assets. Thirdly, the long-term debt allows it to lower the cost of the capital, increasing the value of the firm and boosting shares [McLuhan, 1998].

Securitisation also offers a number of disadvantages, with the main one being the amount of due diligence necessary to establish the pub company's stability. In the case of Punch Taverns, rating agency Moody's factored in two bad recessions in which the income was projected to halve. Securitisation is also very expensive in taking up a lot of management time. Penalties also exist if the pub company decides to sell before the end of the term and this inhibits flexibility [McLuhan, 1998].

Securitisation also relies on the strength of the international bonds markets which could make this method less attractive when the bonds market becomes weak. Ushers of Trowbridge encountered this problem when they tried to become a private company in 1999 and were forced to postpone their securitisation, before Alchemy Partners took the company into private ownership in the same year [Ludmon, 1999].

4.3.7 VENTURE CAPITAL & FINANCIAL INVOLVEMENT

4.3.7.1 FINANCIAL INVOLVEMENT

The 1990s saw financial institutions such as Nomura International, Morgan Grenfell, Royal Bank of Scotland and Schroders invest substantially in pub companies with Nomura, at its height; controlling 5,600 pubs (see Table 4.9).

The financial institutions became involved in the industry to take advantage of the rising property values, with both Nomura and Morgan Grenfell acquiring pubs from Inntrepreneur, which they later sold on at a profit.

4.3.7.2 VENTURE CAPITAL & PRIVATE EQUITY

Since the early 1990s, Venture Capitalists have come to dominate the sector with Enterprise Inns, Punch Taverns, Barracuda, Laurel and Mill House Inns all being backed at one stage by venture capitalists [Deutsche Bank, 2006i].

There is still significant private equity in the pub and bar sector: Alchemy owns Inventive Leisure and Tattershall Castle Group, GI Partners owns Orchid and Electra Partners owns Novus Leisure. Other property players have become private equity investors, including R20 with Laurel Pub Company, and the Landesberg/Rosenberg families who have interests in both pubs and hotels [Deutsche Bank, 2006i].

The licensed retail sector appears attractive to cash rich private equity firms seeking property assets to acquire and leverage i.e. refinance the acquisition through raising debt against the acquired business [Deutsche Bank, 2006i]. Phil Kaziewicz, managing director of GI Partners, explains that [Champ, 2007k]: -

"Pub estates are like any other property in terms of investment; being asset backed they're stable. You can raise sensible finance against them and generally if there's a downturn in the property cycle you're usually able to hold onto them through the cycle and you should be able to at least get your capital back eventually".

Venture Capitalists will either take a stake or will acquire the PubCo as an investment and expect their investment to have a life cycle of about three years, for example, GI Partners, owner of Orchid Group, believes that between three and seven years is the appropriate holding period [Champ, 2007k].

The termination of the investment has often been viewed as the downside of using venture capital, since the options are either a trade sale or floating the company on the Stock Exchange, for example, Electra Partner's disposed of Tom Cobleigh in March 2003 after three years of ownership [Stretton, 2003a].

The short-term nature can place extra pressure on management to plan in the medium term and this is usually due to the VC's reliance on medium-term bank debt finance. This situation has therefore resulted in many Pub Companies having funding cost certainty for a period of not much more than a year, thus leaving them exposed to unpleasant shocks if there is a major increase in interest rates during the year [Rathbone, 2006].

The Publican [2004f] identified three critical success factors for the use of Venture Capital within the pub sector with the first factor being the PubCo's management team. The second success factor is a simple business model. For Venture Capitalists, cash is vitally important and tenanted pub companies produce lots of cash, without huge central costs, vast expenditure programmes or aggressive discounting. The third success factor is leverage or, more precisely debt. Venture Capitalists like debt because, in a business sector showing modest growth, it enables them to improve their return on equity.

Venture Capitalists generally make their best returns when they buy good businesses with good management teams at the right price [Publican, 2004f].

Some Venture Capitalists specialise in turnarounds or distressed sales but, in general, these are deals which have a high degree of failure. Assuming a new concept is going to be better than the existing brand is also a high-risk strategy [Publican, 2004f].

Undertaking a management buy-out or a buy-in presents tough challenges for a management team. On top of being asked for cash to invest in the enterprise, managers will have to commit time to attending a whole series of meetings with financial and legal professionals while running their existing business [Publican, 2004f].

Buy-outs and buy-ins are often characterised as enriching opportunities for managers. However, in most VC-backed businesses cost-cutting occurs which is one of the reasons why a number of businesses seem to experience a miraculous improvement in their performance following a venture-capital backed buy-out [Publican, 2004f].

Table 4.9: - Banks & Private Equity Firms Backing PubCo's

Bank/Private Equity Firm	**Number of Pubs**	**Pub Companies**
Nomura	5,600	Unique, Inn Partnership, Voyager, Wizard Inns
Deutsche Bank	3,000	ex-Whitbread estate
WestLB & Others	1,950	Pubmaster
Texas Pacific Group	5,200	Punch Group
Alchemy Partners	1,050	InnSpired Pubs
Cabot Square Capital	750	Avebury Taverns
Electra Partners	100	Tom Cobleigh
Prudential – PPM Ventures	98	Barracuda Group
Credit Suisse First Boston	56	Mill House Inns
Phillips & Drew	26	Mustard Entertainment Restaurants
Schroder	450	Ushers of Trowbridge, Century Inns & Old English Inns

Source: Publican [2004f]

Another contributing success factor is that VC-backed businesses are centred on management incentivisation. VCs often look to obtain a significant financial commitment to the business from the executive. The incentive for them is to multiply their investment sum in the event of a successful sale of the business [Publican, 2004f].

4.3.8 REAL ESTATE INVESTMENT TRUSTS

November 2006 saw the publication of enabling legislation for the introduction of Real Estate Investment Trusts in the UK. Real Estate Investment Trust's (REIT) have been in existence for some years in the USA [Deutsche Bank, 2006g].

A REIT is a tax efficient vehicle for owning property assets. They have to be public equity companies which are listed on the stock exchange and they pay no corporation or capital gains tax. They also have to distribute most of their earnings as dividends [Deutsche Bank, 2006g].

Ignoring, for the moment, the fact that investors can own property by investing in companies that own property assets, investors can own property in three forms - directly, via investment in a building; indirectly through a listed company; or indirectly through a REIT [Deutsche Bank, 2006g].

The principal costs, covenants and restrictions are that properties have to be revalued at current market values; a conversion cost of 2% of this market value is payable to HM Treasury over four years; the REIT must pay out at least 90% of its tax-exempt profits in dividends; the REIT's must be publicly quoted vehicles, though what happens after the split, in terms of being bid for, is at present unclear and no single investor can own more than 10% of the equity of the REIT [Champ, 2007b].

Total rent cannot be more than 65% of the Operating Companies pre-rent EBITDAR. The pure rent component payable by the OpCo cannot be more than 50% of its EBITDAR, though it is possible to structure a turnover-related component to build up to 65%. There is no maximum loan-to-value restriction for REIT's, when gearing up the property assets, just a minimum interest cover ratio, which has been set at 1.25 times [Deutsche Bank, 2006g].

Deutsche Bank [2006g] suggests that the following problems may exist for PubCo's considering converting to become REIT's: -

- Separating ownership from profits may cause the valuers to rethink their measures. It may also cause problems when the operational imperatives of changing a pub's branding clashes with the property REIT's views on what is best for a particular pub.

- Share buy-backs and acquisitions will no longer be possible on the scale that some groups and their shareholders envisage. Buy-backs would be restricted to leveraging the cash flows within the OpCo's, not the enlarged business.

- For groups that are already leveraged via securitised debt, there could be additional costs in breaking the securitisation structures ahead of them rolling into REIT's.

4.4 BRANDING & SEGMENTATION

It is only in recent years that brewers and pub companies have begun to realise how profitable branding their retail estates could be [Cheaney, 1997].

The profile of the pub customer has changed significantly over the past twenty years and with it so has the profile of the pub. Indeed, there is no longer such a thing as a typical customer and pub retailers are now recognising that, to attract custom, they must target different segments of the market with pubs that cater for specific tastes [Cheaney, 1997].

This section will outline the roles that both branding and segmentation play in the licensed retail sector. An analysis of the capital spending patterns of the pub companies will also be included as pub companies have invested heavily over the past twenty years to brand and segment their estates.

4.4.1 SEGMENTATION

In the 1980s, when turnover, gross margins and net profits were continuing to rise, segmentation was not seen as the essential marketing tool it is today. It was not until the recession started to bite towards the end of the decade that shortcomings in knowledge and technique were exposed [Lyle, 1995a].

Why were the pubs on the large council estates doing so badly? Why were rural inns serving food doing comparatively well? [Lyle, 1995a].

These were these types of questions being posed in board rooms up and down the country. “All pubs are individual and should be viewed on a one-off basis”, said the traditionalists. “Pubs should be grouped by type and their performance measured against other pubs in their segment”, argued the marketing and financial directors [Lyle, 1995a].

The managing director (whose background was usually marketing or finance) agreed with the latter view, and pub segmentation began to develop [Lyle, 1995a].

Managers were then faced with the task of deciding how many types of pubs there should be and how to segment them. Location was the obvious starting point, and although this did split pubs into groups, it was crude and potentially misleading. Segmenting by user group, or potential user group, improved the quality of the information [Lyle, 1995a].

Most major pub owners now use this system in some form. They all have their own name for their pub segments, and will claim a multitude of sophisticated differences, but the main groups could be described as follows [Lyle, 1995a]: -

- the general local;
- the community local;
- the circuit pub;
- the town boozer;
- the quality traditional inn; and
- the destination pub.

Once the main groupings had been established, the next task was to get the right pubs into the appropriate groups. Many were obvious and slotted in quite easily. Others were less clear-cut, so census and demographic analysis were needed to aid the process.

Demographic programmes such as Mosaic and Acorn are used by many companies and information can be accessed by postcode. They describe different groups of people, what is important to them, whether they eat out often or drink wine or lager. Analysis of credit card spending on fashion, eating out or DIY is also available [Lyle, 1995a].

From this mass of information, it is reasonably easy to predict the likely success of a particular style of pub [Lyle, 1995a].

From this, it might be decided that a pub currently being operated as a general local could be better operated as a destination pub. Or a pub being run as a quality traditional inn might be more successful as a general local [Lyle, 1995a].

Other information introduced into the equation is the square footage of trading area. From this, it is possible to compare all pubs in a particular segment by average turnover, or barrelage per square foot [Lyle, 1995a].

4.4.2 BRANDING

Branding can be one, or a combination, of name, term, symbol, design or presentation, associated with a product or service. Modern branding involves the mix of values, both tangible and intangible which are relevant to consumers and which differentiate one supplier’s product from another [Murphy, 1987]. The brand can provide the customer with a perception of quality and consistency, and in some cases, a brand loyalty [Cannon, 1992]. Successful brands offer consumers something of value which is different from that offered by competitors, that is, “a significant point of difference” [Cannon, 1992].

The branding of a service such as a public house requires some adaptation as it is considerably harder to standardise the service operation than it is to standardise the manufacturing process and product. Murphy [1987] recognises that service product can be packaged, branded, advertised and promoted in the same way as tangible goods, but that they have the primary difference of the human ingredient. Thus, the concept of an identifiable, recognisable and reliable service within branding of public houses provides a key factor. Pub branding is composed of several elements including the products on sale, the design and layout of the premises, the location of the outlet, the pricing strategy, the service and quality and the overall image of the outlet.

The primary benefits of branding include [Lincoln & Elwood-Williams, 1995]: -

- helping buyers identify products they either like or dislike;
- assists the decision to buy or not to buy;
- helps buyers evaluate the quality of a product;
- reduces the risk of purchase;
- encourages repeat purchasing;
- facilitates promotional efforts and
- helps create brand loyalty.

The benefits of creating a strong brand in relation to the public house industry can be classified into both operational and marketing benefits (see Table 4.10).

Before the 1980s nearly all pub marketing and promotion was directed at individual pubs. The brewers were very estate orientated as well as operationally led, which meant that most pub promotion activities were aimed at selling more beer in a particular pub. The promotions were very rarely innovative or research orientated and usually consisted of activities including happy hours, beer promotions, live acts or discos, or the installation of items such as juke boxes or novelty pool tables. By the mid eighties marketing techniques had developed within the brewing industry and some of these were filtering down to their pub operations [Knowles & Howley, 1998].

Table 4.10: - Potential Benefits of Branding for Public Houses

Marketing Benefits	**Operational Benefits**
Assists segmentation & targeting Easily identifiable product Regional/national coherence Customer loyalty Advertising/promotional focus Added value to concept Customer orientation	Economies of scale Standardisation procedures Easier monitoring & control Quality assurance Easier replication of concept Greater speed of development Customer orientation

Source: Lincoln & Elwood-Williams [1995]

Even though the brewers were becoming more marketing orientated, the marketing of their pubs was still being based on maximising revenue from their existing estate. At this time some experimental brand concepts were being introduced such as Whitbread's Beefeater pub-restaurant and Courage's Harvester Restaurants (see Table 4.11). Many of these concepts were based on the success of branded restaurants and diners in North America and were seen as a way of revitalising pubs that were not performing well. Little consideration was being paid to whether there was a need for that concept in that particular location. Many of the early brand concepts were successful at first, purely because they were original to the British public and had a novelty value. Several of the earliest Beefeater pub restaurants have since been debranded, converted back to "normal pubs" or sold off, because they were situated in locations that were not suitable for that concept and failed once the novelty period was over [Knowles & Howley, 1998].

Many of the pubs disposed of in the wake of the Beer Orders were bought by new independent companies who were beginning to build up their own estates, for example, Enterprise Inns & Tom Cobleigh. The brewers obviously sold off their least profitable outlets first, so this meant that the new owners had to develop innovative ways in which to make their new estates profitable. Due to their size and entrepreneurial nature, many of the smaller independent pub chains started experimenting with new pub concepts and theme bars to appeal to niche markets. At the same time many of the larger independents and the brewers were starting to use branding as a means of positioning pubs to target specific market segments. The major brewers also reinvested the proceeds from the MMC disposals into their managed estates as they realised the huge potential that their estates offered [Knowles & Howley, 1998].

Table 4.11: - Pub Brands & Concepts

Brand	**Owner**	**Year Founded**
Carvery	Allied Lyons – no longer in existence	Late 1970s
Beefeater	Whitbread	1974
Berni Inns	Whitbread – no longer in existence	1955
Brewers Fayre	Whitbread	1981
Chef & Brewer	Grand Metropolitan [[7]]	1920s
Harvester	Mitchells & Butlers	1978
Hungry Horse	Greene King	1996
Toby Carvery	Mitchells & Butlers	1978
Vintage Inns	Mitchells & Butlers	1995

Source: Publican [2004b]

Development of Pub Branding

The resulting fragmentation of the pub market and the ensuing competition from the growing number of independent pub operators, led to the brewers having to completely overhaul their retailing operations. Many of the new independents, that did not have the cost advantages of the large operators, were becoming competitive by targeting niche markets with new pub concepts and theme pubs. Although some of the large operators had started to position some of their outlets to appeal to particular market segments before the Beer Orders, the new competitive nature of the pub market caused a rapid growth in differentiation and target marketing within the pub trade. Branding has been utilised in the targeting of particular market segments, by identifying the pub offerings with particular values held in high regard by the target group and at the same time enabling consumers to distinguish between different offerings [Knowles & Howley, 1998].

[7] These pubs started to serve food in the 1920s and the brand became well known. Scottish & Newcastle

Branding has moved the operation of the public house on from being operationally driven to marketing driven. Companies are now looking at their customers needs, defining an "ideal pub from a customer's point of view" and then finding the ideal sites that fit the criteria specified from their market research [Knowles & Howley, 1998].

The branding of pubs whose primary focus is on the provision of food is considerably more established than pubs concentrating on wet sales. There are some well established brands within this sector such as Whitbread's Brewers Fayre and Beefeater operations (see Figure 4.2). These two brands are run as managed houses which provide Whitbread with the operational control necessary to standardise the concept. In addition to the food-led pub brands, PubCo's have also introduced standardised core menus into their community and tenanted pub estates [Lincoln & Elwood Williams, 1995].

The need to provide a consistent food offer has also encouraged the move towards branding. The systems and standards needed to introduce food have required that pubs are brought under tighter management control [Martin Information, 1998]

Lincoln & Elwood Williams [1995] advocate the following benefits for branding pubs: -

- The potential benefit of a focus for advertising and promotion may well be lost. This is the case in large parts of the market where there is a consistent, readily identified set of deliverable requirements. In this case branding is possible and beneficial.

- There is a strong link between segmentation and branding. The use of the information provided by segmentation will prove invaluable in the development of successful brands and may also help in the more precise identification of attributes which make customers loyal to particular pubs. This can then be developed further by the use of brands but the development of brands will not encourage customer loyalty.

Retail developed its version of Chef & Brewer in the 1990s based on the original concept.

Figure 4.3: - UK Top 20 Pub Brands/Formats

Parent Company	Brands	No. of Sites	Average net weekly sales per pub
JD Wetherspoon	JD Wetherspoon	620	21,980
Whitbread	Brewer’s Fayre	282	16,100
M&B	Vintage Inns	198	20,500
Greene King	Champion	291	11,500
Whitbread	Beefeater	156	20,000
Whitbread	Brewster’s	144	21,100
M&B	Harvester	130	22,500
Spirit Group	Chef & Brewer	132	21,275
M&B	Ember Inns	170	16,500
M&B	Toby	91	30,000
Laurel Pub Co	Yates Wine Lodge	126	20,200
Laurel Pub Co	Hogshead	193	12,500
Greene King	Hungry Horse	142	14,500
Spirit Group	Two for One	150	13,200
Luminar	Chicago Rock Café	71	26,154
Whitbread	TGI Fridays	43	41,600
Regent Inns	Walkabout	46	36,936
M&B	Sizzling Pub Co	149	11,000
JD Wetherspoon	Lloyd’s No.1	50	31,064
Greene King	Old English Inns	85	17,500

Source: Deutsche Bank [2005e]

- Customer orientation is improving steadily in the pub industry. The development of strong, successful brands can only help this to continue, provided that the brands themselves are built on the needs and expectations of customers.

- The real benefits of branding to the pub industry appear to be focused on the operational side. It may be difficult to gain maximum value from economies of scale and easier control due to the need to ensure a good geographical spread of the branded pubs. However, the standardisation of operating procedures and systems which give a more consistent quality product and much easier and speedier replication of the concept could facilitate an increase in productivity and efficiency and cheaper investment and development costs.

There are also several disadvantages for PubCo's which follow a branding strategy. The pub has to deliver the branded experience consistently as failure to deliver results in customers going elsewhere and the brand creating a negative image. As an example, a branded pub-restaurant in Birmingham endured a period of poor management even though it had been subject to capital investment. As a result it lost sales to rival branded concepts even after the management situation had been resolved and continued to have a bad name even though the unit had been "turned around" [Lincoln & Elwood-Williams, 1995].

The benefits of security of choice for customers through an identifiable product and regional/national coherence are on the whole not something the pub customer seeks or is even likely to perceive as a positive attribute [Lincoln & Elwood Williams, 1995].

Customers may also dislike getting the same food everywhere, although this is an advantage for the PubCo as it assists with consistency and provides purchasing synergies and economies of scale [Shrimpton, 1998].

PubCo's also have to address how well known the brand name is when they decide to expand their brands. Slug & Lettuce experienced this in the late 1990s when it decided to expand its concept. The group took its Slug & Lettuce brand North but five of the new sites recorded a loss, partly blamed on the difficulty of taking it into a region where it was largely unknown [Ludmon, 2000a].

4.4.3 CAPITAL EXPENDITURE

There was a general lack of estate investment by the major brewers before the MMC's Beer Orders as they regarded the main function of their estates as selling their beer. They did begin to invest in catering during the 1980s and in 1986 alone the brewers spent £340m on improvements to their public house estates [Caterer, 1989].

By 1998 £1.5b was being ploughed into managed pubs, almost entirely into branded or themed concepts with the attraction being higher sales [Martin Information, 1998].

The high levels of capital investment which we have witnessed over the past decade has seen the birth of several brands and has been criticised by several financial analysts who argue that PubCo's have over-invested in their estates and have relied on capital investment to solve all of their problems [Mellows, 2000b].

Sceptics argue that while the returns on investment in a branding exercise are impressive – a return on capital of between 20% and 25% is typically claimed by the large operators – this is not sustainable in the long-term. In particular, it is questioned whether the higher capital cost of branding an outlet will repay itself over the full life cycle of the investment, for example, the Cock & Magpies Harvester (Birmingham) had over £1.2m [[8]] of capital investment over a three year period [Deutsche Bank, 2002c].

Analysts are also wary of PubCo's which don't invest in their estates. Ripping out investment is a very effective way of increasing short-term profits but also of destroying a businesses longer term prospects [Deutsche Bank, 2007h].

The combination of over investment and indifferent returns is symptomatic of a market characterised by an emphasis on non-price competition, indifferent consumer offerings, low entry barriers and over capacity on the supply side and lack of brand loyalty on the demand side. These factors point to the presence of a vicious downward spiral as described by Stuart Price, brewing analyst with Credit Suisse First Boston [Price, 1999].

At the start of this spiral, a first-mover company invests in order to maintain and/or increase asset utility as a result of, for example, flagging demand. This investment leads to higher prices in order to yield a return on investment. In the short term this also results in improvements in like-for-like sales and operational gearing, while the expenditure leads to a lower tax charge because it is a tax deductable allowance [Price, 1999].

In order to negate this perceived advantage and because of the low entry barriers, another company quickly enters the fray and erodes the first mover's competitive advantage. The

[8] The Cock & Magpies Harvester had £1,215m spent on it during two refurbishments in 1997 and 2000 and had an AWT of £18,000 in August 2002 [Deutsche Bank, 2002c].

original company counters such moves with further investment and maintenance capital expenditure, so adding further downward momentum to the vicious spiral [Price, 1999].

Operators that have gone down the branding road point to the financial advantages of branding to justify the huge investment of time and money into their branding strategies, for example, the national average weekly turnover per pub in 1998 was £5,871 whereas the average Brewers Fayre took £14,000 and the average Yates Wine Lodge took £17,000 [Knowles & Howley, 1998].

Operators can gain from economies of scale and synergies created from having a large chain of branded pubs through bulk buying from suppliers. They can also more easily gain additional funding from financial institutions if their expansion plan includes adding to an established brand [Knowles & Howley, 1998].

Constant pressure by the City to invest 'less but better' has led PubCo's to re-evaluate their capital investment programmes and all of the major operators have made cuts in their spending (see Chart 4.1) with 'sparkle' refurbishment programmes now more common throughout the sector [Mellows, 2000b], for example, Mitchells & Butlers was once criticised as spending too much money on its pubs but is now admired for its refurbishment programme [Deutsche Bank, 2002c].

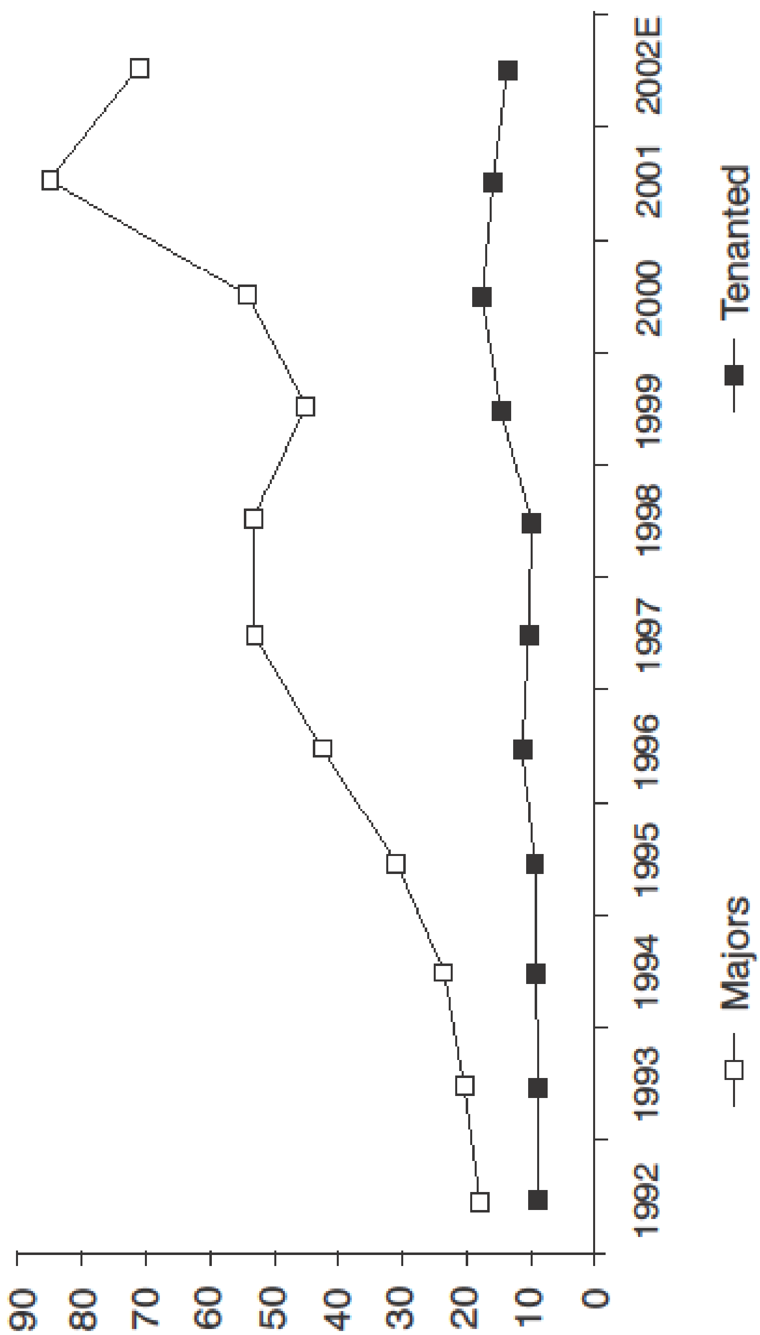
Figure 4.4: - Maintenance & Development Capex Spent

	2008 Estimate	**2009 Estimate**	**2010 Estimate**
Enterprise Inns	25%	24%	23%
Greene King	54%	55%	51%
Marston's	82%	70%	68%
Mitchell's & Butlers	64%	62%	58%
Punch Taverns	46%	52%	47%
JD Wetherspoon	30%	29%	29%
Whitbread	79%	57%	47%

Source: Deutsche Bank [2008j]

<u>Chart 4.1: - Major's Capex per Pub (GBP '000s)</u>

Source: Deutsche Bank [2002c]



4.5 THE CHANGING PRODUCT MIX

The licensed retail sector has transformed itself over the past twenty years from being focused solely on the sale of beer to being focused on the sale of food, alcohol, soft drinks, accommodation and the income generated through Amusement machines With Prize's (AWP).

This section will look at the role that each of these profit streams plays in the sector and will demonstrate which of the areas will grow within the next decade.

Accommodation

Whitbread (Travel Inn) and Greenalls (Premier Lodge) pioneered the budget hotel concept in Britain by developing hotels next to their existing pubs and by developing greenfield sites [Jones et al, 1996].

Whitbread gained control of Premier Lodge in 2004 and is the clear market leader but Mitchells & Butler, JD Wetherspoon, Eldridge Pope, Greene King and Brakspear have begun to develop this income stream through new-build development (Mitchells & Butlers) and through using existing under utilised space in their pubs (JD Wetherspoon).

There is a market for high quality hotel accommodation which is competitively priced and Whitbread has proved how profitable this source of income is as it has a single manager for both the Premier Travel Inn and the adjoining pub-restaurant. This maximises the profitability of the site and with Central Reservation Systems and associated systems it achieves an occupancy figure of 85% [Deutsche Bank, 2005e].

Leased/tenanted operators such as Brakspear and Eldridge Pope are able to recoup some of their investment by increasing the rent of the pub, for example, if a pub becomes successful then its property valuation increases and this provides the PubCo with an opportunity to raise its annual rent [Deutsche Bank, 2003a].

AWP’s & Gaming

This has been seen as an area of growth in recent years but this is projected to decline once the smoking ban comes into force in 2007 [Newton, 2006b].

This income stream is already lower than in 2005 and is predicted to fall further as the managed operators are focusing more on growing their food sales [Newton, 2006b].

Drink

This income stream was once solely based on the sale of beer but over the past twenty years we have witnessed falling volumes (and an increase of beer sales in supermarkets which have been able to discount quite heavily), although liquor sales this year are reported to be static, mainly due to increased cider sales [Newton, 2006b].

Soft drinks and wine have become the areas for growth as the once male-orientated pubs have become both female friendly and family focused. Awareness of drink-driving has also been a factor with regards to the growth of soft drinks as younger adults take it more seriously than their parents did [Hutt, 2002].

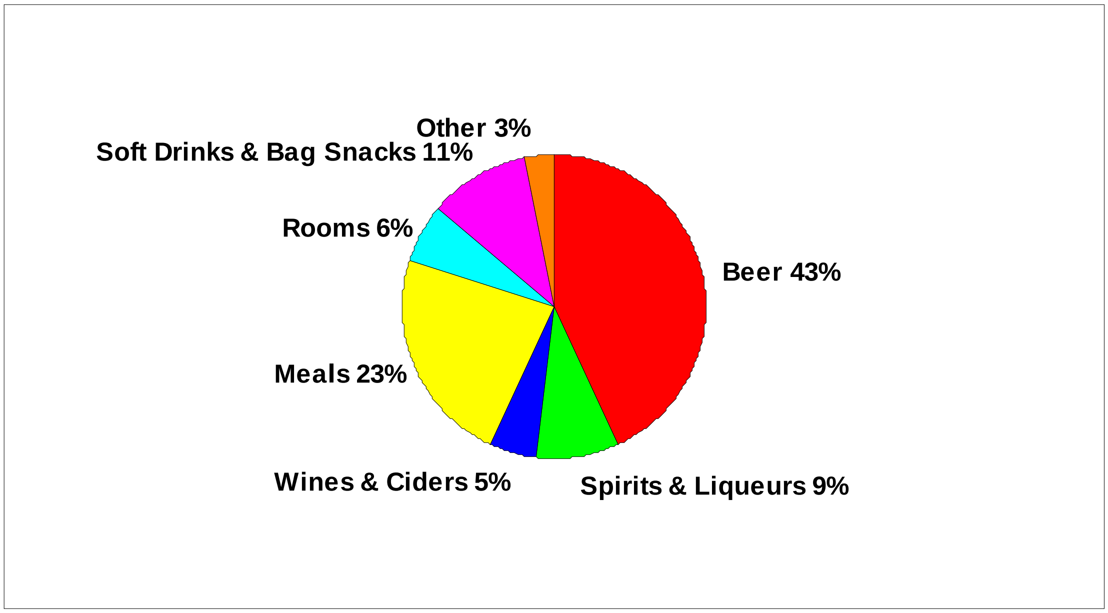
Food

Food is the key area for sales growth and all of the managed PubCo’s have been refocusing their estates in recent years to capitalise on this.

In 2002, food sales accounted for a quarter of the industry’s total sales and Mitchells & Butlers predicts that 40% of its sales will come from food by 2009, once it has converted its newly acquired ex-Whitbread sites [Deutsche Bank, 2006b].

The Publican [2006e] forecasts that food sales in pubs will increase by seven per cent between 2006 and 2011 to £3.7bn at 2006 prices.

Figure 4.5: - Sales Mix of an Average Pub 2006



Source: Deutsche Bank [2008j]

The managed PubCo's are investing heavily in growing food sales across their community estates to offset the predicted slump in sales when the smoking ban begins in 2007 [Caterer, 2007a]. The leased/tenanted PubCo's have also followed suit with Enterprise Inns and Greene King both disposing of pubs which they believe won't grow once the smoking ban takes hold.

Deutsche Bank estimates that around three-quarters of food spend in pubs could be classified as "staple", in that it comes through during the non-trend refuelling sessions of Sunday lunchtime to Friday lunchtime when people have to eat [Deutsche Bank, 2008a].

4.6 STRUCTURAL ANALYSIS

The increasingly dynamic nature of the environment has meant that in order to compete, or even simply survive, companies need a clear understanding of the forces shaping change and the potential impact of these changes. It is not sufficient, however, to view these changes in isolation. A holistic view which examines how they interact with one another and the industry must be taken. Porter's [1980] well known model provides a conceptual framework for this analysis which focuses on the impact of the forces on competitive rivalry in the industry.

4.6.1 PORTER'S MODEL (1980)

Porter's model provides a structured framework for examining the competitive environment to fully understand the forces at work as shown in Figure 4.6 [Johnson, Scholes & Whittington, 2008]. Porter's theory is based on the idea that a firm exists within an industry of other firms that produce products which are substitutes for one another – thus creating competition. Porter asserts that the state of competition in an industry depends on five basic forces: threat of new entrants, the power of suppliers, power of buyers, substitute products and competitive rivalry [Johnson, Scholes & Whittington, 2008].

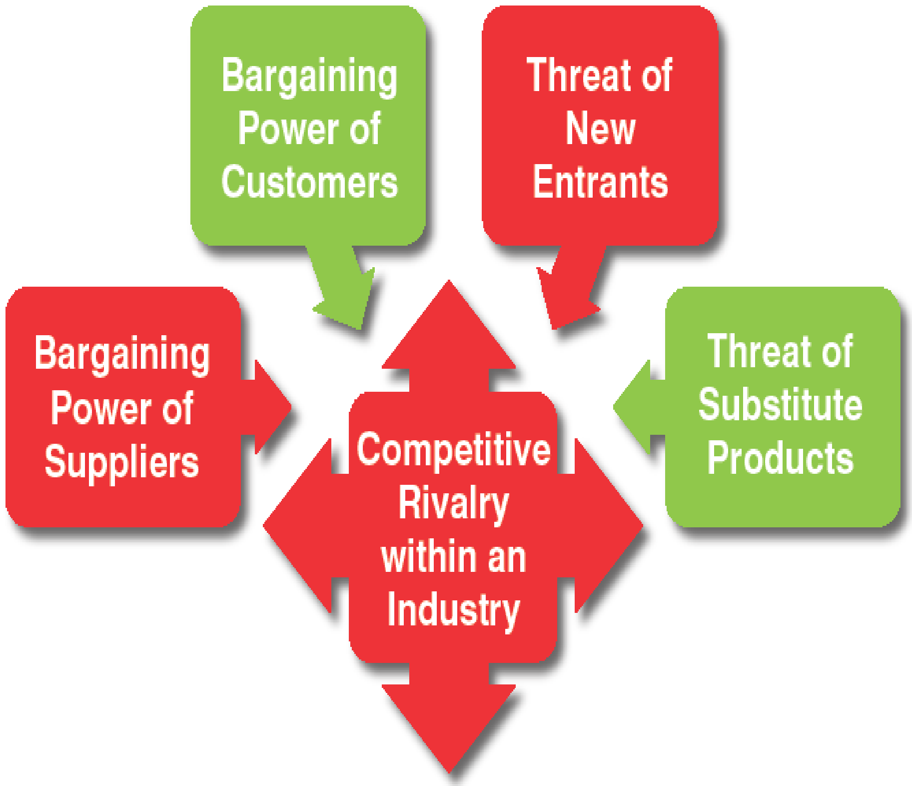
The aim of this analysis is that, armed with the understanding of the industry forces, decision makers can then position the company in the best defensive posture, influence the company balance by strengthening the company and anticipate changes in the competitive balance and exploit these changes before the competitors [Johnson, Scholes & Whittington, 2008].

4.6.2 THE CURRENT COMPETITIVE ENVIRONMENT

Williams & Lincoln [1996] used Porter's model to identify the major trends and predictions as to how the licensed retail industry might develop in the future.

The UK's licensed retail sector has changed considerably since this article was published. The researcher will use Porter's model as the framework for the analysis and the predictions regarding future developments within the sector.

Figure 4.6: - Porter's Model of Competitive Forces (1980)



Source: Childs [2007]

Threat of New Entrants

New entrants contribute to the capacity levels, affect prices and possibly reduce the profitability of the existing competitors. The importance of the threat of entry depends on the barriers to entry that are present and on the likely reactions from existing competitors [Williams & Lincoln, 1996].

Within the licensed trade, prior to the MMC investigation, the barriers to new entrants were exceptionally high. Given the dominance of ownership by the major brewers, new entrants into the industry were prevented from entering mainly due to the lack of available sites. The major brewers had the capital requirements to buy up any sites suitable for a public house [Williams & Lincoln, 1996].

Following the MMC investigation, there was an influx of properties placed on the market which provided low entry barriers [Williams & Lincoln, 1996]. This trend has continued as PubCo's churn their estates and leased PubCo's look for lessees to lease their pubs.

These low entry barriers are reflected by the average property costs in the sector. During 1998, the average leasehold pub was £68,850, while private freehold units sold for £473,250, and a brewery freehold sold for £156,000 [Price, 1999].

The pub retailing market is also over-supplied to the extent that, nationally there is one pub for every 760 people. In addition, this over capacity remains despite the churning of pub estates. The pubs are usually sold to another pub company and/or new entrant, and therefore remain in the sector [Price, 1999].

The other reason for over capacity has to do with the provision of loans by the brewers to the free-trade. The standard defence of the practice by the brewers is that it enables new entrants to the pub trade and others to build up their businesses and that it is cheaper than other forms of credit [Price, 1999].

The constant restructuring and consolidation which has taken place within the sector has displaced a number of senior managers. This has created a pool of qualified labour resources and potential investors for PubCo's. As such, this has assisted the breakdown of barriers to entry for new retailing organisations [Williams & Lincoln, 1996].

The threat of new entrants is expected to fall as local authorities gain control of licensing. The high-street sector has also struggled in recent years due to over-capacity and investment by operators such as Laurel which is now solely focused on the high-street [Publican, 2004g]. These factors have made the town centre and high-street pubs unpopular to potential lessees and investors.

Finance is readily available to both PubCo's and individuals and, with the decision to scrap the recommendations of the MMC's investigation, PubCo's such as Greene King are now expanding their estates beyond the limit which was once imposed. This has and will continue to provide opportunities for PubCo's and lessees/tenants [Publican, 2005h].

Power of Suppliers

The four major brewers represent a powerful supplier group. The industry is dominated by a few large companies and thus power is extremely concentrated. InBev, Carlsberg, Coors and Scottish & Newcastle jointly account for 80% of the UK's beer market.

Although the major brewers now distribute hundreds of beers on behalf of regional brewers, the leased/tenanted PubCo's have been criticised for pressuring lessees and tenants to stock particular products. Punch Taverns and Enterprise Inns control over 25% of the UK's pubs between them and so are able to sign lucrative supply deals and push particular brands through their pubs in order to get the best returns.

Public houses, as suppliers, are weak. They wield low power as they are fragmented and largely undifferentiated. The tied house arrangement and other supply agreements provide further power for the brewers as suppliers. Switching supplier is very difficult if a tied agreement is in place as the supply tie is a prerequisite of the lease/tenancy. The major brewers have achieved additional supplier power by creating strong national brands supported by heavy advertising and promotion [Williams & Lincoln, 1996].

Through the guest beer ruling, it can be said that pubs now have more power as suppliers in that they have greater opportunity to differentiate their produce and buy a guest beer from any supplier [Williams & Lincoln, 1996].

The exceptionally high level of beer duty in the UK reduces the supplier power of the brewers somewhat. Not even the most powerful suppliers can influence the mandatory level of duty on alcohol. The brewers have lobbied the government to reduce beer duty to no avail. Despite this, the brewers have used pricing tactics, especially discounting, to attract custom from the untied independent operators. These discounts, sometimes over £85 a barrel to independents, provided the impetus behind the recent OFT enquiry into the price disparity between tied tenants and leaseholders compared to independents.

Power of Buyers

Pubs as buyers have limited power due to their fragmentation and the supplier power of the brewers. However, following the MMC outcome and the creation of independent pub retailing companies, their buyer power is increasing. In considering customers as buyers, despite being fragmented, they represent a powerful buyer group. This can be attributed to the oversupply of public houses in the UK, the declining alcohol consumption rates and the fact that visits to public houses are on the decline. There are many reasons behind this shift [Williams & Lincoln, 1996]: -

1. The move from manufacturing employment to service industries;

2. The changing demographics of the country – the traditional pub customer base of young people – are shrinking in size;

3. The home-centeredness of the population resulting in more at-home drinking;

4. The greater number of alternatives for the population's disposable income, and

5. The changing attitudes of the population, particularly the increasing health awareness.

6. A decline in consumption amongst middle aged/elderly.

7. The impact of binge drinking, especially on young people and a

8. Focus on Friday and Saturday nights

Substitute Products

The number of substitute products competiting for the 'leisure pound' has increased dramatically in recent years. Competition from sports and leisure activities such as cinema, shopping and travelling means that pubs have to offer more of a leisure experience in order to maintain their competitive edge [Williams & Lincoln, 1996].

Home drinking has affected the licensed trade with off-sales increasing at the expense of the on trade. The supermarket giants have fuelled this by selling bottled lagers at a fraction of the cost which the consumer would pay in their local pub [Publican, 2004g].

The new technology relating to canned bitters and stouts has had a significant impact as brewers can produce canned products which taste identical to their traditional draught counterparts [Williams & Lincoln, 1996].

From a technology perspective, the advent of cable, satellite and big screen television has enabled easier access to major sporting events and provided a suitable media for screening such events to large groups. Cable and satellite television can also offer competition to pubs in providing leisure activities [Knowles & Howley, 1995].

The growth in branded restaurants such as Nando's, Frankie & Bennys and Pizza Hut has also affected the licensed retail sector as they have introduced children's menus and lunchtime offers which have taken trade away from pubs.

Competitive Rivalry

Rivalry among existing competitors takes the form of "jockeying for position" using tactics such as price competition, product introduction and advertising [Porter, 1980].

Rivalry within the licensed trade is intense. The slow growth and the maturity of the industry contribute to competitive rivalry. In response the PubCo's have tried to diversify their businesses into food retailing [Williams & Lincoln, 1996].

The consolidation which has taken place over the past twenty years has resulted in over-capacity in some market segments and increased price war activity, for example, price war activity, falling margins and oversupply have become prevalent over the past five years within the high-street sector. Some PubCo's have responded by divesting their high-street estates and focusing investment on their community estates, for example, Spirit Group disposed of its high-street estate to the Tattershall Castle Group in 2005.

Summary

The licensed retail sector is constantly under pressure from new entrants, suppliers, buyers, substitute products and competitors [Williams & Lincoln, 1996].

The main forces affecting the sector have been listed above but the impact of the smoking ban, an increase in operating costs and the possibility of weak consumer spending in the near future will also force change on the sector [Freehely, 2005b].

It is therefore essential that each PubCo monitors its business environment in order to offset and address these forces, for example, M&B is the biggest prevalent operator to have followed this route as it has managed to grow its business even though it has had to absorb an additional £95m of additional costs since 2003 [Deutsche Bank, 2006h].

CHAPTER SUMMARY

The licensed retail sector was for many years the sleeping giant of the UK hospitality industry. For years the industry was conservative, slow to change and very traditional in its outlook [Williams & Lincoln, 1996].

The Beer Orders (March 1989) changed this and since the early 1990s the UK pub market has gone through a period of unprecedented change, from the structure of pub ownership to the range of products sold [Williams & Lincoln, 1996].

The 1960s and 1970s saw the emergence of six national brewers and by 1989 these organisations owned 40% of the UK's public houses, therefore creating a monopoly between them [Williams & Lincoln, 1996].

The Conservative government of the late 1980s became aware of this monopoly and commissioned the Monopolies & Mergers Commission to investigate the sector.

The MMC reported that there were two ways in which the brewers affected competition, namely they restricted the supply of drinks to the pubs they owned and they had captured about half of the freehouses by offering low interest loans if the free trade agreed to only sell the brewer's products [Knowles, 1993].

The MMC recommendations were legalised and the Beer Orders removed the ability of the brewing industry to guarantee the sale of its own products in its own pubs, effectively forcing the major brewers to dispose of large swathes of freehold pub property [Deutsche Bank, 2001].

Subsequently, five types of pub operators or retailers emerged. These were national retailers with brewing interests; national retailers with no brewing interests; regional or local retailers with brewing interests; regional or local multiples with no brewing interests; and totally independent operators of freehouses [Lashley & Morrison, 2000].

Deutsche Bank estimates that over £18bn of pub property changed hands between 1991 and 2001 and the pace of activity has accelerated over the past five years as further consolidation has taken place throughout the sector [Deutsche Bank, 2001].

The MMC's recommendations didn't reduce the monopoly that existed and, in effect, the national brewers have been replaced by national pub companies such as Punch Taverns and Enterprise Inns [Publican, 2006d].

A PubCo can either operate managed houses, leased pubs, tenanted pubs or a combination of the three. New developments over recent years have included franchise agreements and outsourcing – in which the PubCo manages an estate on behalf of a property investor [Publican, 2000i].

PubCo's have in recent years used a variety of methods to raise additional capital in order to develop their estates. Bank debt, Initial Public Offering's, sale & leaseback, securitisation and venture capital involvement have been the more prevalent methods.

The PubCo's have turned to segmenting and branding their estates in order to differentiate their pubs. This in turn has led the PubCo's to invest heavily in their estates with some being accused of 'over-investing' [Deutsche Bank, 2002c].

The product mix has also changed over the past twenty years with accommodation, food, wine and soft drinks becoming growth areas. Food is seen as the major area for growth with both managed and leased/tenanted PubCo's upgrading their estates in order to focus on this area [Publican, 2006e].

An analysis of the competitive forces affecting the sector was provided and was based on a previous study by Williams & Lincoln [1996]. It was concluded that a PubCo should constantly monitor the forces impacting upon it in order to offset and address them before the business is affected.

<u>CHAPTER FIVE: - LICENSED RETAIL PERFORMANCE MEASURES</u>

INTRODUCTION

This chapter consists of a literature review which focuses on the performance measures used by both Pub Companies and financial analysts.

The first section of this chapter identifies the performance measures advocated in the literature before providing an analysis of the most commonly used measures.

The second section focuses on the secondary data obtained from financial analysts and identifies the performance measures used to analyse the performance of Pub Companies.

5.1 MEASURES IDENTIFIED IN THE LITERATURE

The data contained in this section is from financial accounts, national newspapers and trade newspapers (see Appendix 8) and was used to develop the Pub Company and financial analyst questionnaires.

The Publican, a weekly trade newspaper, was studied extensively in order to determine the commonly used performance measures. This source was extremely useful as financial analysts regularly contribute to the 'Business' section, which also provides a more comprehensive analysis of the licensed retail sector than the broadsheet newspapers.

The first reference to Pub Company-related performance measures dates back to 1993 and identifies turnover, gross profit, operating profit, pre-tax profit, property assets, net assets, net borrowings, gross margin, operating margin, net borrowings/net assets and pre-tax profit/net assets as being the measures commonly used [Publican, 1993].

The commonly used performance measures within the UK's licensed retail sector are listed in Table 5.1, along with a description of each individual performance measure.

These performance measures are used by more than one Pub Company and are evidently used by both managed and leased/tenanted Pub Companies.

A number of additional measures were identified (see Table 5.2) but these seem to be used to a lesser extent than those listed in Table 5.1.

Mitchells & Butlers (managed) and Punch Taverns (managed, leased/tenanted) identify their Key Performance Indicator's in their financial accounts and these measures can be seen in Table 5.3 and Table 5.4. These two organisations were selected as they are largest managed and leased/tenanted Pub Companies in operation at the time of publication.

Table 5.1: - Measures Identified in Literature

Measure	**Description**
Average Capital Expenditure Spend	Total amount spent on capital expenditure divided by the number of pubs in the estate [Deutsche Bank, 2002d].
Average Weekly Take	Average sales per pub per week, calculated as total sales divided by the average number of pubs trading in the year divided by 52 weeks [Mitchells & Butlers, 2004].
Average Profit per Pub	Profit divided by number of pubs [Stretton, 2004b].
Capital Expenditure	Money spent to acquire or upgrade physical assets such as buildings and machinery, also called capital spending or capital expense [Investorwords, 2009a].
Cash Flow from Operations	Cash generated from the operations of the Company, defined as revenues less operating expenses [Mitchells & Butlers, 2006b].
Dividend Cover	Number of times that profit for the year covers dividends paid and proposed [Punch Taverns, 2006].
Diluted Earnings per Share	This is earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period and shares from the assumed conversion of convertible bonds [Punch Taverns, 2006].
Dividend Cover	A measure which shows the number of times that profit for the year covers dividends paid and proposed [Punch Taverns, 2006].
Earnings per Share	A performance measure that expresses the earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period [Punch Taverns, 2006].

EBITDA	This can be defined as earnings before interest, tax, depreciation, amortisation and exceptional items [Mitchells & Butlers, 2004].
EBITDAR	Represents earnings before finance income, finance costs, movement in fair value of interest rate swaps, UK income tax, depreciation, amortisation, rental costs and profit on sale of non-current assets [Punch Taverns, 2006].
EBITDARM	Gross operating profit of the tenant/lessee before extraordinary and exceptional items, interest, tax, dividends, rent and before repairs and maintenance spend and depreciation. It is struck after the lessee/tenant's reasonable costs; and it excludes the profit that the PubCo makes from the brewer [Deutsche Bank, 2007j].
Gearing	The ratio of a company's long-term funds with fixed interest to its total capital [Investorwords, 2009b].
Gross Margin	Can be defined as gross profit divided by sales and expressed as a percentage [Mitchells & Butlers, 2004].
Gross Profit	Gross profit can be defined as sales less cost of goods sold, expressed in monetary terms [Mitchells & Butlers, 2004].
House EBITDA	EBITDA divided by the number of pubs in the estate [Stretton, 2004b].
Incremental Pre-tax Returns	Growth in annual pre-tax operating profit expressed as a percentage of the associated capital investment [Mitchells & Butlers, 2006b].
Interest Cover	A measure which shows the number of times EBITDA covers the net finance income and finance cost [Punch Taverns, 2006].
Like-for-Like Sales	A comparison of sales on a pub-by-pub basis across an entire estate. Pubs used in this gathering of comparable information will have been owned for at least two trading periods [Stretton, 2004b].

Liquidity	Liquidity is the amount of cash or cash equivalents that a business has to cover its daily operating expenses [Hales, 2005].
Net Assets	Total assets less current and long-term liabilities and other provisions and charges [Publican, 1993a].
Net Borrowings	Total of short and long-term bank and other borrowings from all sources less cash balances [Publican, 1993a].
Operating Profit	Defined as earnings before interest, tax and exceptional items [Mitchells & Butlers, 2006b].
Pre-tax Profit	Profit from all sources before deducting taxation. Normally this figure will include profit on disposal of properties, except where specifically stated otherwise [Publican, 1993a].
Property Assets	This can be defined as the net book value (after depreciation) of the company's freehold and leasehold properties [Publican, 1993a].
Turnover	Consists of sales, rents and other trading income, normally excluding VAT and intra-group sales [Publican, 1993a].
Operating Margin	Operating profit divided by turnover expressed as a percentage [Publican, 1993a].
Operating Profit per Pub	Operating profit divided by the number of pubs [Publican, 1993a].
Operating Result	Profit after deducting all operating expenses including depreciation and amortisation [Punch Taverns, 2006].
Net Debt	Loans, convertible bonds and finance leases net of other interest bearing deposits and cash and cash equivalents [Punch Taverns, 2006].
Sales Mix	The proportions of sales coming from different products or services. Changes in sales mix often affect profits because different products often have different profit margins, therefore a change in the sales mix can have an impact on profits

	even if total revenues are unchanged [Moneyterms, 2009a].
Square Metre/Square Feet	Calculated by dividing the total sales by the square meterage/footage of the service area, for a specific period [Lillicrap & Cousins, 2006].
Peg Factor	Ratio between a share's price-earnings ratio (arrived at by dividing the share price by after tax profits, or "earnings" per share) and the rate at which earnings are growing [Temple, 1994a].
Total Shareholder Return	The growth in value of a shareholding over a specific period, assuming that dividends are reinvested to purchase additional shares [Punch Taverns, 2006].
Working Capital	This is short term disposable capital used to finance day-to-day operations and calculated as current assets less current liabilities [Punch Taverns, 2006].

Table 5.2: - Additional Measures Identified

Measure
• Administration Costs [Champ, 2008] • Average profit per branded site [Champ, 2007j] • Average Profit per Pub [Stretton, 2004b] • Average Profit per Leased Pub [Punch Taverns, 2006] • Dividend per share [Champ, 2007h]. • Incremental Return On Investment [Mitchells & Butlers, 2007b] • Like-for-like cover numbers [Champ, 2007j] • Underlying earnings per share [Champ, 2007h]. • Weekly food sales per pub [Champ, 2007h] • Year-on-year beer volumes [Champ, 2007i]

<u>Table 5.3: Mitchells & Butler's: Key Performance Indicators</u>

<u>KPI</u>	**<u>Explanation</u>**
Same Outlet Like-for-Like Sales Growth	The sales this period compared to the sales in the same period in the previous year of all managed pubs that were trading throughout the two periods being compared, expressed as a percentage.
EPS Growth	The Earnings per Share for the period before exceptional items, compared to the comparable period last year as reported in the financial statements expressed as a percentage.
CROCCE in excess of WACC	The post-tax Cash Return on Cash Capital Employed (CROCCE) compared to the Weighted Average Cost of Capital post-tax (WACC), where the cash return is earnings before interest, tax, depreciation and amortisation less cash tax that would be charged on operating profit without any tax shield from interest. Cash Capital Employed is the average net operating assets, plus the average accumulated depreciation, plus goodwill written off, less the historical revaluation reserve. The WACC is the post-tax weighted average cost of capital, calculated using the post-tax cost of debt during the year and the cost of equity, weighted according to the proportion of the Company financed through both debt and equity.
Incremental Return on Expansionary Capital	Incremental return is the growth in annual pub operating profit expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. Sites are included once they have been trading for three months. For sites which have not been trading for a full 12 months, incremental return is estimated based on an annualisation of actual post-investment trading. Expansionary capital is capital invested to increase the trading area of a pub or to materially change the customer offer. Expansionary capital represents investment over and above the maintenance investment cycle for a pub.

Source: Mitchells & Butlers [2006a]

Table 5.4: Punch Taverns: Key Performance Indicators

Key Performance Indicators
• Diluted earnings per share • Dividend cover • Earnings per share • Earnings before interest & divisional overheads, tax, depreciation and amortisation (EBITDA) • Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR) • Interest cover • Operating result • Net debt • Profit before tax • Working capital

Source: Punch Taverns [2006]

5.2 COMMONLY USED PERFORMANCE MEASURES

A number of performance measures are evidently used extensively within the UK's licensed retail sector. This section will describe the more commonly used measures and will also identify some of their weaknesses.

Average Weekly Take

Mitchells & Butler's [2004] calculates the average sales per pub per week by dividing its total sales by the number of pubs trading in the year followed by dividing this figure by 52 to represent the number of weeks.

Average Weekly Turnover (AWT) is usually seen as a reasonable guide to the quality of the estate, but it is not infallible. Unit size is not necessarily important, and averages can be misleading [Deutsche Bank, 2007g], for example: -

In Mitchells & Butler's (M&B) Pub Restaurant division, Average Weekly Take in 2006 was just over £25,000, whilst in its Pubs & Bars division it was just under £15,000.

Deutsche Bank estimates that M&B's drive brands/formats account for only 62% of the estate at present, and the Average Weekly Take spread across the differing formats varies from £12,500 to £43,000 [Deutsche Bank, 2007g].

Turnover per pub in a tenanted or leased pub is more of a mathematical function of how the landlord collects rent, than a true indicator of actual turnover [Deutsche Bank, 2008a].

Earnings before Interest, Tax, Depreciation & Amortisation (EBITDA)

EBITDA represents earnings before finance income, finance costs, movement in fair value of interest rate swaps, UK income tax, depreciation, amortisation and profit on sale of non-current assets [Punch Taverns, 2006].

EBITDA is the principal measure that accountants and investment banks use to look at the value of businesses, stripping out the variations to attempt to get to the underlying value of the business via its potential profitability [Booth, 2006].

The post "Beer Orders" [[9]] owners of pubs bought into the EBITDA way of looking at pub businesses. After all, their advisors who were responsible for raising the cash understood it and their funding providers accepted it. As a result the accountants and investment bankers quoted it all the more [Booth, 2006].

The problem with EBITDA is that accountants and investment bankers don't recognise whose EBITDA they're talking about. As a measure for most pub values EBITDA depends on buying power and just because a buyer made money from finding underperforming or untapped assets in a rising market doesn't make the decision-making process right. They also miss the point that pubs were for a long time a brewer's means of supply, not owned or considered for their own sake, so lots of gains their clients made were property profits and unrecognised potential [Booth, 2006].

[9] The period after the Monopolies & Mergers Commission's report, when the brewers complied with the recommendations by disposing of large swathes of pubs [Deutsche Bank, 2001].

When commentators also start to compare the EBITDA of an old established brewery company which owns pubs, with the EBITDA of a group of pubs sold by a Pub Company to judge who sold well and who sold badly, then something is amiss [Booth, 2006].

The problem with EBITDA is that the quest for wholesale profit depends upon the buying power of the owner. Enterprise Inns, with their thousands of barrels a week, will get their beer deal at a better price per barrel than someone owning only a few pubs. So by EBITDA measures, a group of pubs owned by Enterprise Inns would logically be worth more to them [Booth, 2006].

Booth [2006] suggests that tenanted/leased Pub Companies should be measured on their income streams using “Fair Maintainable Trade”. This should then be capitalised using a yield (years purchase or multiple of profit) in a way similar to multiples of EBITDA. This method strips out relative buying power [Booth, 2006].

The use of an EBITDA valuation for a managed group masks, or ignores the fact that a large chunk of depreciation has to be exposed, so that the managed pub assets are kept up to scratch. In a leased or tenanted pub, this cost is usually borne by the lessees, not the PubCo [Deutsche Bank, 2001].

House EBITDA is also commonly used by Pub Companies but Deutsche Bank believes this to be a deeply misleading practice, since it does not include two of the largest costs that Pub Companies incur – namely depreciation and head office overheads [Deutsche Bank, 2007d].

<u>Like-for-Like Sales</u>

Like-for-Like Sales is a comparison of sales on a pub-by-pub basis across an entire estate. Pubs used in this gathering of comparable information will have been owned for at least two trading periods and, if used consistently, will indicate to a Pub Company and to the wider market whether trading is either improving or deteriorating [Stretton, 2004b].

If for example, one establishment shows sales of £100,000 last year and sales of £104,000 this year, this equates to like-for-like sales growth of four per cent. Apply this across an entire estate and you get a pretty good measure of how the management is organically growing the business [Stretton, 2004b].

Some companies are rather more forthcoming than others when it comes to revealing quite what they mean by the phrase ‘like-for-likes’ [Champ, 2006c] but analysts and fund managers rely heavily on ‘like-for-like sales’ to benchmark consumer-facing companies against each other [Publican, 2003b].

It is widely accepted that like-for-like sales figures should strictly exclude pubs that have seen significant investment of typically more than £20,000. Pubs that see more cash than that will naturally attract more customers and consequently see an increase in sales as a result of the re-invigoration. Therefore such a pub should be left out because it would unfairly lift the numbers [Stretton, 2004b].

The industry has a problem with like-for-like sales figures as the criteria for how they are measured differs from company to company (see Table 5.5) which therefore makes it impossible to compare peer groups and management teams [Stretton, 2004b].

There are a number of ways to manipulate ‘Like-for-Like Sales’ and the following are some of the more prominent methods: -

- Sell a significant part of your estate, for example, Whitbread sold 50 underperforming Beefeater restaurants in 2003 which resulted in a four per cent rise in like-for-like sales. These restaurants were in decline and their exclusion lifted like-for-like figures dramatically [Stretton, 2004b];

- Declare part of your estate “non-core” – even before you sell it, and exclude these sites from the sample [Stretton, 2004b];

Table 5.5: Mitchells & Butler's Like-for-Like Sales Definitions

Measure	Explanation
Same Outlet (invested)	Includes the sales performance for the comparable period in the prior year of all managed pubs that were trading for the two periods being compared. Mitchell & Butlers includes 85% of its estate in this measure.
Uninvested	Includes the sales performance for the comparable period in the prior year of those managed pubs that have not received expansionary investment of more than £30,000 in those two periods being compared. Mitchell & Butlers includes 75% of its estate in this measure.

Source: Mitchells & Butler's [2007b]

- Spend a small amount of cash on a badly performing site – the "lampshade" phenomenon. This will have little impact on trading but the company then excludes it from like-for-like sales figures because it has seen capital expenditure, and therefore it would distort the figures. In reality, a poor site is removed from the comparisons [Stretton, 2004b];

- Convert managed pubs to tenancy which therefore excludes the pub from the sample [Deutsche Bank, 2001]. This exercise is more prominent with PubCo's which operate both a managed and leased/tenanted estate as pubs can be easily transferred between operations;

- Sell small pubs and buy larger bigger ones [Deutsche Bank, 2001];

- De-brand a pub and then exclude it from the sample because its "inclusion" would "distort" the underlying picture of the brand [Deutsche Bank, 2001]; and

- Open pubs at the end of your accounting period, so that they can be included in the like-for-like sample at the earliest opportunity, for example, JD Wetherspoon opens several pubs before its year end, so there is an immediate uplift in the comparable figures in the beginning of year three [Stretton, 2004b].

SFI Group was one PubCo which used various methods to manipulate its 'Like-for-Like Sales'. SFI used the "lampshade" phenomenon and regularly identified poorly performing sites which they ring-fenced in order to exclude them from yearly comparisons, for example, SFI Group's 'For Your Eyes Only' [[10]]. The later method is known as the "we still run them, but don't really want them" technique [Stretton, 2004b]

The Publican [2007j] concludes that a true definition of Like-for-Like Sales is elusive and that consistency over time within the same PubCo may be more important and achievable than consistency across a diverse industry.

[10] SFI tried to dispose of 'For Your Eyes Only' for several years without success [Publican, 2003f].

CHAPTER SUMMARY

Secondary research has identified the performance measures most commonly used by the Pub Companies. It is concluded that different performance measures are used to measure the performance of both managed and leased/tenanted public house estates.

A lack of transparency also exists within the sector as a number of measures can be manipulated by the Pub Companies, for example, Like-for-Like Sales [Stretton, 2004b]. This lack of transparency therefore makes comparisons amongst the Pub Companies to be particularly difficult [Publican, 2003b].

CHAPTER SIX: - METHODOLOGY

INTRODUCTION

Chapters Two and Three reviewed the existing literature relating to performance measurement and the Balanced Scorecard. In addition, a comparison and review of the position of the Balanced Scorecard within the hospitality industry has indicated that it is used predominantly in the hotel sector.

This chapter explains the methodological procedures used for the research project and the methods used to collect and analyse the required data.

6.1 RESEARCH TOPIC

A review of the literature has highlighted a number of theoretical gaps which warrant investigation. These gaps, and the use of the Balanced Scorecard within the UK's licensed retail sector, are considered to be the main focus of the research.

Research has shown that UK hospitality organisations have relied predominantly on financial performance measures and that hospitality-related research on performance management is limited and largely focused on U.S. hotels [Brander-Brown & Harris, 1998; Atkinson & Brander-Brown, 2001].

Therefore, this research is concerned with identifying the financial and non-financial performance measures used by Pub Companies and whether a broader approach, such as the Balanced Scorecard, can benefit the sector.

6.2 METHODOLOGICAL APPROACHES

Cohen et al. [2000] distinguish between the terms **research methods** and **research methodology**. **Research methods** refer to the range of approaches used to gather data that is subsequently used as a basis for inference and interpretation, and for explanation and prediction. In other words, the various means by which data can be collected and analysed [Cohen et al. 2000].

Research methodology refers to the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data. With reference to research methodology in a social science context, Creswell [1994] and Cohen et al [2000] argue that there are two approaches from which research methodology can be derived: a positivistic approach and a phenomenological approach [Hussey & Hussey, 1997].

The positivistic approach can be termed as quantitative; objective; scientific; experimentalist; traditionalist or empiricist. The phenomenological approach can be termed as qualitative; subjectivist; humanistic; interpretivist or post-positivistic.

The positivistic approach seeks the facts or causes of social phenomena, with little regard to the subjective state of the individual. Thus, logical reasoning can be applied to the research so that precision and objectivity can be achieved when investigating research problems and explaining the results. Explanation consists of establishing any type of relationship between the variables and linking them to a deductive or integrated theory [Hussey & Hussey, 1997; Remenyi et al. 1998; Cohen et al, 2000; Robson, 2002].

The phenomenological approach, on the other hand, has emerged as a result of criticisms of the application of the positivistic approach in social science. The phenomenological approach views 'reality' as socially constructed and ascribed meaning by people. Thus, the act of investigating reality has an effect on that reality and considerable regard is paid to the subjective state of the individual. More specifically, this approach to research stresses the subjective aspects of human activity by focusing on the meaning, rather than the measurement, of social phenomena [Gilbert, 1999; Smith, 1991, Hussey & Hussey, 1997; Remenyi et al, 1998; Cohen et al, 2000; Robson, 2002].

The most significant distinguishing feature between the two approaches is that adopting either approach leads the researcher to employ a specific research methodology. The phenomenological approach requires a research methodology that is concerned with generating theories by collecting and analysing qualitative data in order to describe and/or explain a phenomenon in its particular context. The researcher uses mainly interactionist methods, such as open questionnaires, focus groups, and semi-structured and unstructured interviews. The balance between researcher and respondent(s) is more equitable: ideally, such methods foster the personal growth and development of both parties. However, there are inherent difficulties regarding the objectivity of researchers: they must be fully aware of their biases, and endeavour to demonstrate integrity and rationality in the methods they use.

The positivistic approach requires a research methodology that is concerned with testing hypotheses by collecting and analysing quantitative data in order to arrive at generalisable inferences that are often based on statistical analysis. The researcher focuses on the observable, testable and manipulable, using closed questionnaires and structured interviews. Cross-sectional studies, longitudinal studies, experimental studies and factorial studies are considered as types of research that can be grouped together under the heading “positivistic methodology” [Cohen et al, 2000].

Hussey & Hussey [1997] pointed out that the positivistic and phenomenological approaches are two extremes of a continuum and it is unlikely that researchers in social sciences operate within their pure forms. The differences between the actual research methodologies adopted by the researchers are not so clear-cut. Therefore, the choice of either methodology should be based on the research questions and objectives that are to be addressed by the researcher.

A predominantly quantitative (positivistic) approach has been adopted for this research, in order to address the research questions and to fulfil the research aims. This is because the empirical study is designed to examine the linkage between particular variables and to test precise hypotheses [Gilbert, 1999].

A survey strategy has been used as the main method for data collection: postal questionnaires were used to collect data on the performance measures employed within the UK’s licensed retail sector.

Postal questionnaires were chosen due to the comparatively short period of time that it takes to distribute, complete, return and analyse them. It would have taken several months to interview all the potential respondents; by using questionnaires it was possible to obtain fairly accurate results at a relatively low cost. Postal questionnaires afford respondents the privacy and time in which to consider their responses. The absence of an interviewer can effectively limit interviewer bias [Robson, 1993]. The questionnaires could have been sent by electronic mail but it would have involved the identification of specific personnel from each Pub Company and this would have taken additional time and resources to execute.

The research was extended through the use of a case study strategy. Robson [1993 p.50] defines a case study as “*a strategy for doing research which involves an empirical* *investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence*".

This strategy enabled the development of five in-depth case studies which are then used to investigate empirically the use of performance measures within a sample of managed and leased/tenanted Pub Companies.

The case study strategy was selected as it enabled the use of multiple sources of evidence and data collection: typically, these involve observation, interview and documentary analysis. A key objective of the case study approach is to make intelligent decisions as to how far the findings are applicable in other political and organisational contexts. A case study allows for flexibility, permitting the researcher to follow directions unanticipated at the outset. Indeed, the case study lends itself to the discovery of the unexpected [Nisbett & Watt 1984]. This approach was deemed to be particularly suited to the research, given the rapid change and consolidation in the UK's licensed retail sector at that time. Moreover, the case study strategy allowed the researcher to 'test' theories already in existence through a comparison of the study's results [Saunders et al. 2003].

The case studies were developed through semi-structured interviews with key personnel from collaborating pub companies. The semi-structured interview allows the researcher to work out a set of questions in advance and to modify their order according to what seems most appropriate in the context of the interview 'conversation' [Robson, 1993]. The interview schedule provides some structure to the process, but the interviewer is able to change/omit questions, give explanations, and to probe into the context and reasons for answers to questions [May 1993]. It enables respondents to answer more on their own terms, yet it still provides a structure for comparability of data collected between different interviews.

The semi-structured interview was therefore deemed to be the most appropriate method as a structured format was deemed to be too rigid and standardised for the purpose; the "open-ended" unstructured interview is time consuming and would not lend itself to the collection of specific and comparable data from each of the collaborating organisations.

6.3 RESEARCH POPULATION & SAMPLES

The suitability of the sampling strategy depends on the population around which the research is centred. Researchers must take sampling decisions early in the overall planning of a piece of research, since they need to obtain data from a smaller group or subset (sample) of the population in such a way that the knowledge gained is representative of the total population under study [Cohen et al, 2000].

The research population is a defined set of people, companies (establishments) or collection of items under consideration [Hussey & Hussey, 1997; Gilbert, 1999]. Gilbert [1999] also points out that the term 'statistics' is used when referring to summaries about the sample, and 'parameters' for summaries of the population.

The research utilised both **convenience** and **purposive** sampling to obtain the required data. Convenience sampling involves choosing the nearest and most convenient persons to act as respondents whereas purposive sampling enables the researcher to build a sample which satisfies his or her specific needs [Robson, 1993 pp.141-142].

Convenience sampling was used to build a sample of financial analysts: this was constructed using data obtained from the Mitchells & Butlers website (see Appendix 10).

One of the main criticisms levelled at convenience sampling is that the researcher does not know whether or not the findings are representative [Robson, 1993]. However, its use in this research could be justified as it gave a feel for the issues involved and to access information on both performance measures and the UK's licensed retail sector.

Purposive sampling was used to build a sample of one hundred pub companies with the data obtained from 'The Publican's Industry Report 2003'. This report provided the contact details for the largest managed, tenanted and leased pub companies.

Purposive sampling was also used to construct the sample of organisations for the case studies featured in Chapter Seven. Using the afore-mentioned sample of 100 pub companies, letters were sent to all of these, seeking their interest and willingness to participate as "case study" organisations. Five positive responses were received and this confirms that it can be difficult to obtain co-operation from potential interviewees [Robson, 1993].

6.4 DATA REQUIRED

Literature relating to performance measures and the Balanced Scorecard was collected throughout the study and the literature reviews were updated constantly. This was important in order to gain a better understanding of the historical background, the present situation and future trends. It was also necessary in order to evaluate the importance of the role that performance measurement plays in both hospitality and licensed retail organisations.

6.5 METHODS OF DATA COLLECTION

Questionnaires (PubCo, Managed PubCo, Leased/Tenanted PubCo and Financial Analyst) and semi-structured interviews were used to obtain the data required to answer the research questions and to achieve the aims of the study.

This section describes the design of the questionnaires and the pilot testing conducted to ascertain their validity and reliability; the design and administration of the semi-structured interviews; and the procedures used to collect the primary data.

6.5.1 QUESTIONNAIRE DESIGN

The questionnaire design incorporated a variety of question formats, and included open- and closed-ended questions. Smith [1991] defines an open-ended question as one that leaves the respondents free to respond in a relatively unrestricted manner. In contrast, a closed-ended question limits the choice of responses by impelling the respondents to answer in terms of given categories or alternatives. When the research objectives call for learning about the respondent's level of information, frame of reference in answering a question, or opinion structure, open-ended questions are more suitable. If the objective is to classify an individual's attitude or behaviour on some understood dimension, then closed-ended questions are more suitable [Smith, 1991].

Multiple-choice questions are closed questions. Smith [1991] pointed out that the choice needs to be mutually exclusive and complementarily balanced so that the number of alternatives on one side does not affect the distribution of replies. All alternatives should be listed and if more than one choice is possible, clear mention of this should be made. Thus, the decision as to whether the researcher wants respondents to express one or more choices should be clearly given. Adding multiple-choice questions enables the respondents to choose suitable responses from a variety of answers. Cohen et al. [2000] pointed out that the range of choices is designed to capture the probable range of responses to given statements. These kinds of questions are easier for respondents to answer, and are quickly coded and aggregated to supply frequencies of responses. It is, therefore, easier to analyse, because the format aids computer data processing.

The development of the questionnaires followed different stages. At the beginning of the study the relevant literature was studied and analysed. Gaps in the literature were then identified and questions devised to elicit suitable responses. Finally, consideration had to be given as to how the data could be analysed to enable conclusions and recommendations to be made.

The questionnaires were also developed to address data triangulation. Saunders et al. [2003 p.99], describe this as "*the use of different data collection methods within one study in order to ensure that the data is telling you what they think they are telling you*".

6.5.2 QUESTIONNAIRE REQUIREMENTS

The financial analyst questionnaire comprised two distinct sections. The first section contained multiple choice questions which made it possible to identify the performance measures commonly used by pub companies. The second section sought the opinions of the respondents regarding the measurement of performance within the sector.

The PubCo, managed and leased/tenanted questionnaires, comprised three thematically-based sections. The first section was designed to elicit information on the size and geographical spread of the respondents. The second section contained multiple-choice questions which made it possible to identify the commonly used performance measures; whilst the third group sought the opinions of the respondents.

An opportunity was provided for the respondents to provide additional information which they felt was relevant to the study. However, during analysis, it was discovered that relatively few of the respondents actually provided any additional information.

Respondents received a covering letter with their questionnaires which explained the aims of the study. The letter also provided them with an assurance regarding the confidentiality of their responses and instructions were also provided to assist the respondents with the completion and return of the questionnaires.

6.5.3 PILOTING THE QUESTIONNAIRES

Cohen et al. [2000] state that the purpose of conducting a pilot study is: -

- to gain feedback regarding the type of question and its format;
- to test the accuracy and relevance of the terminology used;
- to gain insights into the ease and complexity of questionnaire comprehension and foreseeable interpretation by the recipient in its completed form; and
- to eliminate ambiguities or uneasy words and to ascertain the respondents' reaction to the questionnaire in terms of words, instructions, scales, layout and length of the questionnaire.

The questionnaires were tested on pilot respondents (personnel from collaborating PubCo's) in order to test their validity and reliability. The pilot panel members were asked to suggest additional questions, delete questions, or modify the wording as they considered appropriate.

The financial analyst questionnaires were not piloted as these were devised solely to develop a network of contacts and to enable the triangulation of data (see Figure 1.1).

The PubCo, managed and leased/tenanted questionnaires were piloted by five of the collaborating organisations featured in Chapter Eight. Copies of the questionnaires were despatched to the person interviewed during the initial stages of the study. Those selected were given the right to add, delete or modify the questions and to also provide feedback (a further set of questionnaires were despatched to my 'Director of Studies').

6.6 DATA COLLECTION PROCEDURES

The questionnaires were distributed to the four groups of respondents (financial analysts, pub companies, managed pub companies and leased/tenanted pub companies) and were designed specifically to gather enough information from the Pub Companies to achieve all of the aims highlighted in Chapter One. Table 6.1 details the number of questionnaires despatched to each group of respondent.

6.6.1 FINANCIAL ANALYST QUESTIONNAIRE

The first questionnaire focused on obtaining preliminary data from a sample of financial analysts (see Appendix 11). A covering letter and a copy of the questionnaire were sent to each analyst by email in order to ensure that they received the material.

The first section of the questionnaire sought to determine the performance measures commonly used to measure the performance of individual public houses. The second section sought to determine the financial and operational performance measures used to compare the performance of pub companies. A list of measures was provided for both questions and the respondents were asked to identify which of the measures they used.

The third section provided the respondent with an opportunity to provide additional information or suggestions as to how the research study could be further developed. The final section gave the respondents an opportunity to provide their contact details along with their position, and to also specify whether they wished to be kept informed of progress with the research study.

6.6.2 PubCo QUESTIONNAIRE

The second questionnaire was despatched to the finance directors of the one hundred largest pub companies by estate size (see Appendix 4). A covering letter was sent with the questionnaire and a stamped addressed envelope was also enclosed to aid the response rate. The covering letter included an explanation of the study and an assurance that the information would be treated as confidential and only for the purpose of the research study.

The first section of the questionnaire was designed to obtain information on the size and geographical spread of the pub estates. This was designed to interest the respondent and also to bring them in gently to the questionnaire.

The next section focused on the performance measures used to measure the performance of individual public houses and districts of public houses. A list of the commonly used measures was provided and respondents were asked to identify which of the measures they used. The aim of this section was to find out which performance measures were used by the pub companies.

The next section focused on the financial and operational performance measures used by pub companies to compare their performance with that of their rivals. A list of performance measures was devised and the respondents were asked to identify which of the measures they used. The aim of this question was to identify the measures utilised at a corporate level and to also broaden the depth of the study.

The fourth section provided the respondent with an opportunity to provide additional information and aimed to obtain feedback as to how the study could be further developed. The final section gave the respondents an opportunity to provide their contact details along with their position, and to also specify whether they wished to be kept informed of progress with the research study.

6.6.3 LEASED/TENANTED & MANAGED QUESTIONNAIRES

Two further questionnaires were developed to obtain data related specifically to leased/tenanted and managed pubs (see Appendix 5 & 6). It was discovered during the analysis of the PubCo questionnaires that different measures are required for both types of public house estate.

The leased/tenanted and managed pub questionnaires were despatched to the finance directors of the PubCo's sampled for the previous questionnaire. If an operator had both a managed and a leased/tenanted estate then both questionnaires were despatched.

A covering letter was sent with the questionnaires along with a stamped addressed envelope to aid the response rate. The covering letter included an explanation of the study and an assurance that the information would be treated as confidential and only for the purpose of the research.

The first section of the questionnaires was designed to elicit information on the size and geographical spread of the pub estates. This was designed to interest the respondent and to bring them in gently to the questionnaire.

The next section focused on the performance measures used to measure the performance of individual public houses and districts of public houses. A list of performance measures was devised and the respondents were asked to identify which of the measures they used. The aim of this question was to identify the measures used to measure the performance of both leased/tenanted and managed public house estates.

The third section focused on the financial and operational performance measures used by pub companies to compare their performance with that of their rivals. A list of performance measures was devised and respondents were asked to identify which of the measures they used. The aim of this section was to identify the measures used by companies when analysing the performance of their competitors.

The fourth section provided the respondent with an opportunity to provide additional information. The question was open-ended and aimed to obtain feedback as to how the study could be further developed.

The final section gave the respondents an opportunity to provide their contact details along with their position, and to also specify whether they wished to be kept informed of progress with the research study.

6.7 RESPONSE TO THE QUESTIONNAIRES

Once the questionnaires were finalised, they were sent to the financial analysts and PubCo's selected for the study.

Table 6.1: Administration of Questionnaires

Questionnaire	Number Issued	Number Returned	Number Useable	Response Rate
Financial Analyst	13	3	3	23.1%
PubCo	100	66	54	54%
Managed	79	27	25	31.6%
Leased/Tenanted	67	22	21	31.3%

The Pub Company, Managed and Leased/Tenanted questionnaires were despatched with a covering letter and a stamped addressed envelope to aid the response rate.

Table 6.1 shows the numbers of questionnaires distributed, returned and deemed useable (a proportion of returned questionnaires were incomplete and were therefore eliminated).

The response rate for the Pub Company Questionnaire was particularly good (54%), but the Pub Companies did not respond as well with the Managed (31.6%) and Leased/Tenanted Questionnaires (31.3%).

6.8 SEMI-STRUCTURED INTERVIEWS

Semi-structured interviews were used to obtain data from the collaborating organisations (case study) and the interview schedule can be viewed in Appendix 13.

6.8.1 SEMI-STRUCTURED INTERVIEW DESIGN

The initial questions in the semi-structured interview schedule were designed to elicit contextual information relating to the respondent's role and remit within the pub company; and the size, structure and culture of the company. The questions in the main body of the interview sought information about the financial and operational performance measures used by the company on three different levels: individual pubs, districts/areas, and corporate level. The questions were open, allowing the researcher to seek - when required - further clarification of responses through probing, paraphrasing and summarising.

The closing questions sought to determine whether the collaborating organisations wished to continue to be involved in the research and also the extent of their involvement. This was particularly important as the researcher intended to conduct extensive primary research within each collaborating organisation in order to develop a Balanced Scorecard.

6.8.2 ADMINISTRATION OF INTERVIEWS

A total of five interviews were undertaken (with personnel from the collaborating PubCo's) and arrangements for these were made by 'phone and e-mail, at the respondents' convenience. The researcher travelled to each respondent, and the interviews were conducted on their own business territory.

The duration of each interview lasted between one and two hours. The researcher opted to take notes during the interview, rather than tape-record the interaction. This obviated the need for time-consuming transcription of each tape- recorded interview. Interview and field notes were typed up at the earliest opportunity following each interview.

6.9 RELIABILITY & VALIDITY OF RESEARCH METHODS

Saunders et al. [2003] identify four threats to reliability. These are subject or participant error, subject or participant bias, observer error and observer bias.

In order to ensure the reliability of the data, a number of considerations had to be taken into account regarding the design and administration of the questionnaires and the semi-structured interviews.

It was essential to achieve a high response rate with the questionnaires in order to provide a representative sample. Miller [1991] reminds us of the highly competitive environment in which researchers ply their questionnaires – many respondents are over-burdened by the number of questionnaires which reach them, and are therefore much more discerning in choosing whether or not to participate. Therefore considerable attention was paid to the design and layout of the questionnaires, the provision of informative covering letters, the use of good quality paper, and the provision of stamped addressed envelopes for returns. Moreover, the researcher ensured that the questionnaires were sent at a neutral time, not during holiday periods, in order to reduce the likelihood of subject or participant error. Finally, it was deemed essential to ensure anonymity and confidentiality regarding the supplied data.

We are reminded that interviews are still the most appropriate means of obtaining much research material, despite the inherent difficulties of human error and bias [Moser & Kalton, 1971]. Ideally, considerable prior study and practice is required in order to devise a good interview schedule. When designing the semi-structured interview schedule, it was essential to avoid multiple meaning and ambiguity when wording the questions and the questions were kept brief so that a focus could be kept on the hypothesis.

The structure of the interview schedule allowed for comparability of data collected between the different interviews; this helped to reduce concerns about reliability, and to lessen the risk of observer error and observer bias.

When conducting an interview, it is necessary to acknowledge the complex processes involved, and to take into account the numerous subtle influences on the interaction between respondent and interviewer. These influences and biases cannot be eradicated. As Moser and Kalton [1971] observe, such influences come into play at the outset of the interview and continue throughout its course. The respondent's perception of the interviewer – for example, outward appearance, gender, race, accent, age, the way she/he asks the questions, his/her non-verbal behaviour etc – and the respondent's subsequent inferences about the interviewer, can influence the way she/he participates and answers the questions. Similarly the interviewer, however non-judgemental, is influenced by the respondent [Moser & Kalton, 1971].

Given my interest in and knowledge of this research subject, I was concerned that I may unintentionally "lead" the respondent, through my intonation and responses. An additional risk was that respondents might feel pressured into providing "ideal" responses about their own company's performance and practice, particularly given the highly competitive business area.

Clearly, much depends on the skill of the interviewer in engaging and establishing rapport with the respondent; in active listening and displaying openness and empathy; in reflecting upon and assessing the adequacy of the answers; and in responding appropriately. Moreover, a skilled interviewer demonstrates an awareness of both his/her own and his/her respondent's non-verbal and paralinguistic behaviours, and is able to pick up any inconsistencies between these and the verbal responses during the interview.

The length of the interview was also a vital consideration. Respondents may not have a lot of time to spare, but will be willing to commit to an interview of about an hour's duration. However, as Robson notes, an interview exceeding well over an hour might reduce the number of willing participants and so introduce bias. Moreover, if the interview becomes protracted, it is highly likely that the concentration levels of both researcher and respondent will begin to wane and so compromise the process.

Moser and Kalton's [1971] three necessary conditions for the successful completion of interviews were used as a guide. These conditions are **accessibility, cognition** and **motivation**. Briefly, **accessibility** refers to whether the respondent has access to the information that the researcher seeks. **Cognition** refers to the respondent's right to know/understand what is required of him/her during the interview. It is the researcher's responsibility to clarify this throughout the interview. Finally, the respondent's **motivation** to co-operate will be enhanced if the researcher makes him/her feel that their participation and answers are valued.

6.10 DATA ANALYSIS

Hoffer et al. [2002] pointed out that analysis is the first phase where a researcher begins to understand, in-depth, the need for results. The basis for any analysis of data is an understanding of variation, which is important in all aspects of human involvement; understanding of variation and its causes is the key to understanding patterns in data. It leads to assessing the variation in relevant data. In other words, statistical analysis is the study of variation that leads to new knowledge and better discussions [Hoffer et al. 2002].

6.11 ANALYSING THE QUESTIONNAIRES

A variety of techniques could have been used to analyse the questionnaires such as the computer-based Statistical Package for the Social Sciences (SPSS).

Unfortunately, the design of the questionnaires made it extremely difficult for them to be analysed using these techniques as several of the returned questionnaires contained written commentary from the respondents which would have been difficult to process using these methods of data analysis.

The data contained in the questionnaires was therefore analysed using Microsoft Excel to convert the data into charts. This data, along with the written responses contained in the questionnaires, was then analysed to determine the most commonly used performance measures and to also identify any trends in the data.

6.12 ANALYSIS OF SEMI-STRUCTURED INTERVIEWS

Following completion of the interviews, the researcher studied all his interview and field notes, and reflected further on the research aims and hypothesis.

The qualitative data was then categorised, and charted on a two-dimensional, conceptually clustered matrix [Robson 1993]. Categories included company structures; company culture; the company's particular approach to financial and operational performance measurement; respondents' views/experience of such approaches and the range of measures used. This information was then incorporated into the case studies.

The quantitative data – including numerical data relating to company size/units/districts; the numbers of financial and performance measures used; the frequency of their use; etc - was charted using Microsoft Excel. This then enabled comparisons to be made between each of the case study organisations. The findings from the interviews are detailed in Chapter 8.

6.13 LIMITATIONS OF THE METHODOLOGY

There were some limitations with the methodology with the main one being the problems encountered with analysing the data.

With hindsight, the information to be collected should have been developed around the Statistical Package for the Social Sciences (SPSS) or the Likert Scale so that the data could be more easily interpreted. Early in the data analysis stage it became clear that the application of SPSS would be unnecessary: patterns in the data were easily visible and using SPSS would have been complicated and time consuming.

The questionnaires were not always returned promptly which added to the amount of time involved. It was also necessary to resend questionnaires to the PubCo's as the initial response rate for each questionnaire was poor.

The pace of consolidation in the UK's licensed retail sector also affected the methodology as a number of PubCo's had either been taken over or placed into administration by the time the Managed and Leased/Tenanted questionnaires were developed and despatched.

CHAPTER SUMMARY

This chapter has explained the research methodology. The research topic, aims and hypothesis have been described along with the methods used to collect and analyse the required data. The research population and the actual samples are also discussed along with the limitations of the methodology.

The research aims and hypothesis have sought to determine the financial and non-financial performance measures used by licensed retailers and questionnaires were developed to obtain the required data.

The questionnaires and semi-structured interview schedule were described in detail and their structure and questions were justified. Their administration was also described along with the data analysis methods used to interpret the data.

CHAPTER SEVEN: - FINDINGS OF QUESTIONNAIRES

INTRODUCTION

This chapter contains the results of the primary research undertaken and analyses the data collected from both the financial analysts and the Pub Companies.

The first section of the chapter analyses the results of the financial analyst questionnaire. The section also contains an analysis of the personalised response received by a further financial analyst who did not complete the questionnaire.

The second section analyses the results of the Pub Company questionnaire and develops some initial conclusions which were subsequently used to refine and develop the managed and leased/tenanted Pub Company questionnaires.

The third and fourth sections analyse the results of the managed and leased/tenanted Pub Company questionnaires.

7.1 FINANCIAL ANALYST RESEARCH

Contact was made with one financial analyst specialising in the UK's licensed retail sector. This form of networking resulted in my details being added to his mailing list and I have subsequently received a large number of reports.

The reports have predominantly covered the major Pub Companies and this information has been crucial to the continuation of this study, especially as data has been accessed which wouldn't have been available in broadsheet newspapers and financial accounts.

This section will explain the role of the financial analyst and will identify the performance measures most commonly used when analysing the UK's licensed retail sector. This section will conclude by identifying and analysing the various valuation metrics which analysts use when valuing a Pub Company.

7.1.1 THE ROLE OF THE FINANCIAL ANALYST

Financial analysts use criteria including financial strength, property arrangements, market positioning, consumer confidence, licensing reform to assess a number of Pub Companies.

Analysts often work for broking houses, whose job it is to encourage people to buy their clients shares and they will issue a rating (see Table 7.1) on each of the Pub Companies they analyse [Stretton, 2003c].

Financial analysts also place particular emphasis on target price, EBITDA, multiples and sentiment (see Table 7.2) when they report to their clients [Stretton, 2003c]. Investors or shareholders provide capital to the business usually in the form of cash or sometimes in a non-liquid form. Shareholders are the legal owners of the business and thus are interested in ensuring that the business provides a good return for their investment and that it will survive into the future [O'Donaghue & Luby, 2005].

Table 7.1: Analysts Rating Key

Rating	Explanation
Buy	This is a good company and if you want to make money from the stock market buy the shares.
Outperform	This is still positive but a little more subjective. These shares are expected to outperform the majority of other shares on the stock market, by between 10 and 20 per cent.
Neutral	Believes the shares will perform with the rest of the market. There is no real reason to buy or sell these shares. Look elsewhere.
Underperform	The exact opposite of outperform. These shares will do worse than the rest of the market, somewhere between 10 and 20 per cent. Steer well clear.
Sell	The share price is only heading one way – down.

Source: Stretton [2003c]

Table 7.2: - Areas which Analysts place Particular Emphasis

Measure	Explanation
Target Price	The price analysts think would represent a true and fair reflection of the company's value.
EBITDA	Gross profits or the bottom-line – what the company makes before all the usual costs and accounting corrections.
Multiple	Add up EBITDA and compare this to the market valuation of the business plus any debt. If a company makes £10m profit and is valued at £100m, it trades on a multiple of 10. If it is valued at £500m, it trades on a multiple of 50.
Sentiment	If a prominent company releases good news to the market, quite often other pub operators will see their shares rise. If bad news is released then quite often other pub operators will see their shares fall.

Source: Mullen [2006]

Table 7.3: - Performance Measures Utilised by Analysts [11]

Managed	Leased/Tenanted
• Average EBITDA per pub (£)	• Average EBITDA per pub (£)
• Average pub profit	• Average pub profit
• Average pubs trading	• Average net profit per pub
• Average fit out cost per square foot	• Average pubs trading
• Average weekly sales per pub (AWT)	• Average weekly sales per pub (AWT)
• Cash profit per pub	• Average turnover per tenanted pub
• Core estate like-for-like revenues	• Average licensee profitability
• Depreciation as % of sales	• Core estate like-for-like revenues
• Divisional sales	• Depreciation as % of sales
• Divisional EBITDA	• Divisional sales
• EBITA per pub	• Divisional EBITA
• EBITA margin	• EBITA per pub
• Eating out retail sales	• EBITA margin
• Food revenue mix %	• Group EBITA
• Food sales per pub, per week	• Group sales
• Gross weekly sales – average	• Gross profit per pub
• Gross profit per pub	• Head Office Costs per Pub
• Group EBITA	• Head office costs as a % of sales
• Group sales	• Like-for-like pub contribution
• Head Office Costs per Pub	• Like-for-like rental growth
• Head office costs as a % of sales	• Repairs & maintenance as a % of sales
• Incremental ROI	• Sales per pub
• Labour turnover	• Tenanted/leased like-for-like revenues
• Like-for-like house profit	• Total re-investment as % of sales
• Like-for-like revenue	• Underlying earnings per pub
• Maintenance capex as a % of sales	
• Pub staff costs	
• Repairs & maintenance as a % of sales	
• Total re-investment as % of sales	
• % of retail sales from eating out	
• Venue profitability	

It is intended that the information supplied by analysts should enable investors to make investment decisions and the analyst's reports will support their rating as they contain information on profitability, management efficiency, risk being taken (financial or business risk), return on investment and returns to owners [Atkinson et al. 2001].

[11] Deutsche Bank sources from 2002; 2003; 2004; 2005; 2006; 2007 & 2008.

7.1.2 MEASURES IDENTIFIED IN LITERATURE

A number of performance measures were identified from the supplied literature (see Table 7.3). It also became clear that analysts use a different set of performance measures when analysing both managed and leased/tenanted PubCo's and this differentiation is also displayed in Table 7.4.

The leased/tenanted Pub Companies, in particular, have suffered in recent years due to the introduction of the smoking ban in July 2007 and also due to rises in tax duty on beer [Deutsche Bank, 2008a]. These two factors have resulted in analysts using a number of specific performance measures to analyse their performance (see Table 7.5).

Table 7.4: - Tenancy & Leased Pub Health Check

Measure	Explanation
Cash with order	Percentage of tenants on cash with order (no credit provided to tenant/lessee by PubCo).
Bad debts	Bad debts as a proportion of group income.
Temporary tenancies	Percentage of estate with either temporary tenants/or run by management companies - known as Tenancies at Will.
Closed pubs	Percentage of estate closed.
Assignments	Average lessee assignment profit, inc. Fixtures, Fittings & Equipment.
Pubs receiving discount	Percentage of the estate receiving discounts on beer purchases, usually in return for a higher direct rent charge.
Average rent reviews	Tenancy rents tend to rise by RPI. Leases usually have a 5-year review period, though many are seeking annual RPI increases; renewals may reflect investment.
Rent concessions	As percentage of rent roll.

Source: Deutsche Bank. [2008a]

7.1.3 VALUATION METRICS USED BY ANALYSTS

In simplest terms, valuation is the function that attaches a monetary value to an asset and more specifically investment valuations answer questions such as [Rock et al, 1994]: -

- What is the maximum price that should be paid for a company?

- What are the principle areas of risk?

- What are the profits, cash flow and balance sheet implications?

From a similar point of view Peto et al. [1996 p.81] suggested that: "valuation is the estimate of the most likely selling price, the assessment of which is the most common objective of the valuer". Valuation is therefore the process of determining market value that is, an estimation of the price of exchange in the marketplace.

Pubs are principally valued on the quality and stability of their cashflows and are valued on an open market basis. The levels of cash yield are different from commercial property and pubs should not be valued in the same way [Deutsche Bank, 2008a].

Financial analysts use a number of techniques to value PubCo's and a number of these can be seen in Table 7.5 and Appendix 29.

Table 7.5: Valuation Metrics

- Discounted Cash Flow [Deutsche Bank, 2008a]
- Enterprise Value/EBITDA [Deutsche Bank, 2008j]
- Price/Earnings Ratio [Deutsche Bank, 2008j]

Sum of Parts [Deutsche Bank, 2007f]

Discounted Cash Flow

This is an income capitalisation approach that converts the anticipated future benefits (cash flows) into a forecast of present value, and involves a discounting procedure which incorporates the risk associated with these cash flows [Brealey & Mayer, 2000]. Deutsche

Bank uses this model for Pub Companies who have delivered consistently over a number of years [Deutsche Bank, 2007e].

Rushmore [1992] and Luehrman [1997] have similarly proposed the following three-step approach to the application of DCF valuations within the hotel sector: -

1. Forecast future cash flows for a specified number of years (usually between five and ten), commonly excluding cash flows associated with the company's financing programme, such as dividends, and assuming that at the end of the period the hotel will be sold and therefore add the terminal (or residual) value of the property on the final year's cash flow.

2. Select an appropriate discount factor, based on the investors expectations on return on investment and the investment's riskiness (or the opportunity cost of funds which is the return an investor could expect to earn on an alternative investment entailing similar risk); and

3. Apply the proper discounting procedure.

The weakness of the Discounted Cash Flow valuation is that it relies on estimates of future performance, growth opportunities, financing needs, and discount rates often made without the benefit of access to detailed information which is necessary for making confident predictions [Stuart-Jones, 1982]. Another criticism of the DCF valuation models is the possibility of results manipulation, aiming to achieve a specific outcome that would artificially indicate similar valuation outcomes through the three main valuation approaches, namely income capitalisation, depreciated replacement cost and sales comparison [Fiedler & Saville, 1992].

Enterprise Value/Earnings before Interest, Tax, Depreciation & Amoritsation

Enterprise Value/Earnings before Interest, Tax, Depreciation and Amortisation compares the value of a business, free of debt, to earnings before interest [Moneyterms, 2009c].

If a business has debt, then a buyer of that business (which is what a potential ordinary shareholder could be) clearly needs to take into account the debt when valuing the business. Enterprise Value includes the cost of paying off debt and EBITDA measures profits before interest, depreciation and amortisation [Moneyterms, 2009c].

An advantage of EV/EBITDA is that it is not affected by the capital structure of a company. It also strips out the effect of depreciation and amortisation as it is ultimately cash flows that matter to investors [Moneyterms, 2009c].

EV/EBITDA does not take into account the cost of assets or the effects of corporation tax. It is also usually inappropriate for comparisons of companies in different industries, as their capital expenditure requirements are different [Moneyterms, 2009c].

Deutsche Bank cautions against using this as an evaluation metric, since levels of depreciation vary not just from one company to another, but from one type of business model to another [Deutsche Bank, 2008j].

Price Earnings Ratio (PE)

The Price/Earnings ratio compares the price of a share to the company's Earnings per Share (EPS) and directly relates the price of a share to the proportion of the company's profits that belong to the owner of that share [Moneyterms, 2009d].

A higher PE means that the same share of a company's profits will cost a prospective shareholder more. There are usually reasons for a higher PE and it may reflect faster than expected earnings growth, or lower risk earnings [Moneyterms, 2009d].

Sum of Parts

A company may have businesses that are too varied for the application of a single valuation method and so the solution is to value the different parts of the business separately. This method is known as the Sum of Parts valuation [Moneyterms, 2009b].

Table 7.6: - Sum of Parts Valuation

Asset (£m)	EBITDAR 2008E	(x)	Value	Comment
Premier Travel Inn (EBITDA)	212	10.9	2,310	-20% discount to DB forecast multiple of Travelodge take out
Pub Restaurants	86	10.8	922	Same multiple as M&B
Costa	67	11.6	788	10% premium to Caffé Nero
TGI Friday's	11	10.8	117	Same exit multiple as Pizza Hut = current multiple as RTN.L
David Lloyd Leisure (EBITDA)	73	9.4	687	Blended EBITDA multiple, reflecting M&A values
			4,814	
Central Costs			-225	Capitalised at the group multiple
Net Debt: 2008E			-775	Excludes £350m capital return
Capital return			0	
Operating Leases			-379	Capitalised at 10x, excludes DLL leases.
Pension deficit, post tax			-52	At 31/08/2006, less capital injections in '07E & '08E.
			-1,431	
Implied equity valuation			**3,383**	
Shares in issue	219			Shares in issue post capital return. Whitbread gave back £800m during 2006 fiscal.
Value per share (p)			**1,545**	**Pence per share**

A Sum of Parts valuation may be used to adjust a valuation method to suit different parts of a business and allow different valuation methods to be used for a company [Moneyterms, 2009b].

Table 7.6 shows a Sum of Parts valuation conducted on Whitbread by Deutsche Bank in 2006. Deutsche Bank based this valuation as far as possible on the trading multiples of Whitbread's peers [Deutsche Bank, 2006e].

7.2 FINANCIAL ANALYST QUESTIONNAIRES

The questionnaire, initially described in Chapter 6, was designed to obtain preliminary data from a sample of financial analysts and to also develop a network of contacts. This process was deemed essential in order to develop the PubCo questionnaires and to identify the commonly used performance measures.

The questionnaire was designed to: 1) determine the performance measures commonly used to measure the performance of individual public houses; 2) to determine the performance measures used to compare the performance of PubCo's; and 3) to seek additional comments or suggestions as to how the research could be further developed.

This section describes the results of the three responses received (out of a sample of 12). The data gathered from this process has been particularly useful; in addition, one of the respondents has supplied reports on a regular basis which have contained a variety of data relating to performance measures and the UK's licensed retail sector as a whole.

One of the analysts sampled in the research contributed by supplying a comprehensive list of the measures used by his team. This particular respondent did not return the questionnaire but his response was used alongside the returned questionnaires in order to identify any patterns in the data and to also develop the PubCo questionnaire.

The results from this initial process were analysed to identify any patterns in the data and to identify any areas for further research.

7.2.1 ANALYSIS OF RETURNED QUESTIONNAIRES

The financial analysts were initially asked to identify the performance measures that they used to measure the performance of individual public houses. The responses from this question can be viewed in Table 7.7.

Table 7.7: - Commonly used Performance Measures

Measure	Respondent 1	Respondent 2	Respondent 3
Average Weekly Sales	✓	✓	✓
Average EBITDAR		✓	✓
EBITDA Margins	✓		✓
EBITDAR Margins		✓	✓
Wages to Sales	✓	✓	✓
Like-for-Like Sales	✓	✓	✓
Like-for-Like Profit Growth	✓	✓	✓
Return on Invested Capital	✓	✓	✓
Trading Profit	✓	✓	✓
Stock Results			✓
Mystery Guest		✓	✓
Quality Audits		✓	✓
Labour Turnover		✓	✓
Sales Mix	✓	✓	✓

Table 7.7 shows the reliance by analysts on financial performance measures with Average Weekly Sales, Wages to Sales, Like-for-Like Sales, Like-for-Like Profit Growth, Trading Profit, Sales Mix and Return on Invested Capital being deployed by all three of the respondents. The non-financial measures (Mystery Guest, Quality Audits and Labour Turnover) were considered by two of the respondents, with Stock Results being the least utilised performance measure.

Respondent two provided additional information and questioned the definition of Like-for-Like Sales. This situation was identified in Chapter 5 as being of particular concern, especially as the Pub Companies are considered to alter the definition to suit their purpose [Stretton, 2004b]. The respondent also mentioned that he considered Stock Results to be more of a way of getting rid of managers than a performance measure.

The financial analysts were then asked to identify the measures that they use to make comparisons with rival Pub Companies. Their responses can be seen in Table 7.8.

Table 7.8: - Measures used to compare Performance

Measures	Respondent 1	Respondent 2	Respondent 3
Average Weekly Sales	✓	✓	
Average EBITDAR		✓	
EBITDA Margins	✓		
EBITDAR Margins		✓	
Wages to Sales	✓	✓	
Depreciation to Sales		✓	
Like-for-Like Sales	✓	✓	✓
Like-for-Like Profit Growth	✓	✓	✓
Return on Invested Capital	✓	✓	✓
Admin Costs to Sales		✓	

Table 7.8 shows that analysts pay particular attention to Like-for-Like Sales, Like-for-Like Profit Growth, Average Weekly Sales, Return on Invested Capital and Wages to Sales when making performance comparisons.

Average EBITDAR, EBITDA Margins, EBITDAR Margins, Admin Costs and Depreciation to Sales were all clearly used by the respondents but not to the same extent as the measures identified above.

Respondents two and three provided additional information with respondent two again questioning the true definition of Like-for-Like Sales.

Respondent three identified Like-for-Like Profit Growth as being far more useful than Like-for-Like Sales. He also mentioned that Like-for-Like Sales must be considered in conjunction with margin and that Return on Invested Capital is used for evaluation.

The consideration of margin when analysing Like-for-Like Sales is particularly important, especially to managed Pub Companies such as JD Wetherspoon [Deutsche Bank, 2007p].

Wetherspoon reported positive Like-for-Like Sales in 2007, which pleased a number of shareholders. This positive performance, in fact, was mainly due to changes in its food and drink pricing policy, which improved margins and consequently Like-for-Like Sales [Deutsche Bank, 2007p].

The analysts were asked to provide any additional information that they considered would be of benefit. This information is summarised as follows (see Appendix 12): -

- Financial analysts are provided with a low level of financial detail from the Pub Companies and so Question 1 is not particularly relevant.

- There is a need for an all-encompassing definition of Like-for-Like Sales as there are at least twenty apparent ways of fiddling the statistics which in turn leads to low comparability amongst the Pub Companies.

- Need to consider the promotional spend but no Pub Companies volunteer to share this information.

- Like-for-like profit growth and generating good returns (ahead of WACC) on capital expenditure are the two key drivers which drive value for Pub Companies.

- Cash generation is the key although some Pub Companies have a far more prudent depreciation policy than others.

7.2.2 ADDITIONAL INFORMATION SUPPLIED

One of the four responding financial analysts replied in detail via e-mail instead of completing a questionnaire. This response can be seen in Appendix 12.

The information supplied by this particular analyst supports the responses received from the other three: this suggests emerging patterns in the data.

There appears to be little regular disclosure amongst the Pub Companies, and analysts are provided with a low level of financial detail. The performance measures deployed by the analysts appear to be determined by individual preferences, and these measures are evidentially prone to life-cycle changes.

The data suggests a lack of comparability amongst the performance measures used by the Pub Companies. Like-for-Like Sales can be manipulated by the Pub Companies and other financial variables, such as Depreciation, can be adjusted by the Pub Company: for example, JD Wetherspoon has a far more prudent depreciation policy than Mitchells & Butlers [Deutsche Bank, 2007p].

The information gathered from this process was used to construct a further questionnaire which was designed to collect data from the Pub Companies themselves.

7.3 PUBCO QUESTIONNAIRES

This questionnaire, initially described in Chapter 6, was designed to elicit data from a sample of one hundred Pub Companies, and to develop a network of contacts. This process was essential in order to determine the performance measures utilised by the PubCo’s in order to make comparisons with the data collected from the financial analysts.

The questionnaire sought to obtain information on: 1) the size and geographical spread of the sampled Pub Companies; 2) the performance measures used to measure the performance of individual public houses and districts; 3) the measures used to benchmark against rival Pub Companies; and 4) to seek additional comments and suggestions as to how the research study could be further developed.

The Pub Company questionnaire achieved 54 responses (out of 100); although it was necessary to resend a number of questionnaires in order to obtain a representative sample.

Figure 7.1 shows the size of the responding Pub Companies with the majority operating estates of between 26 and 250 public houses. Of particular interest are the seven PubCo's which operate over 751 pubs, as these were the largest operators at the time of the research and their participation demonstrates that a representative sample was achieved.

Figure 7.2 shows the geographical spread of the responding Pub Companies and shows that the PubCo's are represented in the heavily populated areas of the United Kingdom.

This was of particular interest as these areas were where the major brewers estates were traditionally concentrated, and are obviously where a large proportion of the UK's pubs are sited [Deutsche Bank, 2007t]. Moreover, a large proportion of the pre-MMC pubs are now owned by the sampled Pub Companies: this demonstrates that a representative response was achieved with this particular questionnaire.

Figure 7.1: - Size of Responding PubCo's

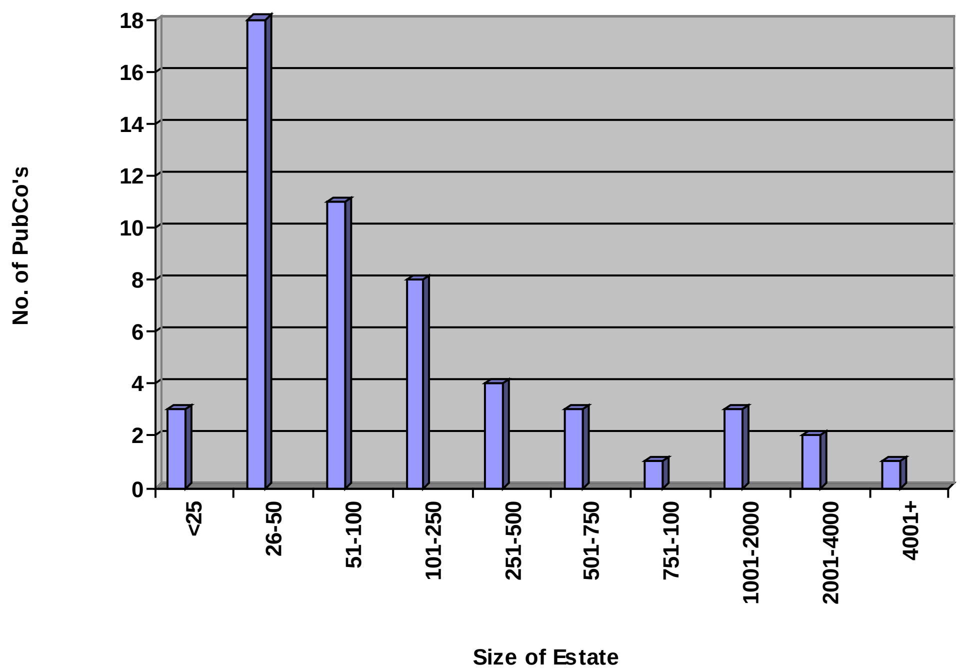


Figure 7.3 identifies and demonstrates the popularity of a range of measures which are used to measure the performance of individual and also districts of public houses.

It is evident that financial-based performance measures are predominantly used although the use of non-financial measures (Mystery Guest, Labour Turnover, etc) shows that a number of Pub Companies are beginning to embrace them and consider their relevance.

Figure 7.2: - Responding PubCo's Operational Areas

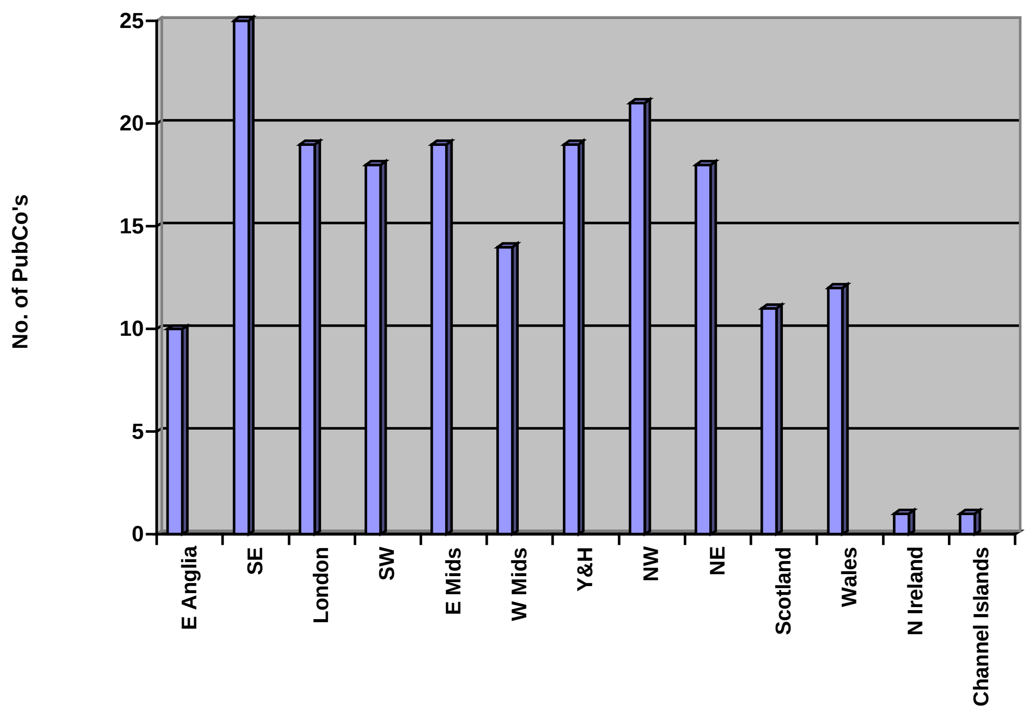


Figure 7.3 also demonstrates the popularity of Average Weekly Sales, Like-for-Like Sales, Return on Invested Capital and Trading Profit as performance measures deployed by Pub Companies and these results support the findings of the literature review (see Chapter 5) which identified these measures as being the most commonly used within the UK's licensed retail sector.

The number of performance measures used by individual Pub Companies is demonstrated in Figure 7.4. This shows that a number of Pub Companies use relatively few of the performance measures identified in the questionnaire whilst a number of Pub Companies (26) use six or more of the identified performance measures.

Figure 7.3: - Performance Measures Applied by PubCo's

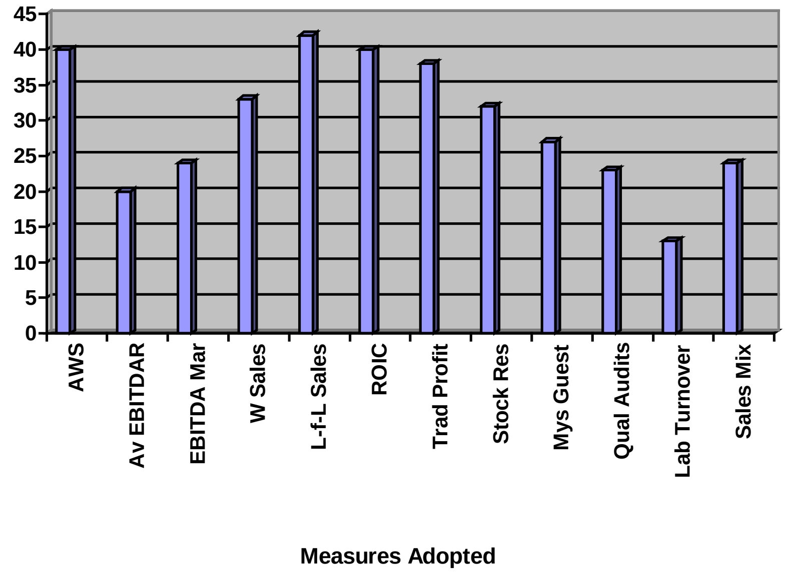


Figure 7.4: - Number of Performance Measures used by Individual PubCo's

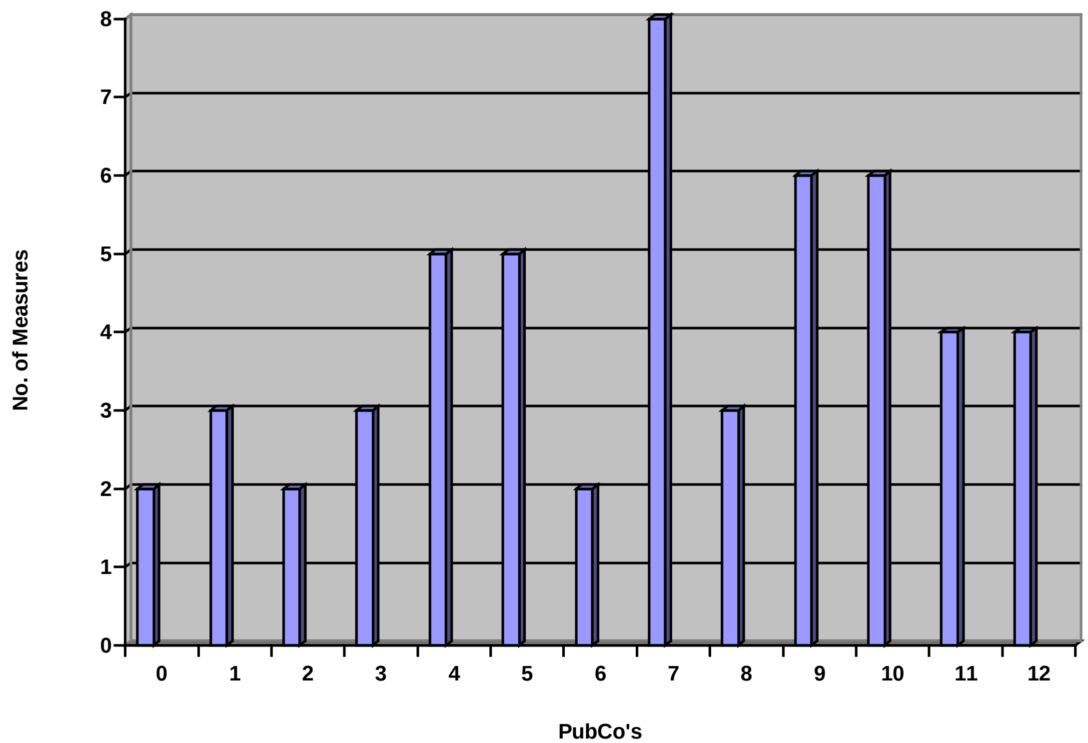


Figure 7.5: - % of Respondents using Identified Performance Measures

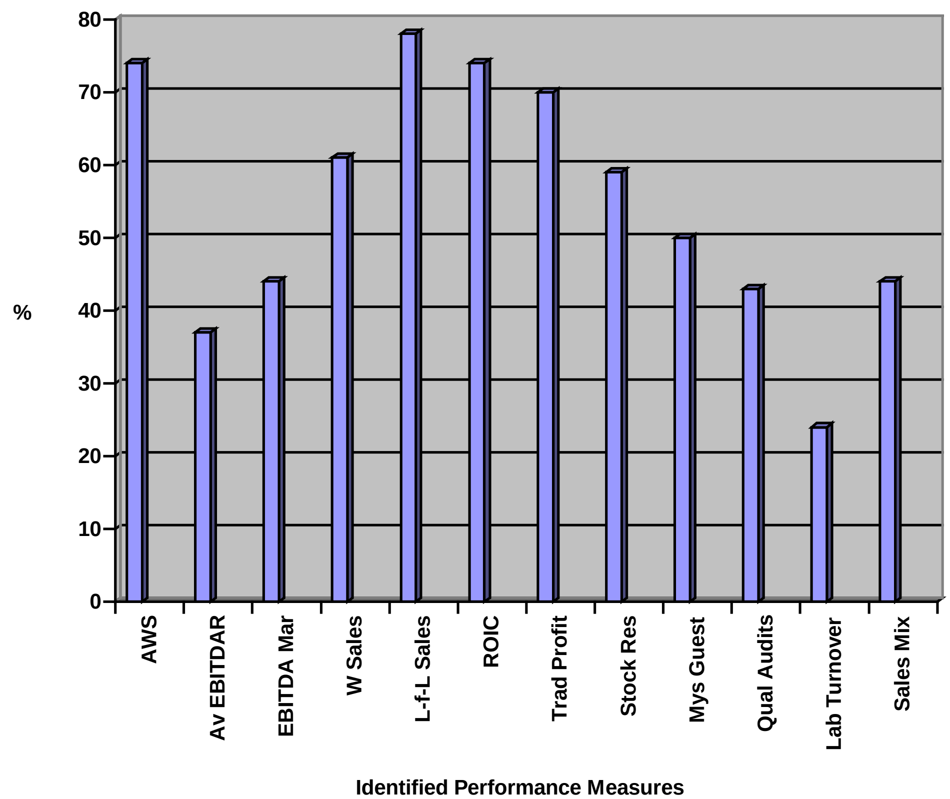
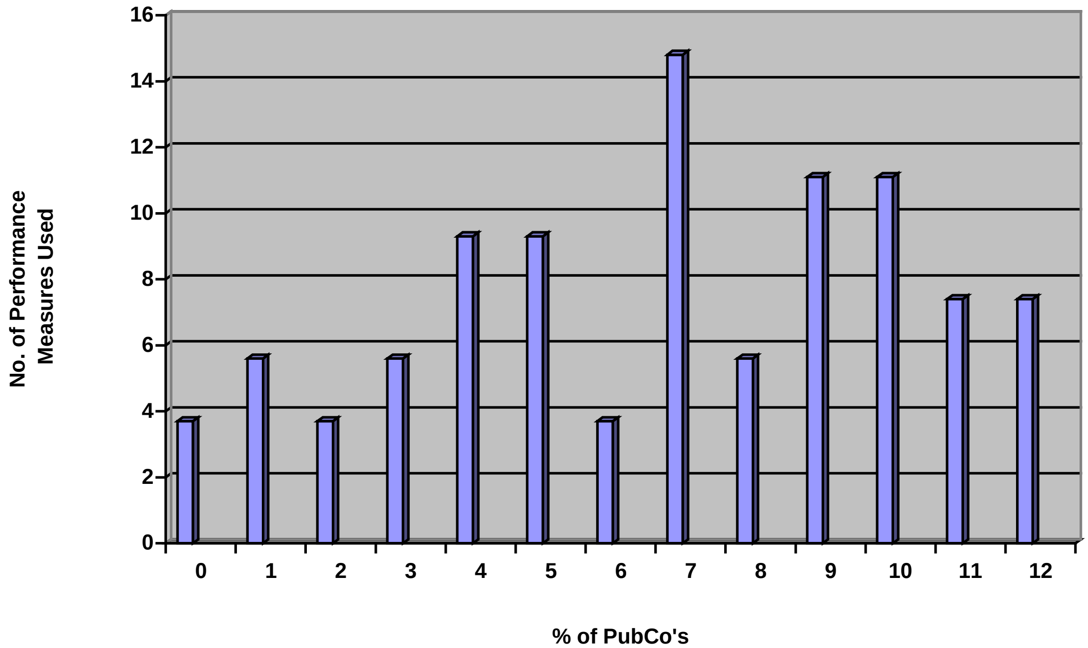


Figure 7.5 demonstrates the percentage of respondents using the performance measures identified in the questionnaire and shows that Average Weekly Sales, Wet Sales, Like-for-Like Sales, Return on Invested Capital, Trading Profit and Stock Results are the most commonly used measures with Mystery Guest and Quality Audits becoming more prominent, both being more popular than Average EBITDAR and EBITDA Margins.

This again highlights the importance that the Pub Companies place on financial performance measures, although the non-financial measures are beginning to become more popular.

The percentage of respondents using specified performance measures can be seen in Figure 7.6. The data shows that only 26% of the respondents use more than ten of the specified performance measures with the majority of respondents using between four and ten measures.

Figure 7.6: - % of Respondents using Specified Performance Measures



A number of performance measures are used by Pub Companies to benchmark their own performance against the performance of their rivals. Figure 7.7 identifies that Average Weekly Sales, EBITDA Margins, Like-for-Like Sales, Operational Gearing, Return on Invested Capital and Return on Capital Employed are the measures most commonly used for this process.

Figure 7.8 shows the number of performance measures used by Pub Companies to benchmark their performance against that of their competitors.

The results show that a large proportion of Pub Companies compare their performance on a small number of measures, although a small number (5) compare their performance on ten or more measures. This may be due to a lack of available financial data or it could indicate that the Pub Companies do not trust the reported financial data due to a lack of consistency with regards to definitions.

Figure 7.7: - Benchmarking Comparisons used from Competiting PubCo's

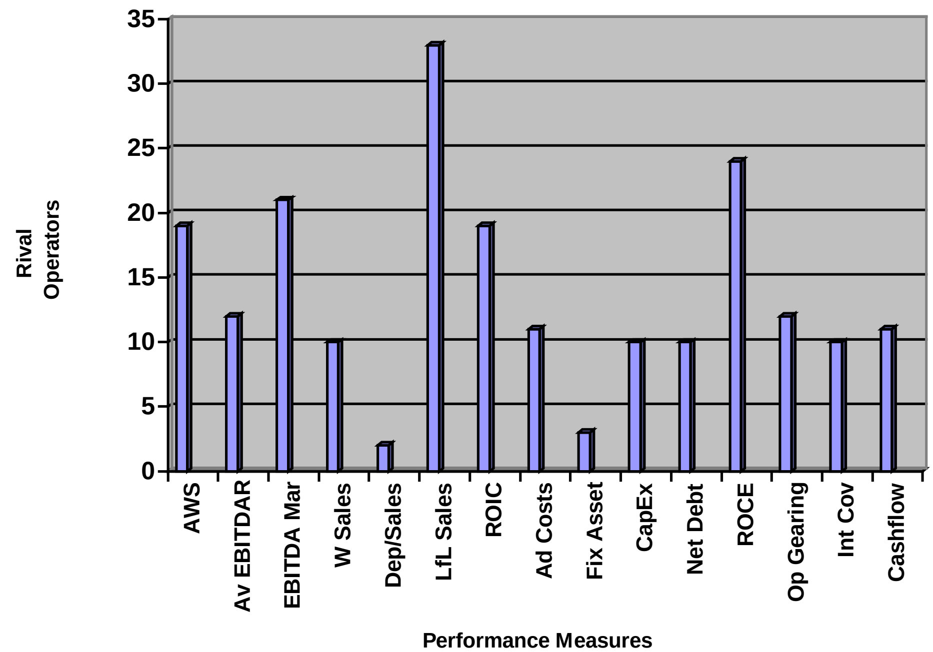


Figure 7.8: - Use of Competitors Performance Measures to Benchmark

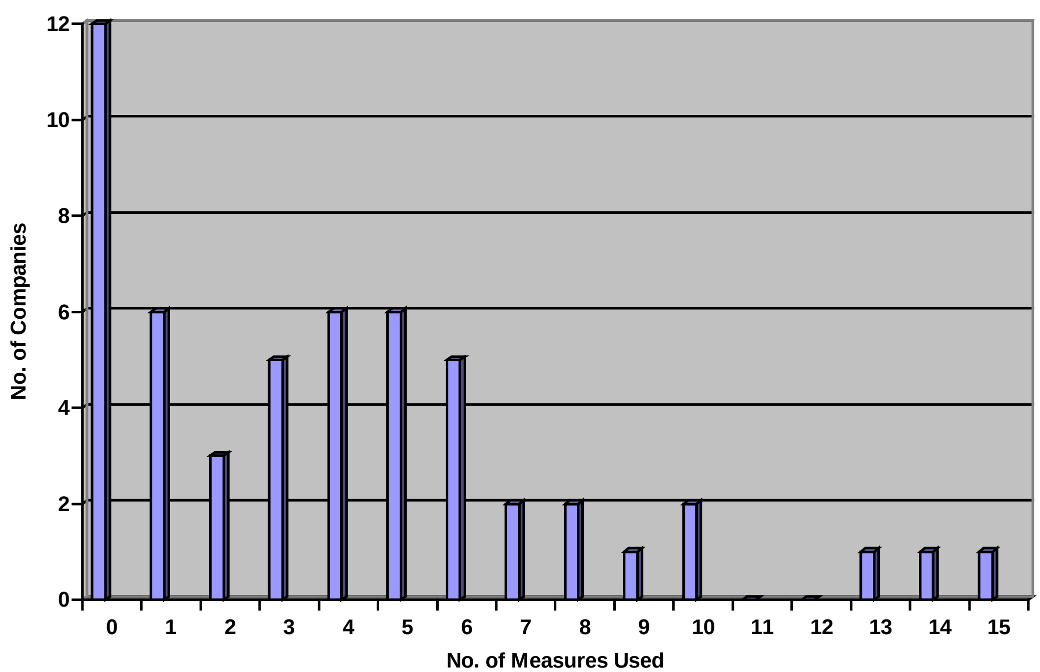


Figure 7.9: - % of Respondents using Designated Performance Criteria from Competitors as part of own Benchmarking Process

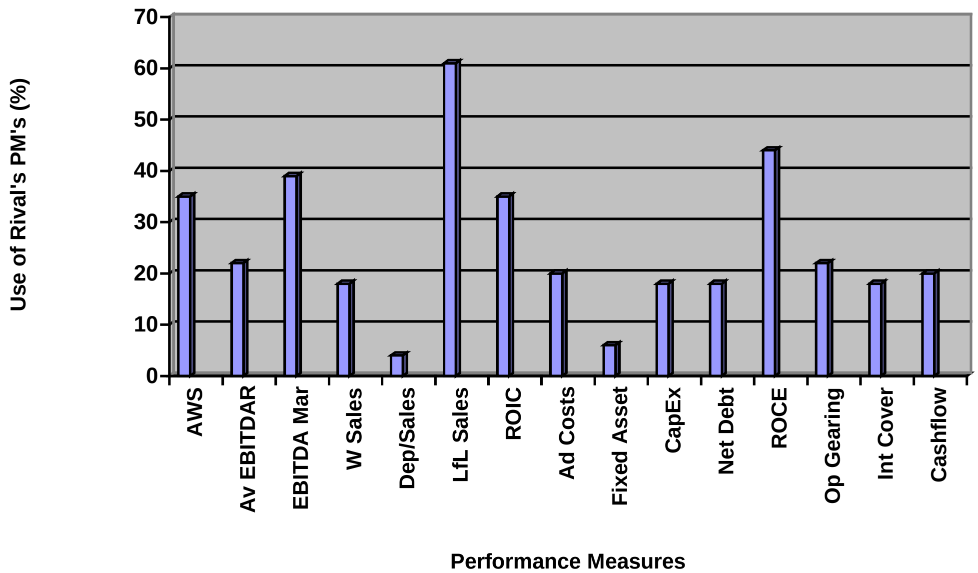


Figure 7.10: - Number of PubCo's using Competitors Performance Measures to Benchmark own Performance

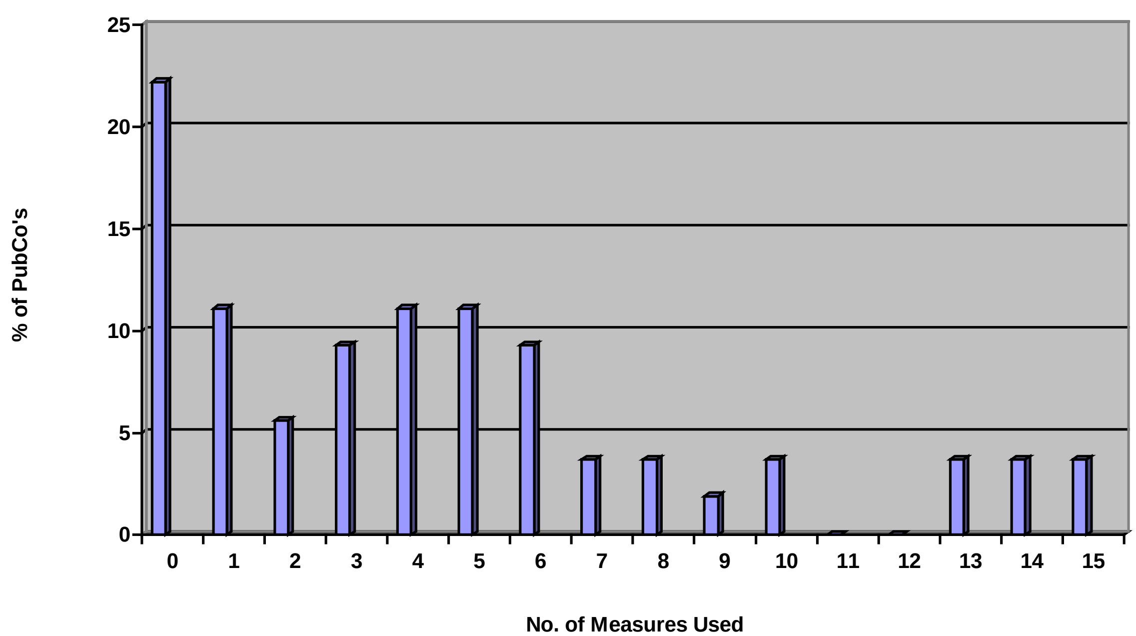


Figure 7.9 indicates that Pub Companies predominantly use Like-for-Like Sales, Return on Capital Employed, Average Weekly Sales and EBITDA Margins to benchmark their performance with that of their competitors.

Figure 7.10 demonstrates that a large proportion of the respondents use relatively few of the specified measures to benchmark their performance with that of their competitors.

A number of respondents provided additional comments which are summarised as follows: -

- Questionnaire seems to be biased towards managed pubs rather than leased/tenanted pubs.

- Different measurements are needed for tenanted/leased and managed Pub Companies as the revenue/profit streams are different in each.

- Comparisons between Pub Companies cannot be easily made as limited financial information is provided by the Pub Companies.

- Definitions of 'like-for-like sales' vary across the industry.

- Industry performance reviews that collect data and publish it geographically are available in the hotel sector but not in the pub sector.

7.4 MANAGED PUBCO QUESTIONNAIRES

The questionnaire, initially described in Chapter 6, was designed to elicit data from Managed Pub Companies identified from the initial Pub Company sample. This process was deemed essential in order to determine the measures utilised by these Pub Companies in order to make comparisons with the data collected from both the financial analysts and the Pub Companies.

The questionnaire sought to give information on: 1) the size and geographical spread of the sampled Managed Pub Companies; 2) the performance measures used to measure the performance of individual and districts of managed public houses; 3) the measures used to benchmark against rival Managed Pub Companies; and 4) to seek additional comments and suggestions as to how the research could be further developed.

The Managed Pub Company questionnaire achieved 25 responses (out of a sample of 79) although it was necessary to resend questionnaires to a number of Pub Companies in order to obtain a representative sample.

Figure 7.11 shows the size of the responding Managed Pub Companies and demonstrates that 87.5% of the respondents operated between 1 and 250 managed pubs. Of note are the three respondents which indicated that they operated over 500 pubs as these represented the largest operators at the time of the research and their participation demonstrates that a representative sample was achieved.

Figure 7.12 shows the geographical spread of the responding Pub Companies and shows that the PubCo's are represented in the heavily populated areas of the United Kingdom.

Figure 7.11: - Size of Responding Managed PubCo's

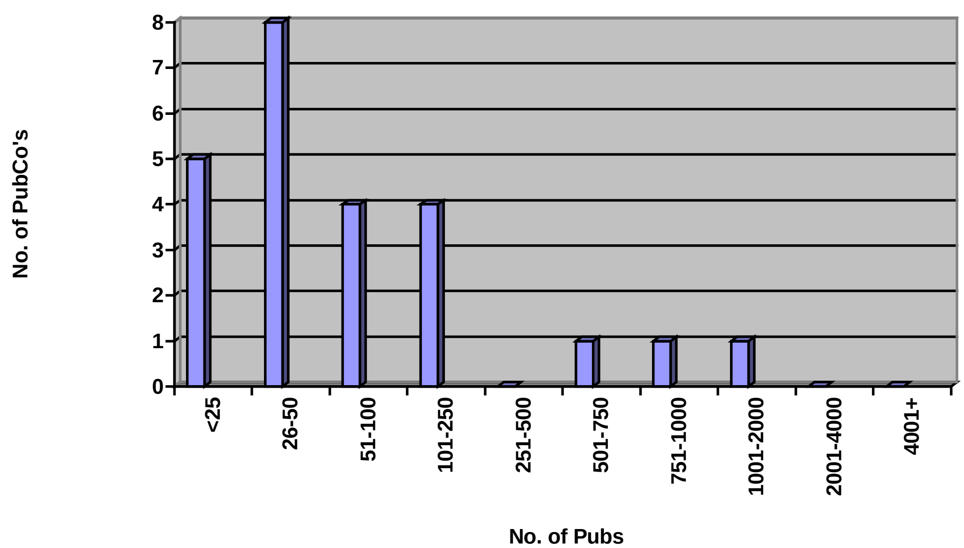
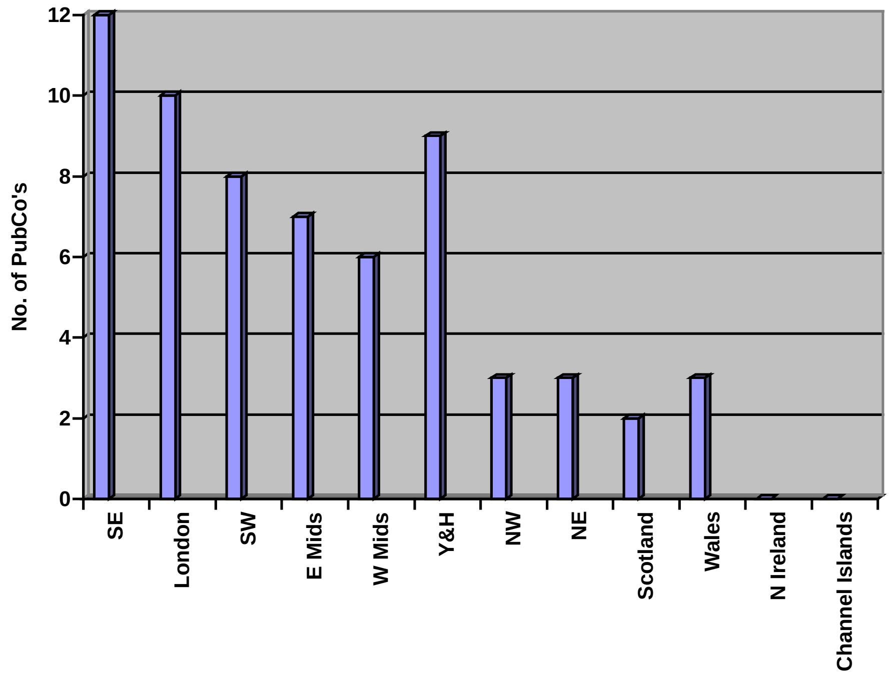


Figure 7.12: - Responding Managed PubCo's Operational Areas

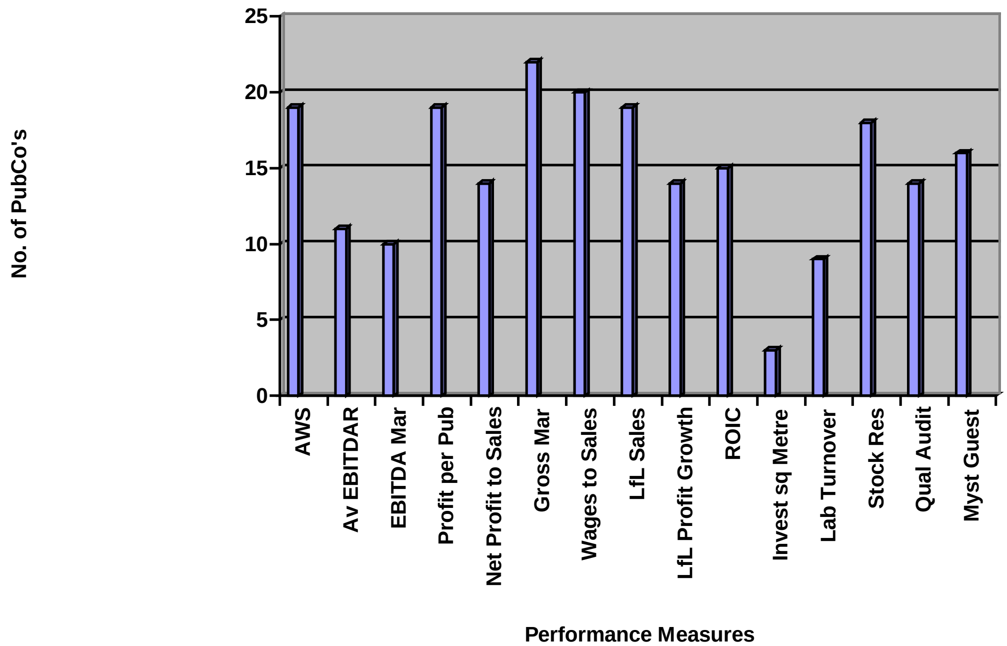


This was of particular interest as these areas were where the major brewers estates were traditionally concentrated, and are obviously where a large proportion of the UK's pubs are sited [Deutsche Bank, 2007t]. Also a large proportion of the pre-MMC pubs are now owned by the sampled Pub Companies, thus demonstrating that a representative response was achieved with the questionnaire.

The performance measures used by the responding Managed Pub Companies can be seen in Figure 7.13. This again shows the Pub Companies reliance on financial measures, although non-financial measures are also considered by a number of the respondents.

The Managed Pub Companies indicate that they use Average Weekly Sales; Profit per Pub; Gross Margin; Wages to Sales; Like-for-Like Sales and Return on Invested Capital as the commonly used performance measures. This again supports the literature contained in Chapter 5 which identified these as being the most commonly used performance measures within the UK's licensed retail sector.

Figure 7.13: - Performance Measures used by Managed PubCo's



The number of performance measures adopted by each responding Managed Pub Company can be viewed in Figure 7.14. This shows that the majority of the respondents (66.7%) use more than nine of the performance measures identified in the questionnaire: this differs significantly from the data received from the Pub Company questionnaire which showed that the majority of respondents relied on fewer performance measures.

The reliance of Managed Pub Companies on financial performance measures can be seen again in Figure 7.15 which shows their dependency on these measures.

The non-financial measures, such as Labour Turnover and Mystery Guest, perform strongly but are yet again dominated by Average Weekly Sales; Profit per Pub; Gross Margins; Wages to Sales and Return on Capital Employed.

Figure 7.16 shows the number of performance measures used per Managed PubCo and shows that these operators rely on more measures than those who responded to the PubCo questionnaire. This analysis also supports the data contained in Figure 7.14 which highlighted the same pattern.

Figure 7.14: - Number of Performance Measures adopted by each Managed PubCo

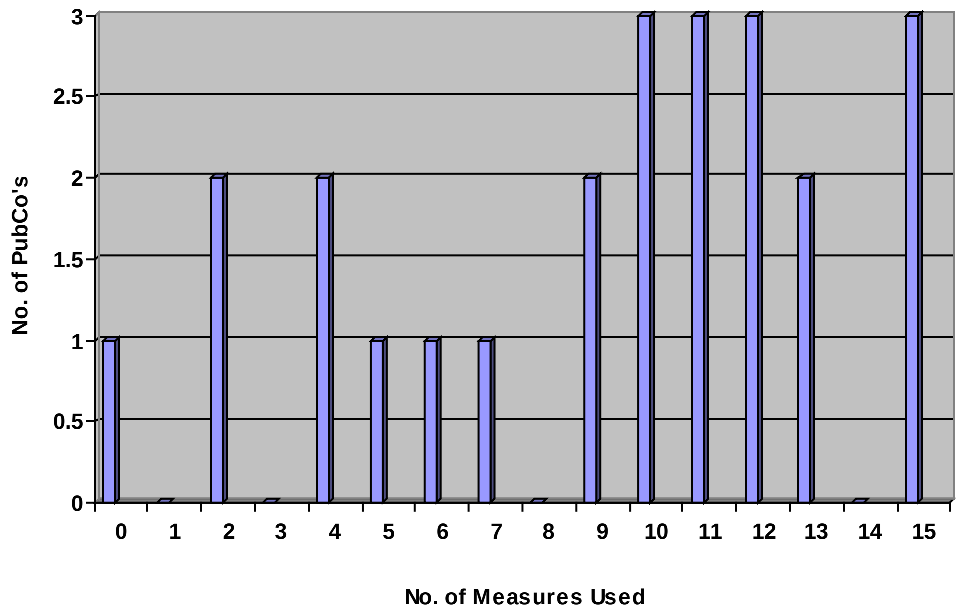


Figure 7.15: - % of Respondents using Designated Measures

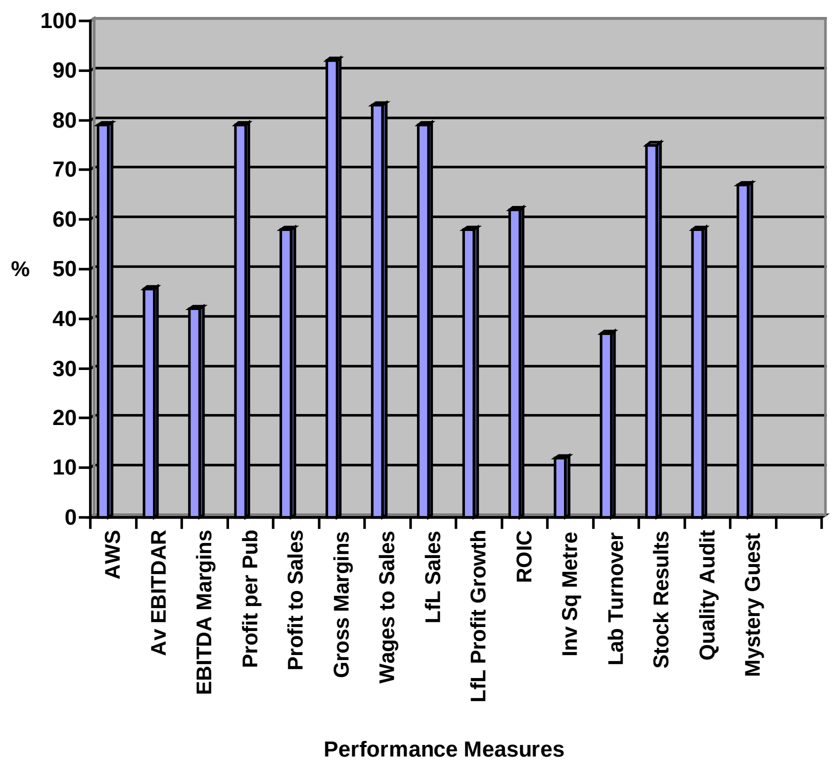


Figure 7.16: - Performance Measures used per Managed PubCo

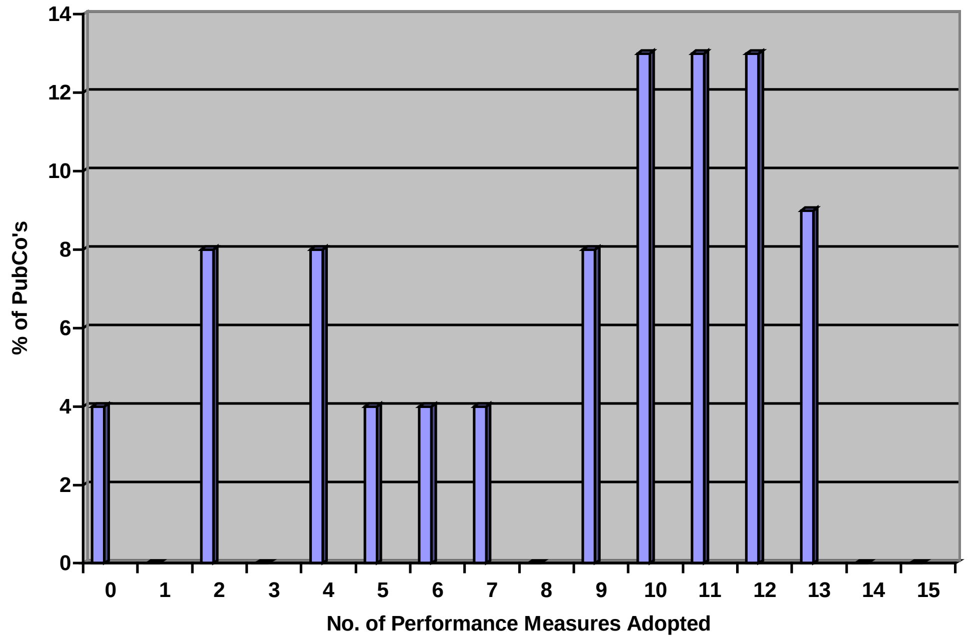


Figure 7.17 shows the number of performance measures used by Managed Pub Companies to benchmark their own performance with that of their competitors.

This analysis supports the pattern which is emerging in the data – that a relatively small number of financial performance measures are used consistently by the Pub Companies. This pattern can be clearly seen in Figure 7.17 which demonstrates that the majority of the respondents use less than eight performance measures when making comparisons.

Figure 7.18 identifies the performance measures which are commonly used in the benchmarking process and yet again demonstrates the sector's reliance on financial performance measures.

It is evident that Average Weekly Sales; Like-for-Like Sales; Profit per Pub; Gross Margins; Like-for-Like Profit Growth, Return on Invested Capital and Return on Capital Employed are the most commonly used measures for benchmarking.

Figure 7.17: - Use of Competitors Performance Measures to Benchmark

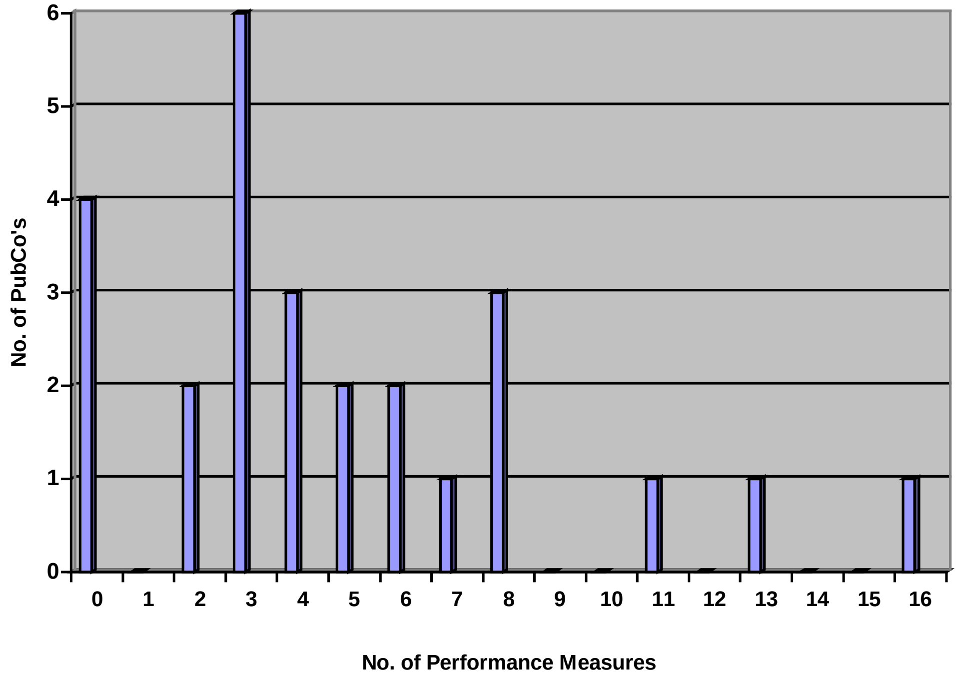


Figure 7.18: - Use of Performance Measures from Competitors to Benchmark

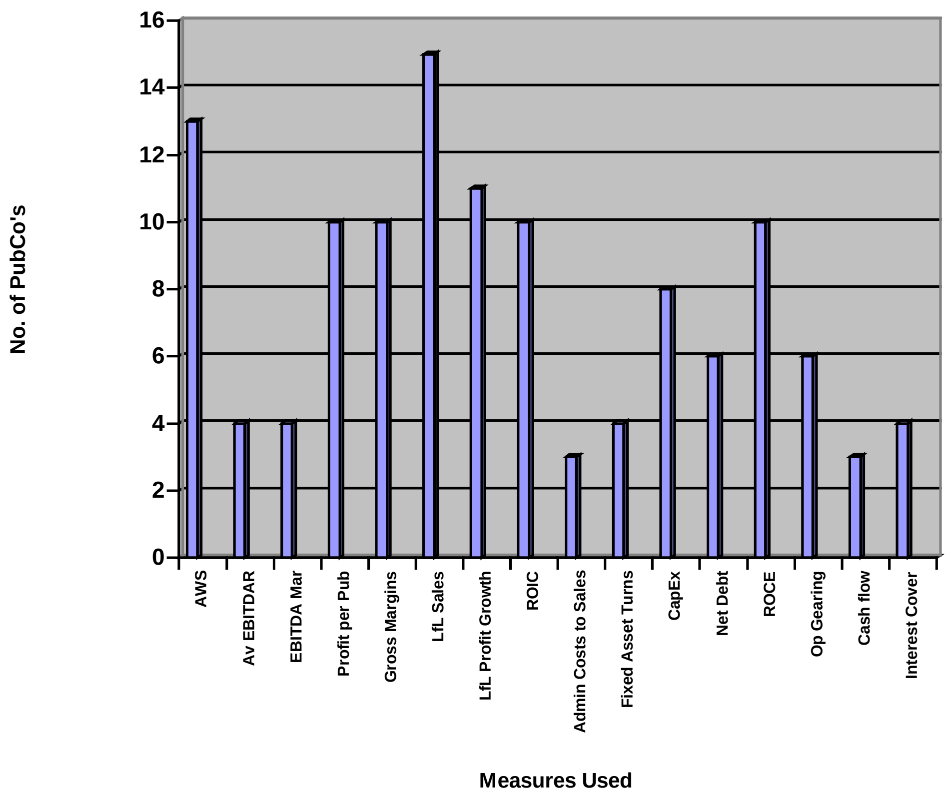


Figure 7.19: - % of Respondents using Competitors Performance Data to Benchmark own Performance

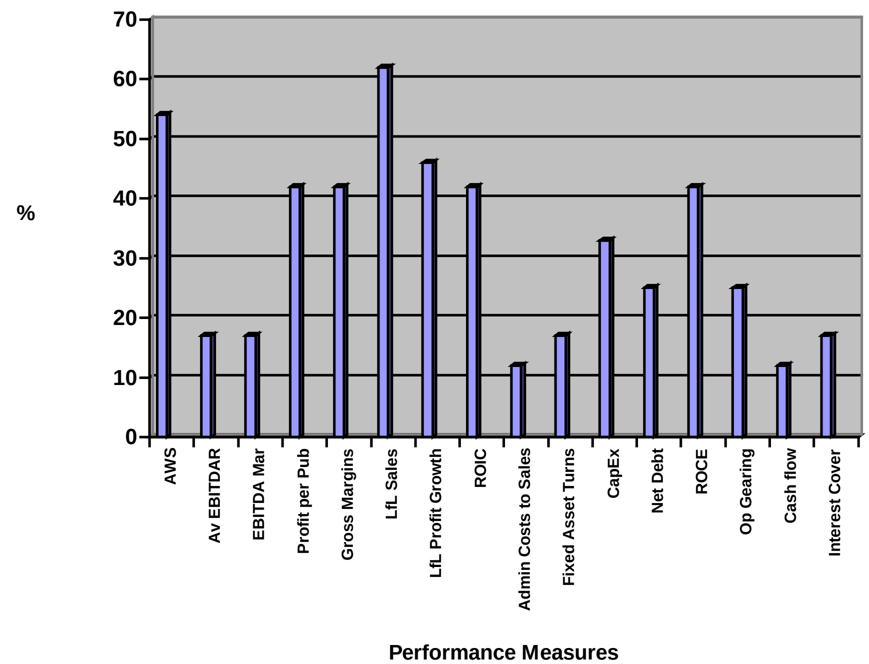


Figure 7.20: - % of Respondents using Competitors Measures to Benchmark own Performance

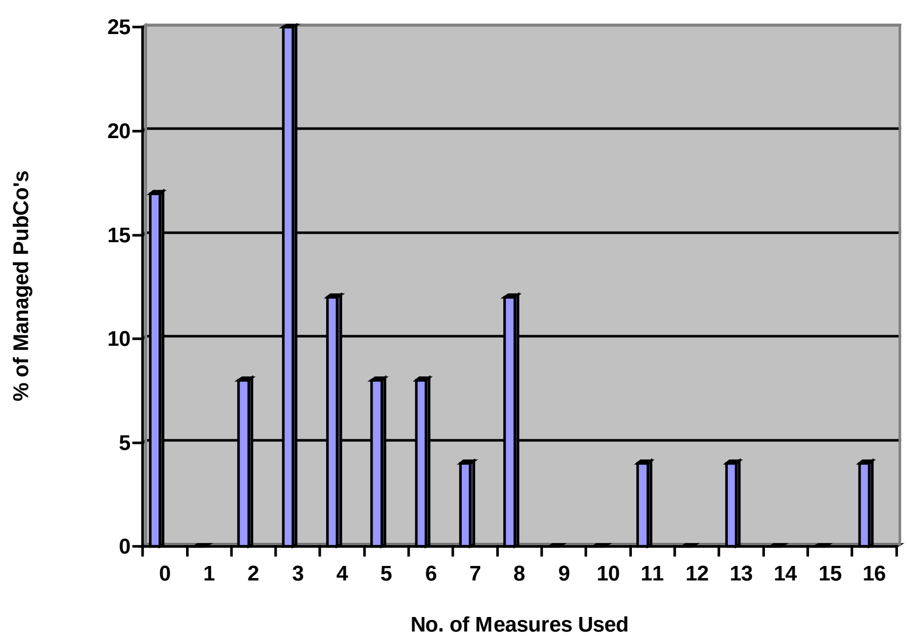


Figure 7.19 indicates that the Managed Pub Companies use Average Weekly Sales; Profit per Pub; Gross Margins; Like-for-Like Sales; Like-for-Like Profit Growth; Return on Invested Capital and Return on Capital Employed to benchmark their performance with that of their competitors.

Figure 7.20 demonstrates that the Managed Pub Companies tend to use relatively few (0 – 5 measures) of the specified performance measures to benchmark their own performance with that of their competitors.

A number of the respondents provided additional comments (see Appendix 5) which are summarised as follows: -

- Information requested is fairly sensitive and cannot be disclosed.

- Comparison with quoted PubCo's is difficult because PubCo's manipulate the pubs included in the figures to their advantage.

7.5 LEASED/TENANTED PUBCO QUESTIONNAIRES

The questionnaire, initially described in Chapter 6, was designed to provide data from the Leased/Tenanted Pub Companies identified in the initial sample. This process was deemed essential in order to determine the measures utilised by Leased/Tenanted Pub Companies in order to make comparisons with the primary data previously collected.

The questionnaire sought to give information on: 1) the size and geographical spread of the sample Leased/Tenanted Pub Companies; 2) the performance measures used to measure the performance of individual and districts of Leased/Tenanted pubs; 3) the measures used to benchmark against rival Leased/Tenanted PubCo's; and 4) to seek additional comments or suggestions as to how the research study could be further developed.

The questionnaire achieved 21 responses (out of 67) although it was necessary to resend questionnaires to a number of Leased/Tenanted Pub Companies in order to obtain a representative sample.

Figure 7.21: - Size of Responding Leased/Tenanted PubCo's

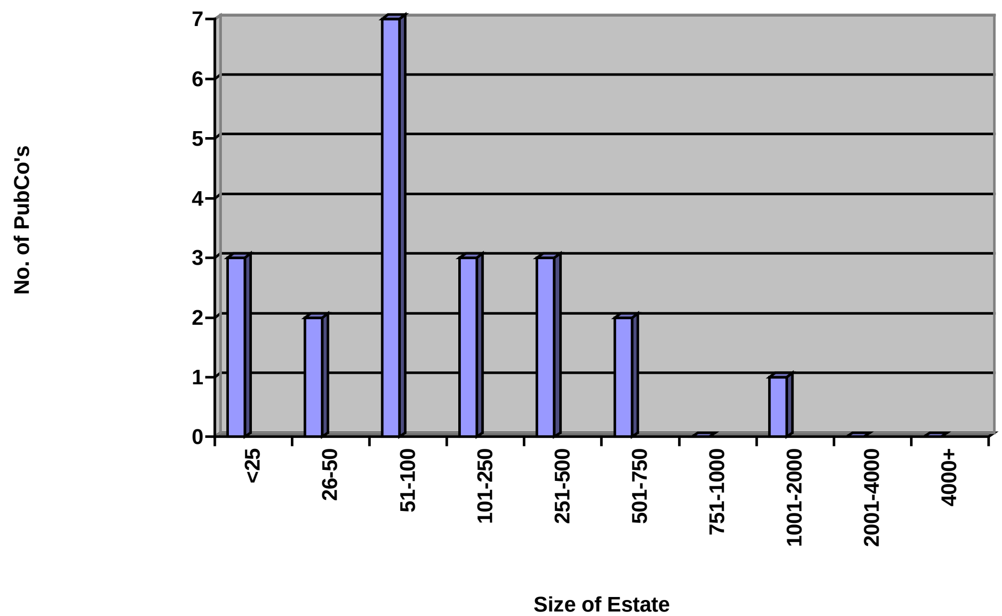


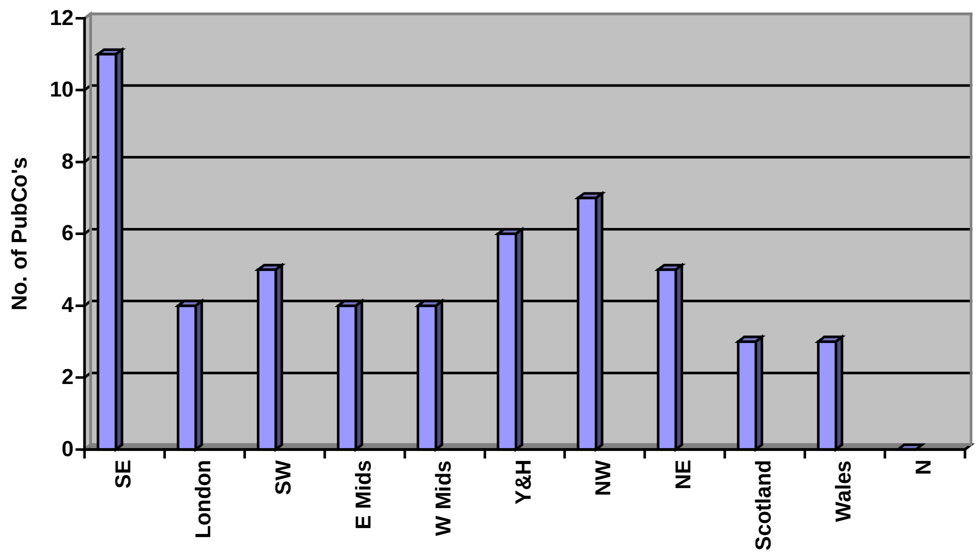
Figure 7.21 shows the size of the responding Leased/Tenanted Pub Companies with the majority operating estates of between 51 and 750 public houses. A response was received from a Pub Company which operated over 1,000 pubs at the time of the research and the participation of this PubCo demonstrates that a representative sample was achieved.

Figure 7.22 illustrates the geographical spread of the responding Leased/Tenanted Pub Companies and shows that these Pub Companies operate pubs across the United Kingdom.

This was of particular interest as the pubs seem to be evenly spread across the United Kingdom, unlike the pubs operated by the Managed Pub Companies. This also demonstrates that a representative sample was achieved as, with the exception of the South East, all regions of the United Kingdom were equally covered.

Figure 7.23 identifies and demonstrates the popularity of a range of measures which are used to measure the performance of individual and also districts of public houses.

Figure 7.22: - Responding Leased/Tenanted PubCo's Operational Areas



It is evident that financial performance measures are predominantly used by the Leased/Tenanted Pub Companies, with Average Rent per Pub; Return on Invested Capital; Amusement machine With Prizes Income and Beer Margin being the most commonly used. This is in contrast to the data received from the Managed Pub Companies which showed their reliance also on non-financial performance measures.

The number of performance measures used by individual Leased/Tenanted Pub Companies is demonstrated in Figure 7.24. This shows that the majority of Leased/Tenanted Pub Companies use more than five of the measures identified in the questionnaire with one Pub Company using ten performance measures.

The reliance of Leased/Tenanted Pub Companies on financial performance measures can be seen again in Figure 7.25 which highlights their dependency. The most commonly used performance measures were identified as Rent per Pub; Amusement Machine with Prizes Income; Beer Margin and Return on Invested Capital.

Figure 7.23: - Performance Measures used by Leased/Tenanted PubCo's

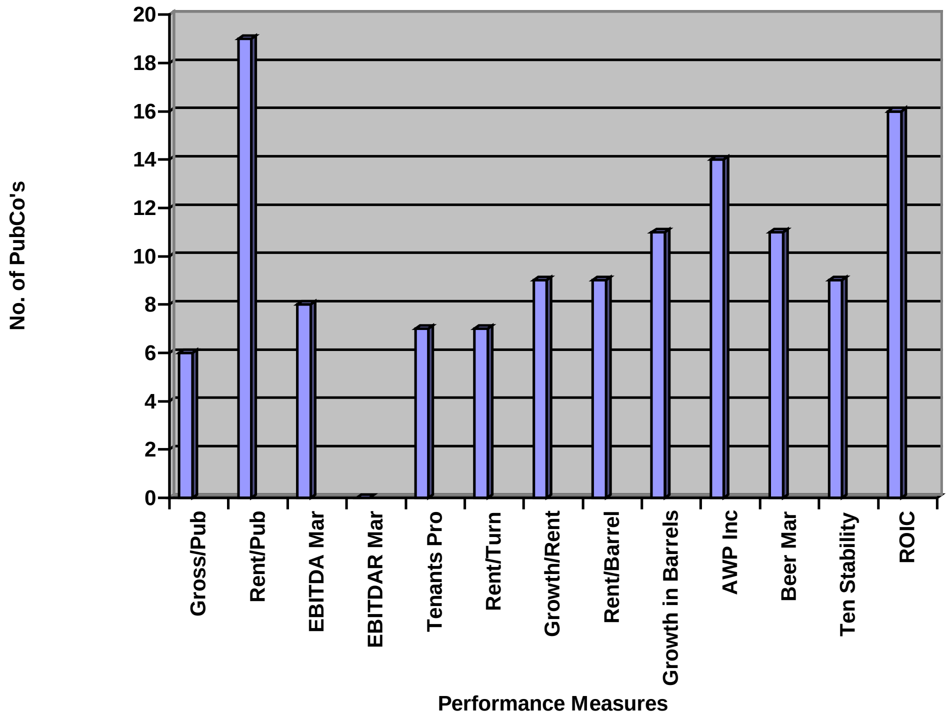


Figure 7.24: - Number of Performance Measures used by Leased/Tenanted PubCo's

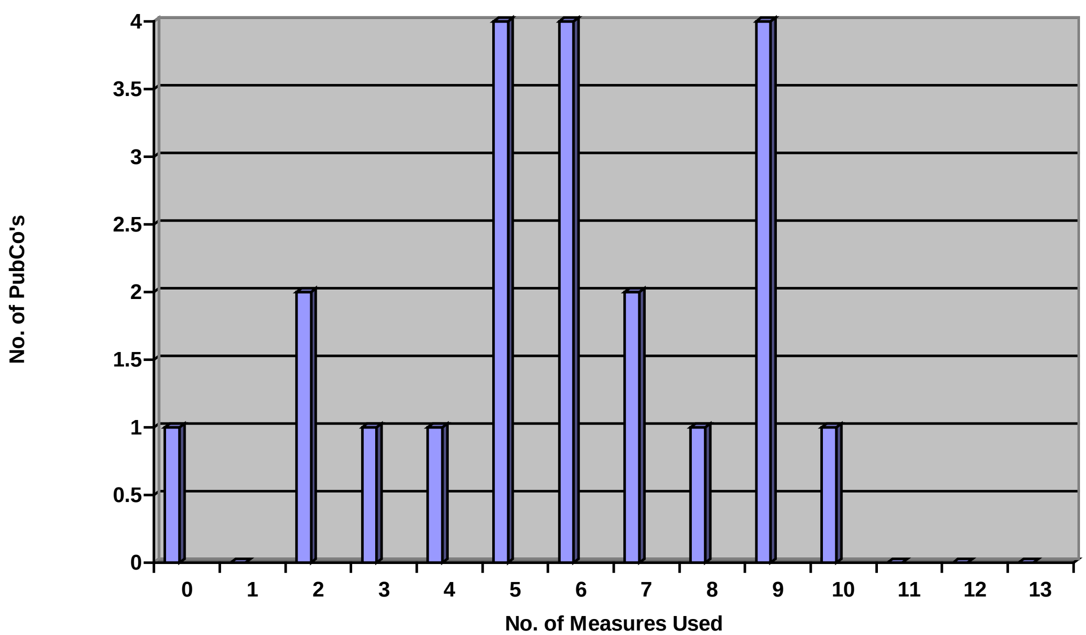


Figure 7.25: - % of Respondents using Designated Measures

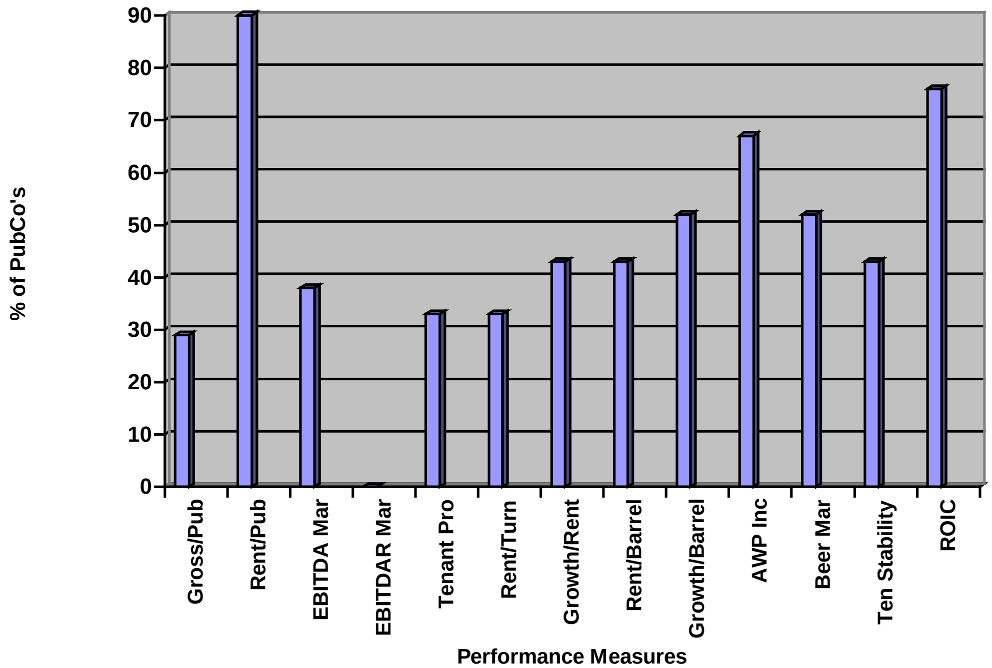


Figure 7.26: - Performance Measures used per Company

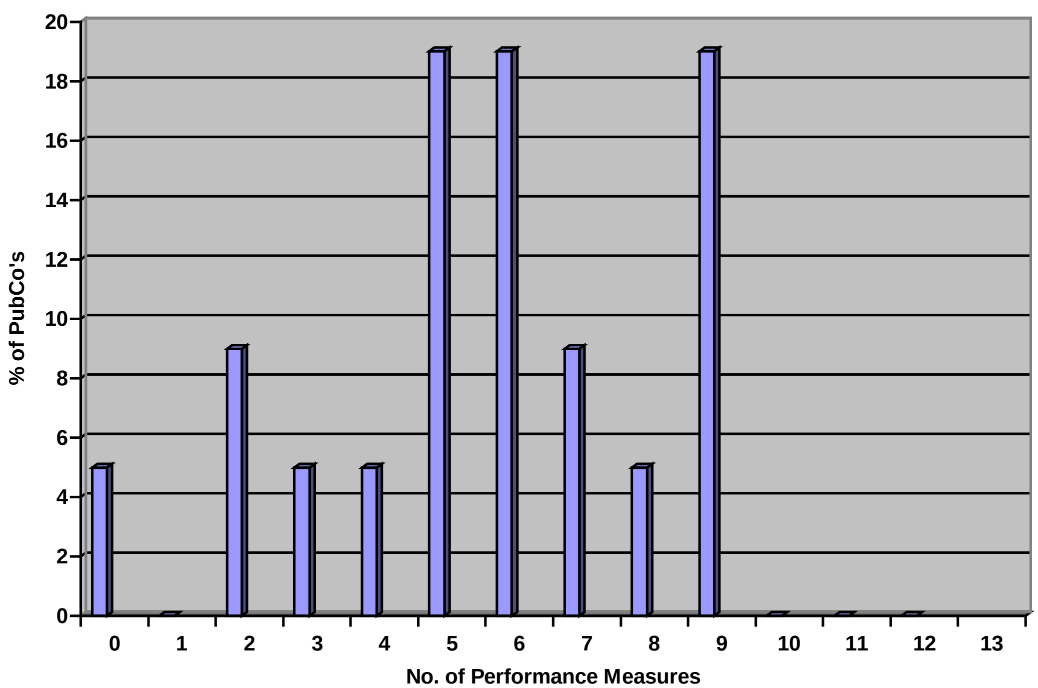


Figure 7.26 shows the number of performance measures used per Leased/Tenanted Pub Company and shows that these operators tend to rely on between five and nine performance measures. This analysis also supports the data contained in Figure 7.24 which highlighted the same pattern.

Figure 7.27: - Use of Competitors Performance Measures to Benchmark own Performance

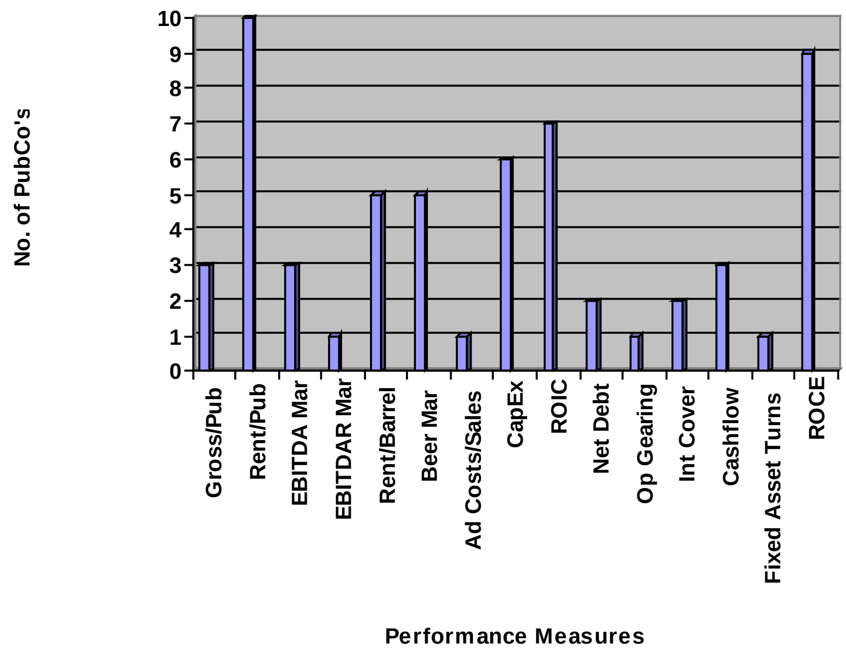


Figure 7.27 identifies the performance measures which are commonly used in the benchmarking process and yet again demonstrates the sectors reliance on financial performance measures.

It is evident that Rent per Pub; Capital Expenditure; Return on Capital Employed and Return on Invested Capital are the most commonly used measures for benchmarking.

Figure 7.28 shows the number of performance measures used by Leased/Tenanted Pub Companies to benchmark their own performance with that of their competitors.

Figure 7.28: - Companies using Competitors Data to Benchmark own Performance

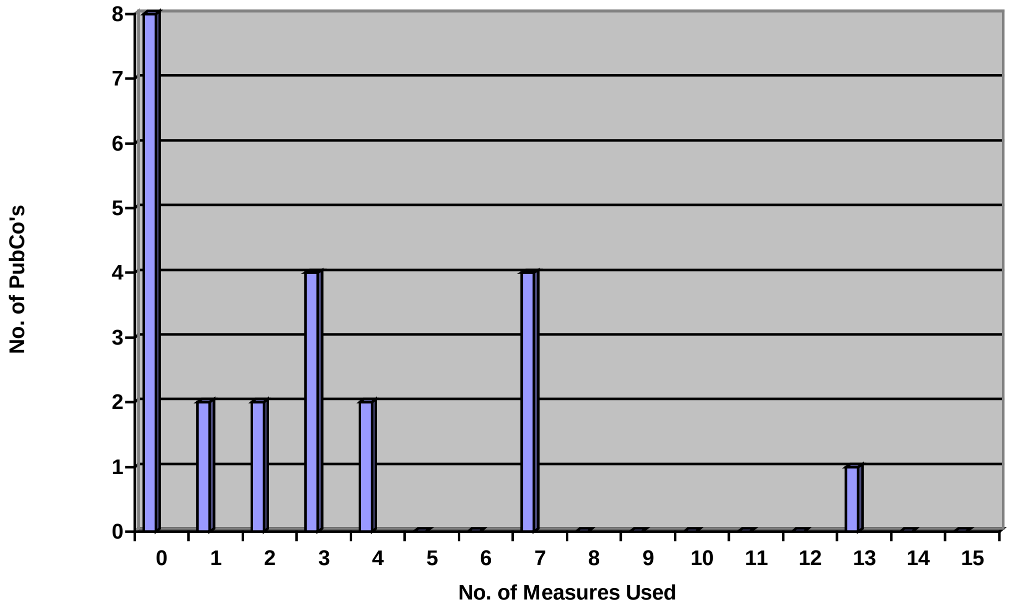
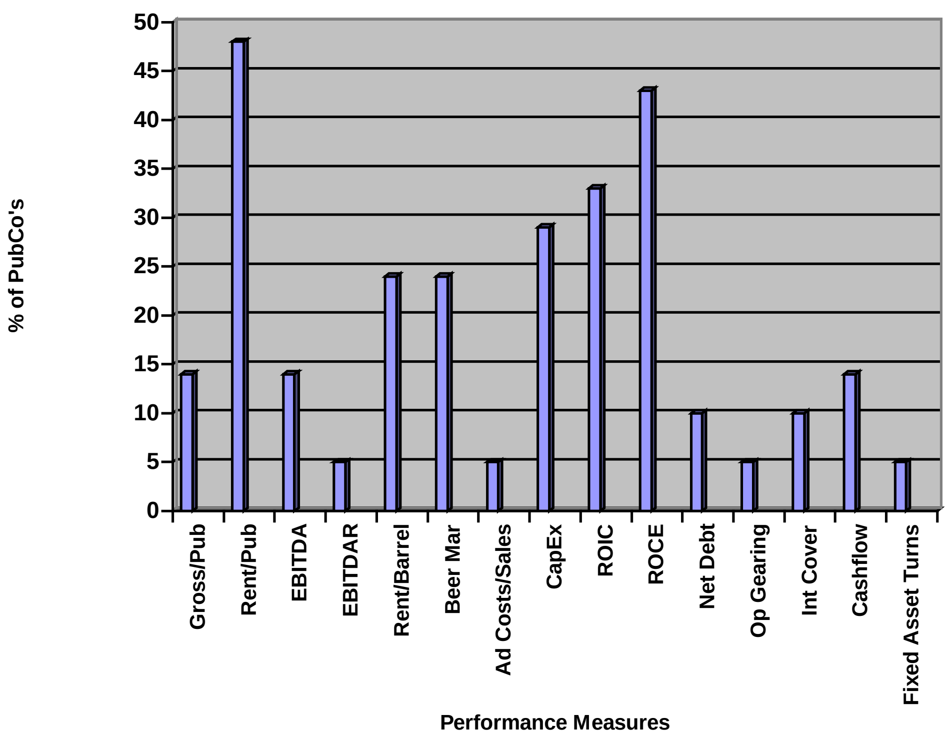


Figure 7.29: - % of Respondents using Competitors Performance Data to Benchmark own Performance



This analysis supports the pattern emerging in the data – that a relatively small number of financial performance measures are used consistently by the Pub Companies. This pattern can be seen clearly in Figure 7.28 which demonstrates that the majority of the respondents use less than four performance measures when making comparisons.

Figure 7.29 indicates that the Leased/Tenanted Pub Companies use Rent per Pub; Capital Expenditure; Return on Capital Employed and Return on Invested Capital to benchmark their performance with that of their competitors.

Figure 7.30: - % of Respondents using Competitors Performance Measures to Benchmark own Performance

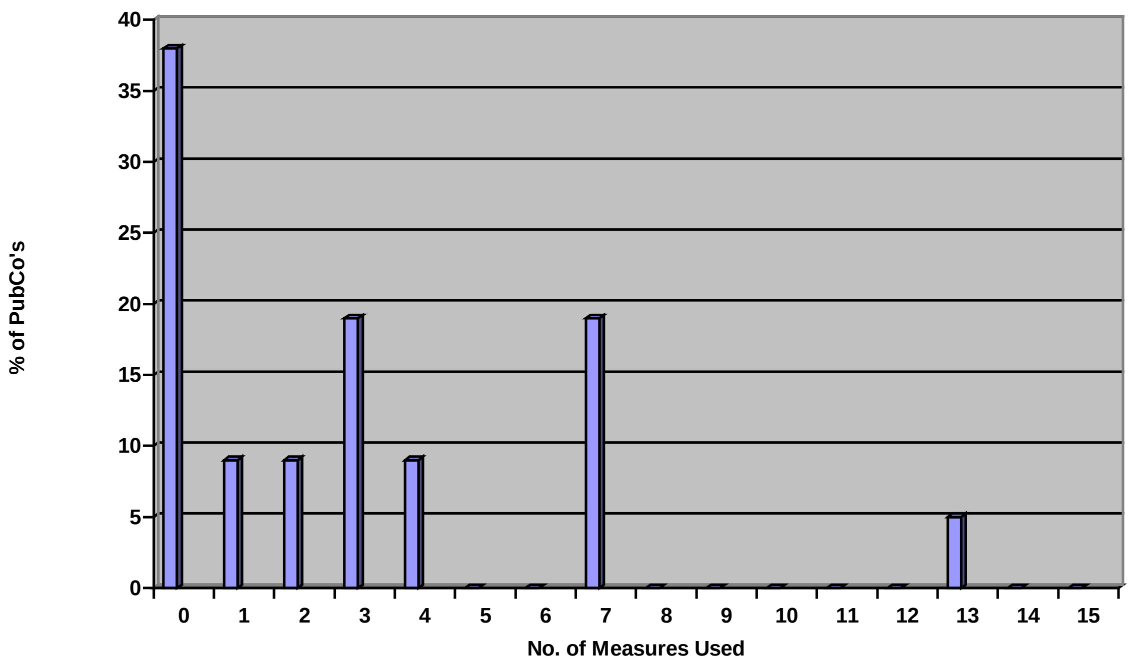


Figure 7.30 demonstrates that the Leased/Tenanted Pub Companies use relatively few (38% of respondents use none!) of the specified performance measures to benchmark their own performance with that of their competitors.

A number of the respondents provided additional comments (see Appendix 6) which are summarised as follows: -

- Capital structures of PubCo's make comparisons difficult.

- Comparisons centre around cash flow as this is the most difficult to manipulate.

- At present the main comparisons are houses fully let, houses operated as Tenancies at Will (AWT) or houses closed.

CHAPTER SUMMARY

The role of the financial analyst was explained along with the performance measures used by analysts to measure a Pub Company's performance. The most commonly used valuation metrics were described with Discounted Cash Flow, Price/Earnings, Sum of Parts and EV/EBITDA being the most commonly used metrics.

Financial analysts rely predominantly on financial performance measures, with Average Weekly Sales; Wages to Sales and Like-for-Like Sales being examples. The respondents also conclude that they find making comparisons difficult as they are provided with a low level of financial data.

Pub Companies, in general, rely predominantly on financial performance measures although Managed Pub Companies have begun to embrace non-financial measures. Managed and Leased/Tenanted Pub Companies also use different performance measures when making performance comparisons.

A lack of available information has prevented Pub Companies from making clear comparisons with their competitors, especially as several Pub Companies are privately owned. There is also an issue with regards to the definitions of key performance measures as these are known to be manipulated by the Pub Companies.

CHAPTER EIGHT: - CASE STUDIES

INTRODUCTION

This chapter contains six case studies based on both Managed and Leased/Tenanted Pub Companies.

The chapter identifies the financial and non-financial performance measures utilised by the Pub Companies and assess the need for a more balanced approach to performance measurement.

The collaborating organisations are Avebury Taverns, a private equity backed leased/tenanted operator acquired by Punch Taverns plc in July 2005; Greene King Pub Company, the managed pub operation of Greene King plc; InnSpired, a private equity backed leased/tenanted operator acquired by Punch Taverns plc in September 2004; W.H. Brakspear, a leased/tenanted operator (formerly a regional brewer) and Wizard Inns, a private equity backed managed operator acquired by Wolverhampton & Dudley Breweries plc in June 2004.

An additional case study on Whitbread's Pub Restaurant division has been produced using information supplied by Deutsche Bank.

The Whitbread case study is based on the group's turnaround strategy within its Pub-Restaurants Division and also focuses on the performance of Mitchell's & Butlers plc, which has acquired 283 of Whitbread's units in two tranches.

8.1 AVEBURY TAVERNS

8.1.1 COMPANY HISTORY

Avebury Taverns came into existence in November 1997 with initial funding provided by Japanese bank Diawa Europe. This funding enabled Avebury to purchase 147 pubs from Wolverhampton & Dudley Breweries plc for £16.4m [Publican, 1998a].

Avebury rapidly expanded its pub estate through a series of acquisitions (see Table 8.1) and was acquired by Cabot Square Capital for £130m in 1999 [Walsh, 2000].

Table 8.1: - Pub Acquisitions by Avebury Taverns

Date	Vendor	No. of Pubs Acquired	Consideration
11/1997	Wolverhampton & Dudley	147	£16.4m
12/1997	Whitbread plc	62	Undisclosed
02/1998	Bass plc	222	Undisclosed
04/1998	Dew Drop Inns	20	Undisclosed
08/1998	Whitbread plc	253	£42.5m
01/2001	Honeycombe Leisure plc	12	£6.1m
02/2001	Stanford Pub Company	67	Undisclosed
08/2001	Honeycombe Leisure plc	14	£6.6m
09/2001	S&N Pub Enterprises	54	£22m
09/2001	Burns Leisure	35	£5m
12/2001	Noble House Leisure	17	£9m
09/2003	Noble House/Greene King	8	Undisclosed

Avebury completed a £140m securitisation in February 2000 which provided a warchest for further acquisitions, although Avebury spent 2002 and 2003 seeking an additional £30m to fund its expansion plans [Publican, 2003g].

The search for new investment was concluded in February 2004 when Avebury was acquired by Vision Capital, an independent investment company [Publican, 2004g].

Avebury disposed of 253 'bottom-end' pubs in May 2005 to Admiral Taverns for £69.75m and was subsequently put up for sale by Vision Capital [Goodman, 2005]. Avebury's remaining estate was acquired by Punch Taverns plc in July 2005 for £219m [Punch Taverns, 2005].

Punch was attracted to Avebury due to its remaining 409 pubs being of high quality (see Table 8.2). The estate also provided Punch with fewer geographical overlaps which in turn meant that Punch would have to dispose of a relatively small number of pubs in order to comply with competition legislation [Punch Taverns, 2005].

Table 8.2: - Strategic Rationale for Avebury Taverns Acquisition

Strongly Performing & Resilient Pubs	• Immediate income & cash generation. • Real underlying property value.
Straightforward Bolt-on Acquisition	• Minimal integration risk. • Improved buying terms & cost reduction.
Substantial Scope to Extend Punch Investment Skills	• Recent investment in consumer led areas is minimal.

Source: Punch Taverns. [2005]

8.1.2 PERFORMANCE MEASURES UTILISED

Avebury was initially contacted by letter (see Appendix 13) in order to seek their collaboration with the research study. The letter also sought to determine the feasibility of the study and to also develop a network of contacts.

A response was received from Ian Frost (Commercial Director) confirming Avebury's interest and an initial meeting was held in July 2003 to discuss the level of collaboration anticipated and to also discuss any concerns that Avebury may have with the proposed research (refer to Appendix 14).

Mr Frost confirmed Avebury's interest in collaborating with the research and requested additional information on how the data would be collected. This additional information was supplied in due course.

The offer of collaboration then seemed to dry up as Avebury seemed no longer interested with the study. Contact was maintained throughout this period and two completed questionnaires were received in due course (PubCo and Leased/Tenanted). Unfortunately, Avebury was acquired by Punch Taverns plc in July 2005 and therefore the level of involvement originally anticipated was not upheld.

8.1.2.1 PubCo QUESTIONNAIRE

Avebury Taverns operated between 501 and 750 public houses at the time of the questionnaire with its estate concentrated in the South East, London, East Midlands, West Midlands, Yorkshire & Humberside, North West and the North East of England (see Appendix 14 for questionnaire transcript).

Avebury Taverns said that it used a variety of performance measures in order to measure the performance of individual or clusters of public houses. Avebury indicated that it used Average Weekly Sales/Volume; Average EBITDAR; Like-for-like Sales; Like-for-like Profit Growth; Return on Invested Capital and Sales Mix for measuring the performance of individual or clusters of public houses.

Avebury Taverns compares its performance with that of its competitors by using Average EBITDAR; Like-for-like Sales; Like-for-like Profit Growth and Return on Invested Capital as its key performance measures.

Ian Frost (Commercial Director) commented that the questionnaire was biased towards Managed PubCo's. He acknowledged that Avebury works with its tenants/lessees to develop their businesses, which in turn provides Avebury with the opportunity to charge a higher rent for that particular public house.

8.1.2.2 LEASED/TENANTED QUESTIONNAIRE

Avebury Taverns operated between 501 and 750 public houses at the time of submission with its estate concentrated in the South East, London, East Midlands, West Midlands, Yorkshire & Humberside, North West and North East of England (refer to Appendix 14 for questionnaire transcript).

Avebury Taverns indicated that it used a variety of performance measures in order to evaluate the performance of individual or clusters of public houses. Avebury claimed that it used Average Rent per Pub; Rent to Turnover; Annual Growth in Rent; Rent per Barrel; Annual Growth in Barrels; AWP Income and Return on Invested Capital for measuring the performance of individual or clusters of public houses.

Avebury Taverns compares its performance with that of its competitors by using Average Rent per Pub; EBITDAR Margins; Rent per Barrel; Beer Margin/Wholesale Margin; Capital Expenditure; Return on Invested Capital and Return on Capital Employed as its key performance measures.

8.2 GREENE KING PUB COMPANY

8.2.1 COMPANY HISTORY

Greene King plc brews, wholesales and retails beer, in addition to owning over 2,000 managed and tenanted public houses. The company’s brands include “Greene King IPA bitter”, “Abbot Ale”, “Old Speckled Hen”, “Ruddles Ale”, “Belhaven Best” and “Hungry Horse” [Deutsche Bank, 2007h].

Benjamin Greene first laid the foundations of the company when he moved to Bury St Edmunds to establish his own brewing business in 1799. In 1806, he entered into a significant partnership with William Buck, an elderly yarn-maker, to acquire the 100 year old Wright’s Brewery in Westgate and they began brewing together [Greene King, 2000].

In 1830, when the agricultural economy was in desperate trouble, the introduction of the Beer Act created a new type of public house – the beer house. Within the first six months of the Act, nearly 25,000 beer houses had sprung up around the country, and beer sales increased dramatically. Although a price war ensued, the company was able to trade throughout this difficult period [Greene King, 2000].

In 1836 Benjamin Greene handed over the reins of the company to his son Edward Greene, who oversaw a major expansion of the company. The brewery workforce doubled to 50 and output increased to 40,000 barrels a year by 1870 [Greene King, 2000].

Meanwhile, Frederick King acquired the Maulkin's Maltings and adjoining buildings in 1868 with a view to becoming a brewer, renaming them the St Edmunds Brewery. However, competing with the neighbouring well established Greene's brewery was difficult and in 1887 agreement was reached to amalgamate the two companies and form Greene King & Sons. It became one of the largest county breweries in England and owner of 148 public houses. The new company quickly established a regional reputation for producing two of the finest types of beer – old ale and bitter [Greene King, 2000].

As the old century closed and World War loomed, social and economic changes quickly followed. The Temperance Movement, present for decades, was hugely influential in Liberal circles and with war came undreamt-of restrictions in licensing hours and the strength of beers. But a revival occurred during the 1920s and 1930s, when new pubs were built and bottled beer became extremely popular. In 1938, the company opened a long awaited new brewhouse, in time to meet the war time demands of Allied servicemen based in East Anglia and since the war the expansion has continued, with several smaller neighbours being acquired over the years. By the early 1960s the company owned over 900 public houses [Greene King, 2000].

Greene King has transformed itself from a traditional vertically-integrated regional brewer into a national force in brewing and pub retailing in recent years and has grown through both acquisitions and organic growth (see Table 8.3).

Table 8.3: - Pub Acquisitions by Greene King plc

Date	**Vendor**	**No. of Pubs Acquired**	**Consideration**
08/1993	Bass plc	44	£17.5m
06/1996	Magic Pub Company	273	£197.5m
06/1998	Enterprise Inns plc	6	Undisclosed
06/1998	Beards of Sussex	43	£12.2m
03/1999	Marston's (Southern Estate)	165	£80m
07/1999	Morland plc	422	£162.5m
09/2001	Old English Inns plc	136	£102.6m
04/2002	Dalgety Taverns	8	£12.2m
06/2002	Morrells of Oxford	107	£67m
09/2003	SFI Group plc	2	£8m
07/2004	Laurel Pub Company	432	£654m
07/2005	TD Ridley	73	£53.6m
08/2005	Belhaven plc	230	£187m
08/2006	Hardys & Hansons plc	268	£271m
08/2007	Loch Fyne Restaurants	36	£68.1m
11/2007	New Century Inns	49	£32.6m

Since the beginning of 2001, Greene King has acquired 1,302 pubs which have given the group ample opportunity to [Deutsche Bank, 2006i]: -

- upgrade the managed estate, either by transferring some of the managed pubs to tenancy;

- transfer some of the acquired managed houses into tenancy; or

- dispose of the poorly performing tenancies as well as most of the leasehold sites acquired with various packages of pubs.

In March 2005 the company successfully completed a £600m securitisation of its pub portfolio. This fundraising enabled Greene King to make further acquisitions, namely, TD Ridley; Belhaven and Hardys & Hansons [Deutsche Bank, 2007w].

Deutsche Bank [2006i] concludes that Greene King's track record on acquisitions is arguably the best in the sector, particularly since most of its acquisitions have involved some integration risk. Each of the group's deals has [Deutsche Bank, 2006i]: -

- improved the overall quality of the Greene King business;
- improved the ability to manage the overall estate in order to enhance its prospects for future organic growth;
- generated returns in excess of Greene King's weighted average cost of capital;
- extended Greene King's geographical coverage across the UK;
- improved economies of scale; and
- also enhanced Greene King's earnings per share (EPS).

Table 8.4 illustrates the process which the company uses to review its estate and its effects are illustrated with the various managed to tenancy transfers and also disposals which have taken place in recent years.

The data contained in this case study solely relates to Greene King Pub Company, the managed house operation, and was obtained prior to Greene King's acquisition of Laurel's community estate in July 2004.

8.2.2 PERFORMANCE MEASURES UTILISED

Greene King was initially contacted by letter (see Appendix 13) in order to seek their collaboration with the research study. The letter also sought to determine the feasibility of the study and also develop a network of contacts.

Table 8.4: - Greene King's Managed/Tenanted Formula

Greene King applies a particular formula to choosing which of its pubs should be managed and which would work better as tenancies.

Rather than deciding on the basis of volume of sales, with the bigger outlets falling into the managed camp, it looks at the profitability of each business.

"It's not the takings that are important but the way the takings are split", explained David Elliott, Greene King Pub Partners managing director.

"Generally, that means that pubs that sell a lot of food work best as tenancies".

For example, Greene King makes the following calculations: -

- House A takes £8,000 a week split 33 per cent wet and 67 per cent dry. As a managed house it will make an annual net trading profit of £62,000, but as a tenancy or lease it will make £70,000.

- House B takes less – only £6,500 – but because the split is 85 per cent wet and 15 per cent dry its profit as a managed house is £90,000 compared to the £72,000 it would make as a tenancy.

The approach also means that Greene King, against the trend in the industry, is looking to transfer tenancies over to management.

Source: Publican. [2001d]

An initial response was received in September 2003 from Marc Lombardo (Finance Director) but after several returned phone calls no contact was made.

I attended the Publican Conference 2003 and was introduced to Adam Collett (Marketing Director – Greene King Pub Company). Mr Collett is a graduate of the University and agreed to collaborate with the research study. He also agreed to deliver a presentation at the University and this was subsequently arranged for February 2004.

Mr Collett produced and delivered a presentation on the development of Greene King and also on the performance measures used by the company within its managed house estate. The slides from the presentation can be found in Appendix 16.

Mr Collett also completed the PubCo and Managed PubCo Questionnaires and these two documents (see to Appendix 15) have provided an additional overview of the performance measures used by Greene King Pub Company.

A PubCo Questionnaire was also returned by Laurel Pub Company, shortly before its acquisition by Greene King plc. This questionnaire is also included in this section as a means of comparison (see Appendix 15).

8.2.2.1 PubCo QUESTIONNAIRE

Greene King Pub Company operated between 500 and 750 public houses at the time of submission with its estate concentrated in the South East, London, South West, North West and Scotland (see Appendix 15).

Greene King Pub Partners operated between 1,250 and 1,500 public houses at the time of submission with its estate concentrated in the South East, London and the South West.

Greene King indicated that it used a variety of performance measures in order to measure the performance of individual or clusters of public houses. Greene King maintained that it used Average Weekly Sales; Average EBITDAR; EBITDA/R Margins; Wages to Sales; Like-for-like Sales; Like-for-Like Profit Growth; Return on Invested Capital; Trading Profit; Stock Results; Mystery Guest; Quality Audits; Labour Turnover and Sales Mix for measuring the performance of individual or clusters of public houses.

Greene King compares its performance with that of its competitors by using Average Weekly Sales; Average EBITDAR; Wages to Sales; Like-for-Like Sales; Like-for-Like Profit Growth; Return on Invested Capital; Admin Costs to Sales; Return on Capital Employed; Operational Gearing; Interest Cover and Cashflow as its key measures.

Adam Collett [Marketing Director] provided some additional information and explained that GKPC studies economic profit at both house and corporate level. He also explained that EBITDA/R is a company measure and that Greene King Pub Company uses Branch

Operating Profit before head office costs as a performance measure (see Appendix 15).

8.2.2.2 MANAGED PubCo QUESTIONNAIRE

Greene King Pub Company operated between 751 and 1,000 public houses at the time of submission with its estate concentrated in the South East, London, South West, East Midlands and West Midlands (see Appendix 15).

Greene King indicated that it used a variety of performance measures in order to evaluate the performance of individual or clusters of managed public houses. Greene King indicated that it used Average Weekly Sales; Average EBITDA; Profit per Pub; Wages to Sales; Like-for-Like Sales; Like-for-Like Profit Growth; Return on Invested Capital; Quality Audits and Mystery Guests for measuring the performance of individual or clusters of public houses.

Greene King Pub Company compares its performance with that of its competitors by using Average Weekly Sales; Average EBITDA; Like-for-Like Sales; Like-for-Like Profit Growth; Return on Invested Capital; Net Debt; Return on Capital Employed and Operational Gearing as the key performance measures.

8.2.2.3 GREENE KING PRESENTATION

Adam Collett (Marketing Director) delivered a presentation on the performance measures used by Greene King Pub Company (see Appendix 16).

The presentation demonstrated the company’s reliance on Like-for-Like Sales, Trading Margins and Return on Investment and various examples were provided. The presentation also revealed that the company uses the Boston Matrix to determine the position of each of its managed public houses (see Appendix 16).

The Boston Matrix was developed by the Boston Consulting Group and Greene King uses this model to evaluate each of its businesses (managed pubs) in order to determine where to allocate investment and managerial resources [Kotler & Armstrong, 1996].

Using the Boston Consulting Group approach, a company classifies all its Strategic Business Units (SBUs) according to the growth-share matrix shown in Figure 8.5. On the vertical axis, market growth rate provides a measure of market attractiveness. On the horizontal axis, relative market share serves as a measure of company strength in the market. By dividing the growth share matrix as indicated, four types of SBUs can be distinguished: Stars, Cash Cows, Question Marks & Dogs [Kotler & Armstrong, 1996].

Table 8.5: - Boston Consulting Group's SBU Definition

Stars	High-growth, high-share businesses or products that often require heavy investment to finance their rapid growth.
Cash Cows	Low-growth, high-share businesses or products; established and successful units that generate cash that the company uses to pay its bills and support other business units that need investment.
Question Marks	Low-share business units in high-growth markets that require a lot of cash in order to hold their share or become stars.
Dogs	Low-growth, low-share businesses and products that may generate enough cash to maintain themselves but do not promise to be large sources of cash.

Source: Kotler & Armstrong [1996 p.39]

Once it has classified its Strategic Business Units (SBUs), the company (in this case Greene King) must determine what role each will play in the future. One of four strategies can be pursued for each SBU. The company can invest more in the business unit in order to build its share or it can invest just enough to hold the SBUs share at the current level. It can harvest the SBU, milking its short-term cash flow regardless of the long-term effect. Alternatively, the company can divest the SBU by selling it or phasing it out and using the resources elsewhere [Kotler & Armstrong, 1996].

As time passes, SBU's change their positions in the growth-share matrix. Each SBU has a life cycle, and many start as Question Marks and move into the Star category if they succeed. They later become Cash Cows as market growth falls, then finally die or turn into Dogs towards the end of their life cycle. The company needs to add new products and units continuously so that some of them will become Stars and, eventually, Cash Cows that will help finance other SBUs [Kotler & Armstrong, 1996].

The Boston Matrix for each individual pub is reviewed quarterly and financial performance issues are identified and prioritised with the pub's management team, for example, The Bell Hotel needs to work on its profit conversion and the Green Dog needs to maintain its profit when sales start to slow (see Appendix 16).

The Boston Consulting Group approach does have its limitations and can be difficult, time-consuming and costly to implement. Management may find it difficult to define Strategic Business Units and measure market share and growth. In addition, the approach focuses on classifying current businesses but provides little advice for future planning. Management must still rely on its own judgement to set the business objectives for each Strategic Business Unit, to determine what resources each will be given, and to figure out which new businesses should be added [Kotler & Armstrong, 1996].

8.2.2.4 LAUREL QUESTIONNAIRE

Laurel operated between 500 and 750 public houses at the time of submission with its estate concentrated in the South East, London, South West, Wales, East of England, East Midlands, West Midlands, Yorkshire, Humberside, North West, North East and Scotland.

Laurel indicated that it used a variety of performance measures in order to assess the performance of individual or clusters of public houses. Laurel acknowledged that it used EBITDA Margins; EBITDAR Margins; Wages to Sales; Like-for-Like Sales; Like-for-Like Profit Growth; Return on Invested Capital; Stock Results and Mystery Guests for measuring the performance of individual or clusters of public houses.

Laurel compares its performance with that of its competitors by using Average Weekly Sales; Like-for-Like Sales; Like-for-Like Profit Growth; Capital Expenditure; and Return on Capital Employed.

Laurel commented that it also used 'Investment per Square Metre' as a means of measuring its performance (see to Appendix 15).

8.3 INNSPIRED PUBS

8.3.1 COMPANY HISTORY

InnSpired was formed in January 2000 through the merger of Ushers of Trowbridge and The Alehouse Company, both owned by Alchemy Partners [Publican, 2000c]

Alchemy subsequently closed Usher's brewery and concentrated its resources on expanding InnSpired's 800-strong tenanted estate through a number of acquisitions (see Table 8.6). These acquisitions were funded through a £180m securitisation which took place in 2000 [Ludmon, 2000k], although it was also used to fund the acquisition of individual pubs with 18 being acquired in June 2003 alone [Publican, 2003e].

Table 8.6: - Pub Acquisitions by InnSpired

Date	Vendor	No. of Pubs Acquired	Consideration
02/2000	Whitbread plc	17	Undisclosed
06/2000	Wolverhampton & Dudley	174	£28.25m
02/2001	S&N Pub Enterprises	51	Undisclosed
02/2001	Sir John Fitzgerald	4	£1m
10/2001	Noble House Leisure	16	Undisclosed
01/2003	Enterprise Inns plc	52	£16.2m

In September 2003, it was reported that InnSpired was up for sale and that County Estate Management was in talks to acquire the estate for £355m, including £250m of debt [Stretton, 2003f]. Other groups were also interested but the valuation of £100m for the equity was thought to be £10m over what potential suitors were willing to pay. The debt was also mostly securitised making it less attractive to trade buyers [Stretton, 2004a].

In September 2004 rumours began to circulate that Punch Taverns was in talks to acquire InnSpired for more than £350m [Walsh, 2004b]. These rumours proved true only days later when Punch consolidated its position as the UK's second largest pub company by acquiring InnSpired's 1,064 pubs for £335m, including debt [2004c].

Punch acquired InnSpired for a number of reasons (see Table 8.7) and Punch admitted at the time of the acquisition that it gave it a significant representation in the south of England, an area in which Punch's presence was relatively small [Punch Taverns, 2004].

Table 8.7: - Strategic Rationale for InnSpired Acquisition

- Strongly performing portfolio.
- Excellent, complementary geographical locations – significant representation in the south of England.
- 98% owned freehold/long leasehold.
- Straightforward bolt-on acquisition.
- Substantial scope to extend Punch management & investment skills.

Source: Punch Taverns plc [2004]

The InnSpired estate consisted of several hundred pubs which didn't meet Punch's criteria for long-term sustainability and Punch subsequently disposed of 596 pubs by selling 51 to Admiral Taverns [Publican, 2004h] and 545 to Pubfolio Ltd [Davy, 2004].

The retained pubs were cherry picked for their performance and potential with 99% of the pubs being freehold or long leasehold. Punch also publicised that these pubs contributed 59% of outlet profit yet only represented 44% of the InnSpired estate [Davy. 2004].

8.3.2 PERFORMANCE MEASURES UTILISED

InnSpired was initially contacted by letter (see Appendix 13) in order to seek their collaboration with the research study. The letter also sought to determine the feasibility of the study and also develop a network of contacts.

A response was received in June 2003 from David Blackledge (Finance Director) confirming InnSpired's interest with the study. An initial meeting was held in September 2003 to discuss the level of collaboration anticipated and to also discuss any concerns that InnSpired may have with the study (see 17).

Mr Blackledge confirmed InnSpired's interest in collaborating with the study and agreed that he would speak to Peter Brook (Chief Executive) about the extent of the collaboration.

Contact was maintained throughout the data collection process and one completed questionnaire was received (see Appendix 17). Unfortunately, InnSpired was acquired by Punch Taverns plc in September 2004 and therefore the level of involvement originally anticipated was not upheld.

8.3.2.1 PubCo QUESTIONNAIRE

InnSpired operated between 1,000 and 1,250 pubs at the time of submission with its estate concentrated in the South East, London, South West, Wales, East of England, East Midlands, West Midlands, Yorkshire, Humberside, North West and the North East of England (see Appendix 17).

InnSpired indicated that it used a variety of metrics to measure the performance of individual or clusters of public houses. InnSpired indicated that it used Average Weekly Sales; Like-for-like Sales; Like-for-like Profit Growth; Return on Invested Capital and Sales Mix to measure the performance of individual or clusters of public houses.

InnSpired provided no information as to which financial and non-financial performance measures it used to compare its performance with that of its competitors.

David Blackledge (Finance Director) commented that InnSpired monitored and reported upon the following measures at house level: -

- Volumes, compared to last year and budget; and

- Income generated on different income streams compared to budget and prior year. Income streams being drinks income, property income and other income.

8.4 W.H. BRAKSPEAR

8.4.1 COMPANY HISTORY

W.H. Brakspear & Sons began brewing in 1779 and remained privately owned until the early 1960s when Whitbread bought a 30% stake to stave off an unwelcome takeover [Guardian, 1992]. Whitbread subsequently disposed of its stake in the late 1990s.

Brakspear operated around 100 tenanted pubs by the late 1990s and announced in 1997 that it intended to develop a managed pub division. The division, known as Honeypot Inns, was a joint venture with David Bruce (founder of the Firkin chain) but was later disbanded as Brakspear focused on expanding its tenanted estate [Publican, 2004l].

Brakspear ceased brewing in 2002 and sold its brewery for £10m, the proceeds of which were reinvested into its tenanted/leased estate [White, 2003].

Table 8.8: - W.H. Brakspear: Historical Overview

Year	Event
1779	• W.H. Brakspear & Sons begins brewing [Guardian, 1992].
1960s	• Whitbread acquires a 30% stake [Guardian, 1992].
1997	• Announces plans to develop a managed pub division [Publican, 2004l].
2000	• Floats on Ofex Market with a value of £27.5m [Reece, 2000]. • Acquires David Bruce's stake in Honeypot Inns [Ludmon, 2000l].
2002	• Ceases brewing in Henley [Jones, 2002].
2003	• JT Davies acquires a 29.9% stake in Brakspear [White, 2003]. • Disposes of its brewery site for £10m [White, 2003].
2004	• Announces its intention to sell its managed estate and become a focused leased/tenanted pub company [Publican, 2004l].
2006	• Brakspear acquired by JT Davies for £106m [Walsh, 2006e].
2007	• Brakspear relaunched as the Brakspear Pub Company with the addition of JT Davies' 50 pubs [Publican, 2007k].

Brakspear was acquired in November 2006 by JT Davies, an existing shareholder, for £106m [Walsh, 2006e]. JT Davies subsequently merged its own 51-strong tenanted estate with Brakspear's to form the 150-strong Brakspear Pub Company [Publican, 2007k].

8.4.2 PERFORMANCE MEASURES UTILISED

Brakspear was initially contacted by letter (see Appendix 13) in order to seek their collaboration with the research study. The letter also sought to determine the feasibility of the study and also develop a network of contacts.

A response was received in July 2003 from Jim Hill (Company Sectary) confirming Brakspear's interest in participating with the study. An initial meeting was held in

September 2003 to discuss the level of collaboration anticipated and to also discuss any concerns Brakspear may have with the study (see Appendix 18).

Mr Hill confirmed Brakspear's interest in collaborating with the study and agreed to speak with Brakspear's board of directors.

The offer of collaboration then seemed to disappear as Brakspear seemed no longer interested with the study. Contact was maintained throughout the period and one questionnaire was received in due course.

8.4.2.1 LEASED/TENANTED PubCo QUESTIONNAIRE

Brakspear operated between 101 and 250 public houses at the time of submission with its estate concentrated in the South East of England (see Appendix 18).

Brakspear indicated that it used a variety of performance measures in order to measure the performance of individual or clusters of public houses. Brakspear indicated that it used Average Rent per Pub; EBITDA Margins; Tenants Profit; Annual Growth in Rent; Beer Margin/Wholesale Margin and Return on Invested Capital to measure the performance of individual or clusters of public houses.

Brakspear compares its performance with that of its competitors by using Average Rent per Pub; EBITDA Margins; Return on Invested Capital and Cashflow. Don Bridgman (Chief Executive) also commented that Brakspear uses Share Price/Dividend Growth as a performance measure.

Mr Bridgman also explained that the capital structures of various pub companies make top level comparisons difficult. He also indicated that the most revealing measures centre around cashflow as this is the most difficult to manipulate.

8.5 WIZARD INNS

8.5.1 COMPANY HISTORY

Wizard Inns was launched in November 1997 to specialise in unbranded managed pubs, with funding of £32m provided by Nomura and the Royal Bank of Scotland (RBS) [Burnyeat, 1998a].

The initial funding was used to acquire 37 pubs from Phoenix Inns for £10m, of which 26 were refurbished and retained [Publican, 1999h]. Small scale acquisitions continued and Wizard had an estate of 39 pubs by the end of 2000 [Publican, 2000k].

Table 8.9: - Pub Acquisitions by Wizard Inns

Date	Vendor	No. of Pubs Acquired	Consideration
11/1997	Phoenix Inns	37	£10m
06/1998	Undisclosed	4	Undisclosed
1999	Undisclosed	2	Undisclosed
04/2000	Greene King plc	6	Undisclosed
2001	Nomura International	13	£7m
06/2002	Regent Inns plc	20	£27.9m

Wizard acquired 13 former Bass pubs from Nomura (its principal backer) in 2001 and 20 pubs from Regent Inns plc in June 2002 (see Table 8.9). These two acquisitions took Wizard's estate up to 69 pubs [Publican, 2002d].

Wizard was put up for sale in March 2004 by Terra Firma Capital Partners, its then owner, and was acquired in June 2004 by Wolverhampton & Dudley Breweries for £90m. In the year to December 28th 2003, Wizard reported an operating profit of just under £6m from a turnover of £43.8m [MacAlister, 2004].

Wolverhampton & Dudley Breweries earmarked £5m to spend on improvements to the 63 pubs and agreed to run the pubs as unbranded community locals. The company expected to obtain synergies worth £2.5m by September 2005 [Seib, 2004].

8.5.2 PERFORMANCE MEASURES UTILISED

Wizard Inns was initially contacted by letter (see Appendix 13) in order to seek their collaboration with the research study. The letter also sought to determine the feasibility of the study and also develop a network of contacts.

A response was received from Julian Sargeson (Operations Director) in June 2003 confirming Wizard's interest in participating with the study and an initial meeting was held in September 2003 to discuss the level of collaboration anticipated and to also discuss any concerns that Wizard may have with the study (see Appendix 19).

Mr Sargeson confirmed Wizard's interest in collaborating with the study and it was agreed that further information should be supplied. Mr Sargeson provided a list of the performance measures utilised by Wizard and a transcript of the semi-structured interview can be seen in Appendix 19.

Contact was maintained throughout the data collection process and a completed questionnaire was received in due course. Unfortunately, Wizard Inns was acquired in June 2004 by Wolverhampton & Dudley Breweries plc and therefore the level of involvement originally anticipated was not upheld.

8.5.2.1 PubCo QUESTIONNAIRE

Wizard Inns operated between fifty and one hundred public houses at the time of submission with its estate concentrated in the South East, London, South West and the East of England (see Appendix 19).

Wizard used a variety of performance measures in order to measure the performance of individual or clusters of public houses. Wizard indicated that it used Average Weekly Sales; Average EBITDAR; EBITDA Margins; EBITDAR Margins; Wages to Sales; Like-for-Like Sales; Like-for-Like Profit Growth; Return on Invested Capital; Trading Profit; Stock Results; Mystery Guests and Quality Audits to measure the performance of individual or clusters of public houses.

The group compares its performance with that of its competitors by using Average Weekly Sales; Average EBITDAR; EBITDA Margins; EBITDAR Margins; Like-for-Like Sales; Like-for-Like Profit Growth; Return on Invested Capital and Return on Capital Employed.

Mr Sargeson (Operations Director) commented that different companies sometimes have different ways of measuring key indicators, for example, like-for-like sales.

8.5.2.2 SEMI-STRUCTURED INTERVIEW

This interview took place with Julian Sargeson (Operations Director) at Wizard's St Albans headquarters in September 2003 and the transcript can be seen in Appendix 19.

Mr Sargeson explained that Wizard used a number of financial and non-financial performance measures to measure the performance of its individual pubs. Wizard uses: -

- Sales v budgeted like-for-like;
- Sales post projected;
- Margins %;
- Costs % or £;
- Training and development of staff;
- Trading profit £ & like-for-like;
- Stock results;
- Mystery visitor scores;

- Quality audits (including external suppliers); and
- House audits.

Mr Sargeson explained that Wizard also used the above performance measures to measure the performance of its districts of public houses, although the prominent measure is Area like-for-like (see Appendix 19).

Wizard uses the following financial and non-financial measures at corporate level: -

- Sales & costs v budget like-for-like;
- EBITDA;
- Company margin;
- Cashflow;
- Pipeline;
- Return on Capital Employed;
- Mystery visitor scores;
- Liquidity; and
- Growth of EBITDA v sales.

8.6 WHITBREAD PUB RESTAURANTS

8.6.1 COMPANY BACKGROUND

Whitbread was founded in 1742 as a brewery by Samuel Whitbread and Thomas Shewell and by 1989 operated around 6,600 public houses in the United Kingdom [Williams, 1996]. Whitbread had created a presence in the UK market through acquisitions, mainly of regional brewers, (see Appendix 1) and by the late 1980s it had diversified into a European leisure conglomerate (see Table 8.10).

Whitbread was required to dispose of a large proportion of its pub estate in order to comply with the requirements of the Monopolies & Mergers Commission's 'Beer Orders' (see Table 8.11) and as a result began to expand its portfolio of restaurants, off licences, hotels and leisure clubs (see Table 8.10).

Over the past ten years Whitbread has divested many of its operations, including its breweries and pub estate, to focus solely on budget hotels, coffee shops and pub-restaurants co-located with its budget hotels [Caterer, 2009]. This transformation process was masterminded by Alan Parker, Chief Executive, who has been responsible for a number of acquisitions and disposals over the past five years (see Figure 8.1).

Table 8.10: - Whitbread's Pub & Restaurant Acquisitions

Year	**Acquisition/Development**
1982	• Whitbread and PepsiCo form a company to operate Pizza Hut.
1985	• Signs a franchise agreement with Carlson Hospitality to develop the TGI Friday's restaurant brand in the UK.
1987	• Acquires 16-strong Weinkruger chain of German restaurants for £500,000. • Acquires North American steak and seafood chain Keg Restaurants.
1988	• Acquires 50% stake in German-based Denver Steak & Lunch.
1990	• Acquires 115 Berni Inns and 35 managed pubs from Grand Metropolitan plc for £115m. • Acquires the Churrasco chain of 29 steak restaurants in West Germany from Accor for £25m.
1994	• Acquires the Maredo chain of steakhouses in Germany.
1996	• Acquires the Pelican Group for £133m. • Acquires BrightReasons for £46m.
2004	• Acquires Premier Lodge and 19 pub-restaurants from Spirit Group for £505m.

Whitbread has grown into the UK's largest hotel operator since 1992, when its hotel division contributed a mere £2m in profits. The group now operates over 500 hotels trading as 'Premier Inn' and intends to boost the number of bedrooms from 30,000 in 2006 to 45,000 by 2010. The group intends to grow Costa (its coffee shop brand) to 1,000 outlets here and abroad by 2010 mainly through franchising [Caterer, 2009].

Table 8.11: - Whitbread's Pub & Restaurant Disposals

Year	Disposal
1990	• Disposes of 25 pubs to The Allen Partnership for £9.25m. • Disposes of 15 pubs for £7m to J.A. Devenish, Marston's and Vaux.
1992	• Disposes of 223 pubs to Discovery Inns for £25m. • Disposes of 28 pubs to Vaux for an undisclosed sum. • Disposes of 26 pubs to Marr Taverns for an undisclosed sum.
1995	• Disposes of 137 pubs to Pubmaster for £12.3m. • Disposes of 70 pubs to United Breweries for £6.9m.
1998	• Disposes of 40 Beefeater's to the Crowded House Pub Company for £36m.
2000	• Disposes of 183 pubs to Enterprise Inns plc for £118m.
2001	• Disposes of its 3000-strong pubs & bars division to Morgan Grenfell Private Equity for £1.6b. • Disposes of 44 pub-restaurants to Noble House Leisure for £31m.
2002	• Disposes of its 153 Pelican & BrightReasons restaurants to Tragus Holdings for £25m.
2005	• Disposes of 58-strong German chain of Maredo Steakhouses for £24.8m.
2006	• Disposes of its 50% stake in Pizza Hut for £112m. • Disposes of 239 pub-restaurants to Mitchells & Butlers plc for £497m.
2007	• Disposes of TGI Friday's to Carlson and ABN AMRO Capital for £70m.
2008	• Swaps 44 pub-restaurants for 21 hotels owned by Mitchells & Butlers plc.

8.6.2 WHITBREAD PUB RESTAURANTS (1998 – 2005)

Whitbread invested heavily in its pub-restaurant estate throughout the 1980s and the 1990s and focused this on the food-led Beefeater and Brewers Fayre brands which it established in 1974 and 1979 respectively [Publican, 2004b]. These brands had become national by 2000 with Beefeater operating 258 houses and Brewers Fayre operating 274 houses [Smith, 2000].

Whitbread had also developed and acquired a range of other brands such as Dragon Inns, TGI Friday's, Mamma Amalfi, Abbaye and the family-friendly Brewsters pub-restaurant deritive of Brewers Fayre, which had grown to 118 houses by 2000 [Smith, 2000].

Figure 8.1: - M&A activity since Alan Parker became CEO

Date	sell/buy	Assets	Cash in/out	Carrying value	Profit on disposal	EBIT	Counterparty
July 04	buy	Premier Lodge	-554	-545			Spirit Group
Nov 04	sell	Courtyard by Marriott	79	65	14	7	Chiltern Mondiale
May 05	buy	Cash back to shareholders	-400				135p per share
Dec 05	sell	Britvic 23.75% holding	186	27	140	17	IPO
March 05	sell	Marriott into 50/50 Joint Venture	781	870	231	67	Marriott
April 05	sell	Maredo (German Restaurants)	15	13	1	0	German Equity Partners 2
Sept 05	sell	Chiswell Street (former HQ)	55				St. James Capital
April 06	sell	Leicester Marriott	30				Royal Bank of Scotland
April 06	sell	Marriott JV properties	235				Royal Bank of Scotland
May 06	buy	Cash back to shareholders	-400				155p per share
July 06	sell	Stand alone pub restaurants	497	281	216	15	Mitchells & Butlers
July 06	sell	50% share in Pizza Hut UK JV	99	29	70	7	YUM! Brands
Net deals			**623**	**739**	**673**	**115**	

Source: Deutsche Bank [2006c]

Whitbread continually churned its pub-restaurant estate during the 1990s and had disposed of under-performing and non-core businesses on a small scale. However, by the late 1990s the group had evidentally become more focused on the financial performance of its brands as it disposed of 40 Beefeaters in 1998. These were identified by Whitbread as “underperforming” [Shrimpton, 1998].

It was clear by the year 2000 that Whitbread was beginning to identify performance issues with its restaurant brands, including its pub-restaurant estate. This culminated in a strategic review which aimed to achieve five per cent underlying annual sales growth for each brand [Smith, 2000].

The review, announced in November 2000, identified the following actions for its pub-restaurant estate [Smith, 2000]: -

- Beefeater to continue in less than a third of its 258 sites;
- Rebrand 80 Beefeater’s as Out & Out, aimed at higher income families;
- Rebrand 90 Beefeater’s as Banter, intended to attract people in their twenties;
- Expand Brewers Fayre and Brewsters by about 20 new restaurants a year; and
- Dispose of more “bottom-end” sites than the four or five currently sold annually.

Whitbread subsequently identified 44 pub-restaurants as being not suitable for its strategy and these were sold to Noble House Leisure in October 2001 for £31m [Publican, 2001h]. In the meantime, the group began converting a number of Beefeater’s into the Banter and Out & Out brands at a considerable cost [Stretton, 2003g].

Whitbread announced in early 2003 that it had identified a further 45 Beefeater’s as “underperforming” and these were subsequently put up for sale. The group also announced that the Out & Out conversions hadn’t worked, despite considerable investment. Whitbread discovered that the conversions did not add more customers, but replaced existing Beefeater patrons with a younger audience [Stretton, 2003g].

Alan Parker was appointed as Chief Executive in 2004 and began a review of all Whitbread's businesses. The review identified the following actions for the pub-restaurant estate, which had been identified by Whitbread as underperforming for a number of years [Deutsche Bank, 2005e]: -

- Continue with Beefeater refurbishment programme at a cost of £400,000 per unit;
- Reconvert the Out & Out units back into Beefeater's as part of the Beefeater refurbishment programme; and
- Roll back the Brewsters format back into the Brewers Fayre brand and remove the playbarns to make space for additional tables and seating.

8.6.3 DEUTSCHE BANK'S CONCERNS

Deutsche Bank [2005e] published a report on Whitbread in July 2005 and this included a detailed analysis of the pub-restaurant division. The report identified a number of financial and operational issues and compared Whitbread's financial performance with that of its peers within the UK's licensed retail sector.

Deutsche Bank [2005e] reported that Whitbread had become known by investors and commentators to throw money at its problems, rather than fixing them through improved operational performance. Deutsche Bank stated that it believed that Whitbread's sites were the most valuable assets that the group possessed and that making the site work was far more important than the brand name.

Deutsche Bank [2005e] reported that the Pub Restaurant division grew sales by +2.4% and EBITDA by 20% between 2002 and 2004. On the back of a -6% reduction in the number of outlets, sales per pub grew 9% and EBITA per pub by 27%.

This progress was, however, interrupted in 2004 by the Beefeater refurbishment programme and the emerging problems with Brewsters, the later of which are detailed later in this section [Deutsche Bank, 2005e].

Deutsche Bank [2005e] estimated that Beefeater grew its EBITA contribution by 19% between 2002 and 2005, despite the effects of closures for the refurbishment programme. It also estimated that sales per pub grew by 10% and profit per pub by 53% during the period with its operating margin improving from 8% in 2002 to 11.2% over the same time frame [Deutsche Bank, 2005e].

Whitbread had, at the time of publication, redeveloped 57 of its 156 Beefeater’s at a cost of around £400,000 per site. The group stated that these sites were reporting a 25-30% increase in average sales to about £26,000 a week [Deutsche Bank, 2005e].

Whitbread’s plan for the Beefeater revamp was to generate a better return on capital employed, from 7% in 2005 to more than 12% by 2008. In the first year of this process, Return on Capital Employed rose from 7.1% to 9.0% and pub restaurant operating margins added 150 basis points, helped obviously by the disposal of 25% of the estate from the bottom end [Deutsche Bank, 2005e].

Out & Out had achieved lower returns than had been expected but its overall impact on the division was not noticeable between 2002 and 2004 as the Return on Capital Employed of the Beefeater stable rose from 5.8% to 9.0%, and operating margins moved from 8.0% to 11.2% [Deutsche Bank, 2005e].

Deutsche Bank [2005e] considered the plan to reconvert Out & Out back into Beefeater as the wrong move at the time and Whitbread had since changed its strategic plan for the brand by concentrating on improving the operational aspects of the business rather than converting the units back into Beefeater’s at a considerable cost [Deutsche Bank, 2005e].

Between 2002 and 2005, Deutsche Bank estimated that Brewers Fayre grew its EBITA contribution by 23% with sales per pub growing by 12% and profit per pub by 15%, despite the issues identified with the Brewsters format. Deutsche Bank also estimated that Brewers' Fayre's operating margin had improved from 14.9% in 2002 to 16.0% in 2004 [Deutsche Bank, 2005e].

A number of operational issues were identified with the Brewsters format, such as [Deutsche Bank, 2005e]: -

- The initial success of the Brewsters format going to the heads of the management team;

- The Brewsters brand name becoming much more overt and less low key;

- The format becoming too child friendly, almost seeming to have the under sevens as its target market; and

- Customers seeing "child friendly" as a sign that they could abrogate responsibility altogether for their children.

The above operational issues also affected the financial health of the brand as families with older children and also single business people staying at the co-located Premier Inn sites (half of the Brewsters estate) were effectively put off from dining. The sites also didn't generate the 20%-plus premium usually associated with co-location and they also started to underperform on a standalone basis as well [Deutsche Bank, 2005e].

Deutsche Bank reported that it believed that the 'Brewsters' issues had been festering for a while, but were lost in the improved overall performance of the division and the action taken by Whitbread (removal of play barns for additional seating) should enlarge the capacity to accommodate more spending customers [Deutsche Bank, 2005e].

Deutsche Bank [2005e] also made comparisons between Whitbread's Pub Restaurant Division and the headline forecasts for its two main quoted rivals: JD Wetherspoon plc and Mitchells & Butlers plc.

Deutsche Bank [2005e] estimated that the sub-sector was worth more than £2bn in sales in 2005 with the figure split between 24 different pub restaurant brands. It was estimated that food sales accounted for at least 35% of unit turnover with average weekly turnover being just under £20,000 per pub [Deutsche Bank, 2005e].

Figure 8.2, 8.3 and 8.4 look at Deutsche Bank's headline forecasts for the next three years for Whitbread, Mitchells & Butlers and JD Wetherspoon.

Figure 8.2: - Whitbread's Major Quoted Peers – Mitchells & Butlers

	2005E	**2006E**	**2007E**
Average pubs trading	**1,881**	**1,821**	**1,776**
Growth			
Retail Turnover	**1,614**	**1,670**	**1,738**
Growth			
Gross profit	1,141	1,186	1,241
Growth			
Gross profit margin	70.7%	71.0%	71.4%
EBITA	**288**	**304**	**325**
EBITA margin	17.9%	18.2%	18.7%

Source: Deutsche Bank. [2005e]

Figure 8.3: - Whitbread's Major Quoted Peers – JD Wetherspoon

	2005E	**2006E**	**2007E**
Average pubs trading	**643**	**650**	**665**
Growth			
Retail Turnover	**810**	**827**	**845**
Growth			
Gross profit	514	524	535
Growth			
Gross profit margin	63.5%	63.3%	63.3%
EBITA	**68**	**70**	**69**
EBITA margin	8.4%	8.4%	8.2%

Source: Deutsche Bank [2005e]

Figure 8.4: - Whitbread's Forecasted Figures

	2006E	**2007E**	**2008E**
Average pubs trading	**620**	**633**	**646**
Growth			
Retail Turnover	**609**	**621**	**633**
Growth			
Gross profit	447	456	465
Growth			
Gross profit margin	73.5%	73.5%	73.5%
EBITA	**82**	**85**	**87**
EBITA margin	13.5%	13.8%	13.8%

Source: Deutsche Bank [2005e]

A comparison of historic financial data reveals that Whitbread's pub retail performance, in terms of converting sales to gross profits, was better than that of Mitchells & Butlers and JD Wetherspoon between 2001 and 2004. In fact, it was at the upper end of the pub sector's overall performance in terms of both profit conversion and return on capital, when viewing the performance since the sale of its non-food pubs back in the 2001 financial year [Deutsche Bank, 2005e].

Most people in the market would not have recognised this, because the group has tended to provide sales information on a brand by brand basis. As a result, and because the businesses performance has been masked by being part of a larger group, investors and brokers have focused too much on the wood instead of the trees. However, the game is changing and competitors are evolving [Deutsche Bank, 2005e]: -

- Mitchells & Butlers management team, freed of the shackles of conglomerate ownership, has been re-invigorated and is now outperforming its peer group.

- JD Wetherspoon has hit a patch of turbulence that has reduced its ability to grow but it has been becalmed for at least a couple of years.

- Spirit Group has had integration issues which are being fixed.

- Greene King has grown significantly following the acquisition of Laurel and it is estimated that it will deliver profits of over £100m for its managed pub estate in 2006, some 28% higher than Whitbread’s pub restaurant division and over 50% higher than JD Wetherspoon.

- Following its acquisition spree over the past twelve months, Wolverhampton & Dudley Breweries will also generate greater profits from its managed estate than JD Wetherspoon next year as well.

- An finally, Whitbread’s own business, enjoying the competitive upper hand during the last three years of Bill Shannon’s reign, has had something of an inter-regnum or management hiatus during most of 2004, which is now being addressed by the new MD, Phil Urban [Deutsche Bank, 2005e].

Deutsche Bank [2005e] singled out JD Wetherspoon and Mitchells & Butlers not just because they are the two largest pure quoted managed pub groups, but because it is not possible to extract the same level of granularity from the other PubCo’s mentioned above. Deutsche Bank therefore looked at the three different businesses on a “per pub” basis in order to make fairer comparisons (see Figure 8.5, 8.6 & 8.7).

In terms of product growth, the market rates in 2005 were food +3%; beer -3%; spirits 0%; wines and soft drinks +3%. Therefore Whitbread’s near 60% food sales, which generally drive wine and soft drink sales as well, looked to give its pubs the upper hand on both JD Wetherspoon and Mitchells & Butlers [Deutsche Bank, 2005e].

Deutsche Bank [2005e] expected Mitchells & Butlers to drive sales faster than either JD Wetherspoon or Whitbread, based upon their view that the momentum established in 2005 would take some time to slow down. The growth in profit per pub was also being helped by disposals either as transfers into the small franchise division or for sale, mostly for alternative use [Deutsche Bank, 2005e].

Figure 8.5: - Sales & Gross Profit Split – Mitchells & Butlers

	2005E	**2006E**	**2007E**
Average pubs trading	**1,881**	**1,821**	**1,776**
Growth			
Sales split			
Wet sales	58.2%	57.4%	56.8%
Food sales	30.8%	31.6%	32.1%
Av. Weekly sales per pub	**16,497**	**17,642**	**18,826**
Growth			
Gross profit			
Wet gross profit margin	72.8%	73.0%	73.5%
Food gross profit margin	65.2%	65.8%	66.2%
Share of Gross Profit			
Wet gross profit	59.9%	59.0%	58.4%
Food gross profit	28.4%	29.2%	29.8%
Growth			
Gross profit margin	70.7%	71.0%	71.4%

Source: Deutsche Bank [2005e]

Figure 8.6: - Sales & Gross Profit Split – JD Wetherspoon

	2005E	**2006E**	**2007E**
Average pubs trading	**643**	**650**	**665**
Growth			
Sales split			
Wet sales	70.1%	70.0%	69.9%
Food sales	24.6%	24.8%	25.0%
Av. weekly sales per pub	**24,277**	**24,520**	**24,765**
Growth			
Gross profit			
Wet gross profit margin	63.4%	63.4%	63.4%
Food gross profit margin	60.4%	60.4%	60.4%
Share of Gross profit			
Wet gross profit	70.1%	70.1%	70.0%
Food gross profit	23.6%	23.7%	23.9%
Growth			
Gross profit margin	63.5%	63.3%	63.3%

Source: Deutsche Bank [2005e]

Figure 8.7: - Sales & Gross Profit Split – Whitbread

	2006E	2007E	2008E
Average pubs trading	**620**	**633**	**646**
Growth			
Sales split			
Wet sales	37.8%	38.0%	38.0%
Food sales	56.7%	57.0%	57.0%
Av. Weekly sales per pub	**18,893**	**18,875**	**18,865**
Growth			
Gross profit			
Wet gross profit margin	75.1%	75.1%	75.1%
Food gross profit margin	70.0%	70.0%	70.0%
Share of Gross Profit			
Wet gross profit	38.6%	38.6%	38.6%
Food gross profit	54.0%	54.0%	54.0%
Growth			
Gross profit margin	73.5%	73.5%	73.5%

Source: Deutsche Bank [2005e]

Between 2003 and 2005, Deutsche Bank estimated that average sales per pub will have grown by 11% for Mitchells & Butlers, with food sales +20% per pub. The comparable figures for JD Wetherspoon are +6% and +15%, and for Whitbread, +9% and +8% [Deutsche Bank, 2005e].

The report produced by Deutsche Bank provided a detailed analysis of the financial and operational issues which Whitbread, as a whole, would need to prioritise and it would have been unnecessary to incorporate the whole report. However, the analysis by Deutsche Bank shows the extent to which Whitbread's performance had begun to falter by 2005 and the next two sections detail the action which Whitbread has taken since Alan Parker's strategic review.

8.6.4 WHITBREAD PUB RESTAURANTS (2005 +)

Whitbread began to address the operational and financial issues in 2005 by converting the 144 Brewster's pub-restaurants back into the Brewers Fayre brand. The group also sold or converted the remaining Out & Out restaurants (31 units) back into Beefeater's. These two actions were included in the strategic plan and were intended as a 'quick fix' by Whitbread, especially in the case of Brewsters [Caterer, 2009].

The main focus for capital expenditure during the 2005/2006 financial year was the Beefeater refurbishment programme (referred to as B2). This was initially trialled at six units with a cost of £400,000 per site [Publican, 2003h]. These conversions delivered a £6,000 increase in sales per site, per week and it was intended to refurbish the whole chain within a short time frame, however it took until 2007 to complete the programme [Deutsche Bank, 2007t].

Whitbread announced in 2006 that it intended to concentrate its pub-restaurant estate on sites which were co-located with a Premier Inn. Whitbread claimed that these sites were 70% more profitable on a per unit basis than its standalone estate and it was therefore announced that the group would dispose of 239 standalone pub-restaurant sites. However, the group announced its plan to retain a further 100 sites with the intention of developing adjoining Premier Inns subject to planning approval [Deutsche Bank, 2006e].

An intense bidding process ensued and Mitchells & Butlers plc acquired the standalone estate for £497m in July 2006 [Deutsche Bank, 2006j]. A detailed analysis of this acquisition and its performance post acquisition is displayed in the following section.

Whitbread also began to review its Brewers Fayre estate and began trialling a new concept, later known as Table Table, with the intention of rebranding a number of Brewers Fayre units [Porter, 2008b]. This brand was subsequently launched in May 2008 and at the time of writing extends to 105 units (see Table 8.12).

Whitbread also began developing an all-you-can eat buffet-style restaurant, later known as Taybarns, which was firstly trialled in Swansea in 2008. Customers pay a fixed price for a meal with dishes freshly prepared in front of customers in open plan kitchens. The Swansea site is rumoured to be taking £50,000 per week and serving 8,000 customers on a weekly basis, hence why it has been quickly expanded to seven sites [Porter, 2008a].

Whitbread has continued to invest in its Brewers Fayre brand and announced in August 2008 that it planned to invest £4.75m to refurbish 20 sites before Christmas, and another 19 in early 2009. The group also opened its first new Brewers Fayre since 2005 in June following its first new Beefeater in six years in March [Porter, 2008c].

Table 8.12: - Whitbread's Restaurant Brands 2009

Brand	**Description**	**No. of Restaurants**
Beefeater	Pub-restaurants with a menu centred around char grilled chicken, fish, lamb and steak [Whitbread, 2008a].	141
Brewers Fayre	Pub-restaurants designed to look like traditional local pubs but with a strong family presence [Deutsche Bank, 2005e].	152
Taybarns	An all-you-can eat buffet-style restaurant featuring a 34 metre long food counter [Whitbread, 2008b].	7
Table Table	Pub-restaurants offering different styles of dining spaces to give more choice to guests with cosy and intimate dining areas for romantic dinners for two to large party areas in separate rooms for groups of friends and family to get together [Whitbread, 2009].	105

Whitbread also announced in July 2008 that it had agreed to swap 21 hotels owned by Mitchells & Butlers in exchange for 44 of its pub-restaurants. These restaurants were stand-alone units retained after the 2006 disposal but planning permission for adjoining Premier Inn's couldn't be obtained [Bowers, 2008b].

The financial performance of the pub-restaurant estate suffered during the brand conversion and disposal processes (see Table 8.13) although recent announcements have been extremely encouraging. The group also announced a cost cutting programme in February 2008 which it expects annually to save £25m form. Whitbread has subsequently combined the divisional management of the hotel and restaurant arms and has outsourced its logistics operations [Champ, 2008f].

Table 8.13: - Financial Performance of Whitbread Pub Restaurants

May 2005	• Reports that total sales in its pub-restaurants increased by 1.1 per cent for the year to March 3rd 2005 [Publican, 2005k].
June 2005	• Reports that it will "take several months" for its pub-restaurant recovery plans to have an impact. Group reports a total increase of 3.7 per cent but said a one per cent decline in like-for-like sales was "disappointing". Brewsters was the worst performer and the conversion of these 142 sites to Brewers Faye's will be completed by September [Publican, 2005l].
September 2005	• Reports a further decline in like-for-like sales at its pub-restaurants but says moves to revamp the business are having an impact. Like-for-like sales fell one per cent [Champ, 2005d].
November 2005	• Reveals like-for-like sales down by 1.9 per cent in its pub-restaurant operation [Publican, 2005m].
March 2006	• Reports that like-for-like sales for the pub-restaurant division fell 2 per cent for the 50 weeks to February 16th 2006. Total sales grew 1.2 per cent [Publican, 2006c].
April 2006	• Reports a 23% slump in pub-restaurant operating profits for the year to 2nd March 2006 [Caterer, 2006f].
June 2006	• Reports that its pub-restaurant division had seen a 2 per cent decline in like-for-like sales for the first 13 weeks of the financial year to June 1st [Walsh, 2006g].
August 2006	• Reports that like-for-like sales in its pub-restaurant business were down 1.3 per cent in the first half of the financial year [Caterer, 2006g].
October 2006	• Reports that the group's pub restaurants saw sales down six per cent to £296.6m for the first six months of the year. The group reported like-for-like sales, down 1.2 per cent and is working to reverse these figures by improving menus, creating more price points and revitalising the pubs environments [McLachlan, 2006].

December 2006	• Reports that its pub restaurants had seen a total sales increase of 2.1 per cent for the 39 weeks of the financial year to 30th November and that 58 restaurants had been "remodelled" during the period [Bridge, 2006].
February 2007	• Reports like-for-like sales growth of 0.7% for the 50 weeks to February 15th 2007 due to new menus and fewer discounts [Kollewe, 2007].
March 2007	• Reports a 2.6 per cent increase in sales across the 50 weeks to February 15th for its pub restaurant operation. Like-for-like sales grew 0.7 per cent due to the launch of broader menus, a wider range of price points and reduced discounts [Publican, 2007b].
April 2007	• Announces in April that it plans to build its first new Beefeater pub/restaurant in six years after its Beefeater investment programme provided a 2.7 per cent rise in like-for-like outlet sales for the second half of the financial year. In its Brewers Fayre sites a new concept of "informal contemporary food in a stylish environment" had been rolled out across 20 units last year and had delivered "strong results". A further 100 conversions to the concept are likely in the coming 12 months as the group is seeing an average sales uplift of circa 25 per cent flowing through from the converted restaurants [Champ, 2007e].
June 2007	• Reports like-for-like sales up 1.5 per cent for the 13 weeks to May 31st 2007 [Walsh, 2007e]
August 2007	• Reports continuing growth in the Beefeater and Brewers Fayre pub restaurant operation, with total sales up 3.5 per cent and like-for-likes up 2 per cent. A reduction in discounts has seen margins improve without raising prices and the current focus for investment is on the Brewers Fayre brand, where 41 sites have been remodelled this year [Publican, 2007l].
October 2007	• Reports that like-for-like sales were up 1.5 per cent for its 402-strong pub-restaurant estate in the six months to August 30th 2007. The group reported that average profit per Beefeater site was up 47 per cent, with like-for-like cover numbers up 10.2 per cent. Whitbread said it was focused on remodelling the remainder of the estate, with a target of 100 sites to be completed by year end [Champ, 2007j].
December 2007	• Whitbread reports that its pub-restaurant sales are up 1.9% for the 39 weeks ending 29th November 2007 [Caterer, 2007d].

February 2008	• Reports that sales at its pub-restaurants were up only 0.8% in like-for-like terms for the 50 weeks to 14th February 2008 [Allen, 2008].
April 2008	• Reports that revenue across its pub restaurant division rose 14 per cent to £446.1m for the 2007/2008 financial year, while profit per site rose 40 per cent through a combination of "good cost control and operational efficiency, in particular a reduction in discounts". Pre-exceptional operating profits in its pub restaurant division rose 6.1 per cent to £55.5m [Champ, 2008c].
June 2008	• Whitbread reports that like-for-like turnover across its pub restaurant business was up 3.6 per cent in the 13 weeks to May 29th 2008, with total sales up five per cent over the same period [Champ, 2008d].
September 2008	• Whitbread reports in September that revising its brand formats helped push sales across its pub restaurant division up 4.4 per cent in the 24 weeks to August 14th, 2008. The group said total sales rose six per cent throughout its pub operation, with covers increasing by 9.3 per cent [Champ, 2008e].
November 2008	• Reveals that like-for-like sales across its pubs rose 5.9 per cent in the 39 weeks to November 27th, 2008 [Publican, 2008a].
March 2009	• Reports that the group's restaurant operation delivered a 4.4 per cent like-for-like sales increase for the 50-week period, with total sales up 3.1 per cent. Within the restaurant division like-for-like covers growth increased by 7.7 per cent, however spend-per-head fell 1.5 per cent [Champ, 2009b].

Deutsche Bank [2007s] identified the following areas for immediate action: -

- *Overheads*: Deutsche Bank estimated that divisional overheads including brand marketing spend in the Pub Restaurant business are around double that of M&B on a per pub basis, or 7.2% of revenues versus 4%.

- *Labour scheduling*: Whitbread's labour costs are running at 31.5% of revenues versus Mitchell & Butler's 24.5%. Deutsche Bank estimated that the more comparable Pub Restaurant division of M&B enjoys a labour to sales ratio of about 28%.

- *Upgrade other two-thirds of estate*: The newly completed Beefeater estate has reported profits up 47% in the interim period. The programme to upgrade the other two-thirds of the estate has just started, though the profit uplift may take around 2-4 years to come through [Deutsche Bank, 2007s].

8.6.5 DISPOSAL OF PUB-RESTAURANTS TO M&B

Mitchells & Butlers had expressed an interest in Whitbread's pub-restaurants for the three years prior to the acquisition and announced that it would [Deutsche Bank, 2006h]: -

- Dispose of 16 of the 239 pubs, de-brand within a year from the Whitbread trading formats and convert to Mitchells & Butler food-based concepts at a cost of £85m;

- Transfer 176 sites into the group's Pub Restaurants division to be converted into one of the group's six major trading formats – Harvester, Innkeeper's Fayre, Toby Carvery, Pub Carvery, Premium Country Dining and Vintage Inns; and

- Transfer a further 31 sites into the Pubs & Bars division to be converted either into the Ember Inns or the Sizzling Pub Company brands.

Tim Clarke, Mitchells & Butler's chief executive, had long expressed how his team could transform the performance of Whitbread's pub-restaurant estate. The group indicated at the time of the acquisition that it would make more than three times the EBIT amount within three years, once it had re-branded the pubs [Deutsche Bank, 2006h].

The acquired estate had an annual run rate of £45m EBITDA pre-overheads for the year to May 2006 – equivalent to £191,000 per pub. With like-for-like sales declining at -4%, Deutsche Bank estimated that the run rate per pub will have fallen to about £160,000 prior to conversion [Deutsche Bank, 2006h].

In 2009 (the first full year of the deal post investment), Deutsche Bank estimates that the same estate will generate £70m of pre-overhead EBITDA [Deutsche Bank, 2006h].

M&B announced at the same time of the Whitbread deal that it had identified 100 pubs to be disposed of from its ‘bottom-end’. The group reported that the EBITDA of these pubs was around £10m with sales of around £42m per annum [Deutsche Bank, 2006h].

The decision to acquire the pub-restaurant estate was based on the notion that the profitability of M&B’s restaurant estate was 40% greater on a per site basis in 2005 than in the Pubs & Bars division. Also, the acquired estate slotted into the Residential and Suburban part of Mitchells & Butlers estate, which at the time of the acquisition had been witnessing Like-for-Like sales running at around double the level of the High Street and Central London estates [Deutsche Bank, 2006h].

Deutsche Bank estimated that Mitchells & Butlers should derive about 40% of its overall sales directly from food by 2009, although the proportion of total sales that come from customers seeking to eat will rise to over 70% [Deutsche Bank, 2006h].

In December 2006, Mitchells & Butlers reported that sales in its newly acquired estate had drifted back but profits were ahead of expectations due to the elimination of discounting [Deutsche Bank, 2006l].

Deutsche Bank [2006l] concluded that this initial success was in part down to the way Mitchells & Butlers communicated the transfer of ownership to staff in the newly acquired pubs. On the day of the deal, all of the pubs were visited by a senior M&B director. All of the site managers were told exactly what was going to happen to their pubs within four days of completing the deal and they were all informed that M&B wanted to retain them, which has been extremely helpful in profit retention. Mitchells & Butlers also announced that the news of much higher bonuses and higher income via tips for waiting staff had spread very quickly through the acquired estate and this should lead to instant results [Deutsche Bank, 2006l]

The financial performance of the acquired estate over the past three years (see Table 8.12) has improved drastically with converted pubs seeing an uplift of 25 per cent [Champ, 2007]. The performance therefore demonstrates how unsuccessful Whitbread had been in managing these sites and further evidence of this should hopefully appear once the 44 units acquired in July 2008 are rebranded.

Table 8.14: - Financial & Operational Highlights of Acquired Estate

July 2006	• Tim Clarke, chief executive, claims that M&B can improve the sites turnover from a current turnover of £16,000 a week to M&B's average of £21,000 within three years [Telegraph, 2006].
September 2006	• Reports that sales have continued to decline in the seven weeks of ownership. M&B has started the conversion process at 10 locations and expects the acquisition to be earnings neutral this financial year [Caterer, 2006e].
November 2006	• Reports that it has already converted over to its brands 25 of the 239 pub/restaurants it had acquired with a further 25 expected to be transferred by Christmas and an additional 50 by Easter next year [Champ, 2006e].
December 2006	• Announces that the 25 re-opened sites are performing comfortably above the 30% sales improvement targeted. M&B aims to have the rebranding exercise completed within 18 months of the deal's completion [Deutsche Bank, 2006l].
February 2007	• Announces that 56 sites have been converted and it hopes to have converted half by the time it releases its interim results on May 22nd 2007 [Guardian, 2007].
May 2007	• Announces in May that it has converted more than half of the 239 pub-restaurants acquired from Whitbread to its own brands. The converted pubs are seeing a 25 per cent sales uplift and M&B is aiming to have all 239 converted by next Easter [Champ, 2007].
April 2008	• Announces in April that it has so far converted 196 of the 239 sites it acquired from Whitbread in July 2006. The group also reported that the converted sites are trading on average 19% ahead of pre-M&B purchase levels [Caterer, 2008].
Sept 2008	• Reports that the average EBITDA of the pubs acquired from Whitbread in 2006 had "increased significantly" during the nine weeks to September 20th 2008, and average food volumes were up 29 per cent [Champ, 2008b].

CHAPTER SUMMARY

This chapter contains six case studies which are based on both Managed and Leased/Tenanted PubCo's of varying sizes.

The aim of this chapter is to identify the financial and non-financial performance measures utilised by both Managed and Leased/Tenanted PubCo's and to assess the need for a more balanced approach to performance measurement.

The case studies demonstrate that different performance measures are required for both Managed and Leased/Tenanted PubCo's. The case studies conducted on Greene King and Wizard Inns demonstrate that both financial and non-financial performance measures are deployed. The Leased/Tenanted PubCo's predominantly use a small number of financial performance measures as income generation revolves around collecting rent and selling beer to their tenants [Lashley & Morrison, 2000].

The case study conducted on Whitbread demonstrates how a change in ownership can lead to a substantial improvement in operating performance. This case study also demonstrates the importance of continuous brand and estate development in order to sustain and improve the performance of the pub estate, in this case Whitbread's.

CHAPTER NINE: - CONCLUSIONS & RECOMMENDATIONS

INTRODUCTION

This chapter presents the conclusions of the research and evaluates these in relation to the research aims and hypothesis outlined in Chapter One.

The chapter concludes by highlighting the limitations of the research and by suggesting areas for further investigation.

9.1 CONCLUSIONS & RECOMMENDATIONS

In order to evaluate the outcomes of this research, it is appropriate to revisit the aims and the research hypothesis (see Chapter One). This will determine whether the research has achieved its initial aims and will also enable recommendations to be made for further investigation.

9.1.1 REALISATION OF AIMS

It is evident that the UK's licensed retail sector has experienced considerable structural change over the past twenty years and that this change has resulted in PubCo's constantly monitoring the performance of their public house estates [Deutsche Bank, 2001].

The changes which have occurred since the Monopolies & Mergers Commission's 'Beer Orders' have been immense with the dominance of the six national brewers replaced with five types of pub operators: national retailers with brewing interests; national retailers with no brewing interests; regional or local retailers with brewing interests; regional or local multiples with no brewing interests; and totally independent operators of freehouses [Lashley & Morrison, 2000].

The Monopolies & Mergers Commission's recommendations have not really reduced the monopoly that existed before 1989. In effect, the national brewers have been replaced by national pub companies (PubCo's) which have grown their estates through acquisitions funded mainly by venture capital and securitised debt [Publican, 2006d]. These capital structures have therefore put additional pressure on the PubCo's to meet their financial obligations [Deutsche Bank, 2008k].

The former beer dominated industry has also changed its product offerings in recent times with accommodation, food, wine and soft drinks becoming growth areas [Publican, 2006e]. The PubCo's have responded to this by investing substantially in their estates and have used branding and segmentation as a means of doing so [Deutsche Bank, 2002c].

This research project has investigated the use of performance measurement within the UK's licensed retail sector. An evaluation of the extent to which it has achieved its aims follows.

Aim One: To analyse what is meant by performance management and to establish its application and use in various types of businesses.

Performance measurement is defined by various researchers with the most quoted being: '*the process of quantifying the efficiency and effectiveness of past actions*' [Neely et al. 2002 xiii].

Performance measurement has evolved through two phases with the first starting in the late 1880s and the second in the late 1980s. The second phase, the main focus of this study, was associated with the growth of global business activities and the changes brought about by such growth [Ghalayini & Noble, 1996]. These factors led to the development of frameworks which have attempted to present a broader view of performance measurement and include the Performance Measurement Matrix; the Performance Measurement Questionnaire; the Performance Pyramid; EFQM Business Excellence Model; Balanced Scorecard; Tableaux de Bord and the Performance Prism. Research and development are ongoing and a number of additional Performance Measurement Systems have also been advocated in recent years [Tangen, 2004].

Performance measurement is a particularly vast subject and extensive research has been undertaken and applied to the manufacturing industries. However, performance measurement has not been applied to the same extent within the hospitality industry. The vast majority of hospitality-related material is based on U.S. hotels and focused on financial performance measures [Atkinson & Brander-Brown, 2001].

The use of ratios has been identified as being particularly common in order to monitor and control hospitality operations [Schmidgall, 1997]. Comparisons between actual and budgeted figures are the most common way of measuring performance in hotels [Collier & Gregory, 1995]. The use of non-financial performance dimensions such as customer satisfaction and quality of service are prevalent within the UK's hotel industry [Atkinson & Brander-Brown, 2000].

Aim Two: To describe the balanced scorecard approach to performance measurement and to assess its theoretical and business value.

The balanced scorecard was developed by Kaplan & Norton as a set of performance measures to provide managers with a comprehensive view of the organisation, reliable feedback for management control purposes and performance evaluation. The balanced scorecard consists of two types of performance measures. The first are financial measures to describe past actions and the second are non-financial measures on customer satisfaction, internal business processes, and innovation and improvement activities [Kaplan & Norton, 1992]. Kaplan & Norton [1996c] indicated that the measures of this approach represent a balance between external measures for shareholders and customers, and internal measures for critical business processes, innovation and learning and growth. These measures are balanced between the outcome measures and the measures that drive future performance [Kaplan & Norton, 1992].

The balanced scorecard has been widely adopted throughout the United States of America and Europe. Despite differing cultural and ideological starting points, researchers have demonstrated that its impact and influence is increasingly pervasive, particularly in larger companies to improve performance throughout the organisation.

Rowson & Lashley [2007] and Malone [1995] applied the balanced scorecard to the UK's licensed retail sector. Malone [1995] conducted research into the design and implementation of performance management systems within the UK brewing industry and used Bass Taverns as a case study. Rowson & Lashley [2007] used the balanced scorecard approach to survey 50 licensed retailers who attended a PubCo's training programme. These two studies therefore demonstrate the scarcity of licensed retail-related research into the balanced scorecard, although Greene King and Mitchells & Butlers have implemented balanced scorecards within their public house estates.

Aim Three: **To establish the methods of performance measurement utilised by licensed retailers and to evaluate the effectiveness of these methods.**

Managed and Leased/Tenanted PubCo's use different performance measures to measure the performance of their estates. Leased/Tenanted PubCo's use predominantly financial performance measures whereas Managed PubCo's use a combination of both financial and non-financial performance measures.

The role of the financial analyst was highlighted along with the performance measures used by analysts to measure a PubCo's performance. Analysts rely predominantly on Average Weekly Sales, Wages to Sales and Like-for-Like Sales and use different performance measures for Managed and Leased/Tenanted PubCo's. Analysts also use a number of valuation metrics to place a financial value on a PubCo with Discounted Cash Flow, Price/Earnings, Sum of Parts and EV/EBITDA being the most commonly used.

A lack of available information has prevented PubCo's and financial analysts from making clear comparisons between PubCo's, especially as several PubCo's are privately owned. It was also identified that an issue exists with regards to the definitions of key performance measures as they are known to be manipulated by the PubCo's, for example, there are at least twenty ways to manipulate Like-for-Like Sales! [Stretton, 2004b]

Aim Four: To apply the balanced scorecard method in selected collaborating organisations and to compare its usefulness to financial methods of performance measurement.

The primary research highlighted the sector's reliance on financial performance measures and the use of the balanced scorecard by Greene King and Mitchells & Butlers demonstrates the advantages which it has over the traditional financial performance measures. It is also worth noting that these companies are the industry leaders with regards to industry performance [2009a] and their use of the balanced scorecard may well be a contributory factor.

Aim Five: To make recommendations and evaluate how a balanced scorecard method might improve performance management in the licensed house sector.

Research has demonstrated the benefits of using the balanced scorecard approach to measure performance. However, further research will be required to develop and test its usefulness within the UK's licensed retail sector and a number of recommendations have been made. These are set out in section 9.1.4.

9.1.2 TESTING THE HYPOTHESIS

The research tested the following hypotheses: -

Á broader, more holistic range of performance measures will assist licensed retailers to meet long-term business needs and opportunities in a better way than using purely financial measures'.

It has been demonstrated within this study that the balanced scorecard can improve the financial and non-financial performance of organisations across a range of diverse sectors.

The hospitality industry has been relatively slow, compared to other industries, to adopt the balanced scorecard and the licensed retail sector in particular has focused predominantly on the traditional financial form of performance measurement.

The Managed PubCo's have begun to use both financial and non-financial performance measures and two, Greene King and Mitchells & Butlers, have adopted the balanced scorecard. These two PubCo's have outperformed their peers in recent years [Deutsche Bank, 2009a], although it cannot be proven without further detailed research that the balanced scorecard has been solely responsible for their outperformance.

Leased/Tenanted Pub Companies rely predominantly on financial performance measures and there are not, at the time of writing, any Leased/Tenanted PubCo's who have adopted the balanced scorecard.

It can therefore be concluded that further research will be required to test the hypothesis as the research conducted has not been thorough enough to properly test the hypothesis across the whole of the UK's licensed retail sector.

9.1.3 LIMITATIONS OF THE RESEARCH

The fast pace of consolidation which is prevalent within the sector has affected the research as three of the collaborating PubCo's were acquired during the primary research process. This also had a knock on effect as the contacts made within the three PubCo's also moved on as part of the subsequent integration processes.

The PubCo's were acquired during the early stages of the study and before the proposed primary research could begin. As a result it was impossible to gather the intended primary data from the sample of PubCo's which would have enabled the development of a licensed retail sector specific balanced scorecard. It had also taken six months to gain the collaboration of the five PubCo's and it was therefore concluded that seeking replacement collaborators would take a substantial amount of time and energy, with no guarantee of success.

The PubCo's sampled for the questionnaire survey featured in Chapter Seven were also reluctant to supply the requested data. This led to questionnaires being sent to individual PubCo's on several occasions in order to achieve a representative sample. This process took up considerable time which could have been used to further the investigation.

A number of the PubCo's originally sampled for the PubCo questionnaire changed ownership, mainly through consolidation, by the time the Managed PubCo and Leased/Tenanted PubCo questionnaires were despatched and therefore it was impossible to use the same sample of PubCo's throughout the study.

The research also took longer than originally anticipated due to external pressures and these along with the issues described above, prevented the research from achieving all of the research aims detailed in Chapter One.

9.1.4 AREAS FOR FURTHER INVESTIGATION

Due to a number of constraints it was not possible to develop a balanced scorecard for the UK's licensed retail sector and therefore additional research will be required to develop balanced scorecards for Managed and Leased/Tenanted PubCo's. Once developed, the scorecards will need to be extensively tested and further refined in order to meet the requirements of the PubCo's and their respective stakeholders.

It may also be necessary to develop richer case studies across a number of PubCo's so that any ambiguities, tensions and organisational contradictions are identified and incorporated into the models. Also, further comparative research may seek to identify whether the case study organisations are unique or whether the study suggests a pattern.

Greene King and Mitchells & Butlers currently use balanced scorecards within their public house estates. Both outperformed the market in recent years according to Deutsche Bank [2009a]. It would therefore be ideal to conduct empirical research within these two organisations in order to determine the extent to which the balanced scorecard assists them in managing and improving their financial and non-financial performance.

There is also a need to develop standardised definitions for the financial performance measures used by PubCo's. The hotel industry already publishes data on a regular basis using standard definitions and a licensed retail equivalent would make performance data comparable and remove the opportunities for data manipulation, for example, the 20 different definitions of Like-for-Like Sales! [Stretton, 2004b].

There is also a lack of empirical performance management research related to the hospitality industry and, in particular, the UK's licensed retail sector and therefore contemporary UK-based research should be encouraged.

GLOSSARY

Amenity	This is the design, décor, furniture and facilities that contribute to the environment and atmosphere of a pub [Mitchells & Butlers, 2004].
Assets	The resources owned by a company that are used in the production of products or services by that company [Hales, 2005].
Asset Turnover Ratio	The ratio examines how effectively the assets of the business are being employed in generating sales revenue. The ratio is calculated by dividing sales with total assets employed [Atrill & McLaney, 1996].
Assignable	Lessee has the ability to assign, or sell on, the lease to another operator after a certain period of time. The premium, or price, will reflect the business and customer goodwill the assigning lessee has built up [Publican, 2005g].
AWP	This is an Amusement-With-Prizes machine, for example, a fruit machine [Deutsche Bank, 2003f].
Average Weekly Take (AWT)	The average sales per pub per week, calculated as total sales divided by the average number of pubs trading during the year divided by 52 weeks [Mitchells & Butlers, 2004].
“Back-end” Opening	An operator opens a load of pubs before its year-end, so there is an immediate uplift in the comparable figures in the beginning of year three [Stretton, 2004b].
Balanced Scorecard	A framework which has the overarching goal of transforming an organisation’s strategy and vision into operational objectives, measures, targets and initiatives [Daily Telegraph, 2000].
Balance Sheet	A schedule summarising what is owned and what is owed by a company at a particular point in time [Guilding, 2002].
Barrelage	The volume of beer sold at the pub in bulk barrels – 288 pints [Publican, 2005g].
Beer Orders	The Monopolies & Mergers Commission report called “The Supply of Beer” published in 1989, also known as the “Beer Orders” [Deutsche Bank, 2003f].
Beta Model	A model for pricing share options which applies the same principles as the binomial model but takes into account the relationship of the share price to a portfolio of a comparator group companies’ shares [Punch Taverns, 2006].

BDM	Business Development Manager, also known as area manager and various other titles depending on the company's structure [Publican, 2005g].
Big Six	Name given to the six national brewers – Allied Breweries, Bass, Courage, Grand Metropolitan, Scottish & Newcastle and Whitbread [Lashley & Morrison, 2000].
Binomial Model	A model for pricing share options, which applies the same principles as decision tree analysis by considering the possibilities, that prices may increase or decrease by a certain percentage [Punch Taverns, 2006].
Black-Scholes Model	A model for pricing share options using the share price, the time to expiration of the option, the risk free interest rate and the expected standard deviation of the share return [Punch Taverns, 2006].
Brand	A name, term, sign, symbol, or design, or a combination of these intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors [Kotler & Armstrong, 1996].
Brand Equity	The value of a brand, based on the extent to which it has high brand loyalty, name awareness, perceived quality, strong, brand associations, and other assets such as patents, trademarks, and channel relationships [Kotler & Armstrong, 1996].
Branded Pub	This is a public house that shares a multiple brand with other pubs in a group [Mintel, 2003].
Business Franchise	An agreement where an entrepreneur gains access to high quality pubs and a sophisticated business support infrastructure whilst the Company retains its scale purchasing and overhead advantages and shares in the trading upside through a franchise fee. The Company receives a commercial rent for the property and retains the property ownership [Mitchells & Butlers, 2004].
Buy	This is a good company and if you want to make money from the stock market buy the shares [Stretton, 2003c].
Bottom-end-disposals	Freehold pubs sold without the benefit of accounts. They are often closed and/or vandalised [Perrett, 2003].
Capacity Management	The process that seeks to ensure that a pub can service maximum volumes at peak trading whilst maintaining customer satisfaction levels [Mitchells & Butlers, 2004].

Cash Cows (BCG)	Low growth, high-share businesses/products; established and successful units that generate the cash the company uses to pay its bills and support other business units that need investment [Kotler & Armstrong, 1996].
Cash Flow from Operations	The cash generated from the operations of the Company generally defined as revenues less all-operating expenses [Mitchells & Butlers, 2006b].
Cash Flow Hedges	A hedge of the exposure to variability in cash flows [Punch Taverns, 2006].
Central Support Costs	All costs associated with the central support infrastructure of the company: e.g. finance, supply chain, IT, marketing, property, Human Resources [Mitchells & Butlers, 2004].
Churn	This is the process of selling underperforming pubs and replacing them with better quality, higher returning ones [Deutsche Bank, 2003f].
Competitive Advantage	An advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justifies higher prices [Kotler & Armstrong, 1996].
Convertible Bond	This is a corporate bond that can be exchanged for a specific number of ordinary shares. Convertible bonds generally have lower interest rates than non-convertible bonds because they accrue value as the price of the underlying shares rise. Convertible bonds therefore reflect a combination of the benefits of shares and corporate bonds [Punch Taverns, 2006].
Corporate Governance	Describes the system by which an organisation is directed and controlled [Punch Taverns, 2006].
Costs	The expenses incurred in producing and delivering goods and services to your customers [Lashley & Lincoln, 2003].
Cover Volumes	The number of main meals sold [Mitchells & Butlers, 2004].
Cash Return on Cash Capital Employed	The average net operating assets, plus the average accumulated depreciation, plus goodwill written off, less the historical revaluation reserve [Mitchells & Butlers, 2006a].
Debenture Notes	A form of bond taken out by a company, which it agrees to repay at a specified future date and which bears interest (either fixed or variable) until maturity [Punch Taverns, 2006].

Diluted Earnings per Share	Diluted earnings per share is earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period and shares from the assumed conversion of convertible bonds [Punch Taverns, 2006].
Discount	Deduction from the market price of beer, either from "barrel one" or may be linked to sales with a certain barrelage triggering a discount [Publican, 2005g].
Dividend Cover	A performance measure which shows the number of times that profit for the year covers dividends paid and proposed [Punch Taverns, 2006].
Dogs (BCG)	Low-growth, low-share businesses/products that may generate enough cash to maintain themselves, but don't promise to be large sources of cash [Kotler & Armstrong, 1996].
EBITDA	This is earnings before interest, tax, depreciation, amortisation and exceptional items [Mitchells & Butlers, 2004].
EBITDAR	EBITDAR represents earnings before finance income, finance costs, movement in fair value of interest rate swaps, UK income tax, depreciation, amortisation, rental costs and profit on sale of non-current assets [Punch Taverns, 2006].
Earnings per Share (EPS)	The Earnings per Share of a company relates the earnings generated by the company during a period, and available to shareholders, to the number of shares in issue. The ratio for equity shareholders is calculated by dividing earnings available to ordinary (equity) shareholders with the number of ordinary (equity) shares in issue [Atrill & McLaney, 1996].
EPS Growth	The Earnings per Share for the period before exceptional items, compared to the comparable period last year as reported in the financial statements expressed as a percentage [Mitchells & Butlers, 2006a].
Exceptional Items	Items which management consider will distort comparability, either due to their significant non-recurring nature or as a result of specific accounting treatments [Punch Taverns, 2006].
External Costs	Costs influenced by outside factors, i.e. regulatory and energy costs [Mitchells & Butlers, 2006b].
Fair Maintainable Trade	The profit considered to be achievable by an average competent operator [Booth, 2006].

Financial Analysis	This is the separation of a businesses' management of monetary affairs into parts for individual study [Hales, 2005].
Formats	Outlets where to the customer's eye the business trades without any covert branding or badging but the customer offer and operating template are managed to defined standards [Mitchells & Butlers, 2004].
Franchise	An "open book" leasehold that in exchange for giving the company a sight of your accounts, offers the extra support, such as stocktaking and accounting [Publican, 2005g].
Franchising	Involves the granting of a licence by one person (the franchisor), to another (the franchisee), which allows the franchisee to operate under the trade name/trade mark of the franchisor and to make use of a full package comprising all the elements necessary for the successful running of the business [Duckett, 2008].
Free Cash Flow	Cash from operations after deducting non-capitalised interest, taxation and the purchase of fixed assets for existing public houses [JD Wetherspoon, 2003b].□
Freehouse	A pub owned and operated by the same person [Deutsche Bank, 2003f].
Fully Repairing & Insuring (FRI)	Lessee has the responsibility for maintaining the fabric of the property and likewise of insuring it [Publican, 2005g].
Gross Margin	This relates the gross profit of the business to the sales generated for the same period. Gross profit represents the difference between sales and the cost of sales. The ratio is expressed as a percentage and is calculated by dividing gross profit with sales [Atrill & McLaney, 1996].
Gross Profit	Sales less cost of goods sold, expressed in monetary terms [Mitchells & Butlers, 2004].
Growth-share Matrix	A portfolio-planning method that evaluates a company's strategic business units in terms of their market growth rate and relative market share [Kotler & Armstrong, 1996].
Gold Brick	Pub sold for alternative use [Deutsche Bank, 2003g].
Incremental Pre-Tax Returns	Growth in annual pre tax operating profit expressed as a percentage of the associated capital investment. Sites are included once they have been trading for three months. For sites which do not have 12 months post-investment trading,

	incremental return is estimated based on an annualisation of actual post-investment trading [Mitchells & Butlers, 2007b].
Incremental Return on Expansionary Capital	Incremental return is the growth in annual pub operating profit expressed as a percentage of the associated capital investment for sites having received expansionary investment over the past two years [Mitchells & Butlers, 2006a].
Invested Like-for-Likes	This is a sample consisting of sites that have seen substantial capital expenditure – i.e. £20,000+ [Stretton, 2004b].
Intellectual Asset Analysis	This is an attempt to measure the influence of brands, trade marks, distribution networks, research and development investment, and other forms of intellectual property of particular companies [Temple, 1993].
Interest Cover	A performance measure, which shows the number of times EBITDA, covers the net finance income and finance cost [Punch Taverns, 2006].
Key Performance Indicators	These are measures chosen to reflect performance in high impact areas, especially in operations such as error rates [Britten, 2001].
"Lampshade" phenomenon	An operator spends a small amount of cash on a badly performing site, giving it perhaps a lick of paint and putting a few new lampshades here and there. This will have little impact on trading but the company then excludes it from like-for-like sales figures because it has seen capital expenditure, and therefore it would distort the figures. In reality a poor site is removed from comparisons [Stretton, 2004b].
Leased Pub	A pub occupied by a lessee under a lease from the pub owner [Deutsche Bank, 2003f].
Liabilities	These are the financial obligations of the organisation, i.e. wages and salaries payable, accounts payable and bank loans [Guilding, 2002].
Liquidity	The amount of cash or cash equivalents that a business has to cover its daily operating expenses [Hales, 2005].
Leased PubCo	A Leased Pub Company owns the freeholds of most or all of its pubs and lets them on a variety of short to long-term leases [Deutsche Bank, 2003f].
Lessee	This is someone who is operating a pub on a leasehold basis [Deutsche Bank, 2003f].

Licensee	This is someone who runs a pub and is legally responsible during licensing hours [Deutsche Bank, 2003f].
Like-for-Like Sales	This is a comparison of sales on a pub-by-pub basis across an entire estate. Pubs used in this gathering of comparable information will have been owned for at least two trading periods: i.e. if the Dog & Duck shows sales of £100,000 last year and sales of £104,000 this year, this equates to like-for-like sales growth of four per cent [Stretton, 2003c].
Managed Pub	This is a public house that is managed by a salaried employee of the pub owner, and where the owner is entirely responsible for all the costs and liabilities of the pub and its staff [Deutsche Bank, 2003f].
Multiple	Add up EBITDA, or gross profits, and compare this to the market valuation of the business plus any debt. If a company makes £10m profit and is valued at £100m, it trades on a multiple of 10. If it is valued at £500m, it trades on a multiple of 50 [Stretton, 2003c].
National Minimum Wage	The minimum amount an employer must pay its workers as defined by law [Mitchells & Butlers, 2006b].
Neutral	Analysts believe that these shares will perform with the rest of the market. There is no real reason to buy or sell them [Stretton, 2004b].
Net Assets	This is total assets less current and long-term liabilities and other provisions and charges [Publican, 1993a].
Net Borrowings	This is the total of short and long-term bank and other borrowings from all sources less cash balances [Publican, 1993a].
Net Profit Margin	This relates the net profit for the period to the sales during that period. The ratio is expressed as a percentage and is calculated by dividing net profit before interest and taxation with sales [Atrill & McLaney, 1996].
National Vocational Qualification	Recognised qualification obtained in the workplace [City & Guilds, 2003].
Non-discretionary Capex	Maintenance capex and development capex spent on the existing estate [Deutsche Bank, 2008j].

Off-trade	This is any retail outlet which has a licence to sell alcohol for consumption off the premises [Mitchells & Butlers, 2004].
On-trade	This is any retail outlet which has a licence to sell alcohol for consumption on the premises [Mitchells & Butlers, 2004].
Operating Lease	This is a method of renting assets over a period, which is less than the expected life of the asset. The lessee does not show an asset or liability on their balance sheet and periodic payments are accounted for by the lessee as operating expenses in the period [Punch Taverns, 2006].
Operating Margin	Operating profit divided by turnover expressed as a percentage [Publican, 1993a].
Operating Profit	Gross profit less all other operating charges, but before deducting or adding in interest paid or received [Publican, 1993a].
Outlet Employment Ratio	Pub employment costs divided by total retail sales, expressed as a percentage [Mitchells & Butlers, 2007].
Outperform	These shares are expected to outperform the majority of other shares on the stock market, by between 10 and 20 per cent [Stretton, 2003c].
P/E	The Price Earnings ratio relates the market value of a share to the earnings per share. The ratio can be calculated by dividing market value per share with earnings per share [Atrill & McLaney, 1996].
PEG Factor	The ratio between a share’s price earnings ratio (arrived at by dividing the share price by after tax profits, or “earnings” per share) and the rate at which earnings are growing [Temple, 1994b].
Portfolio Analysis	A tool by which management identifies and evaluates the various businesses that makes up the company [Kotler & Armstrong, 1996].
Post-Tax Cash Return	EBITDA less tax divided by average net operating assets less revaluation reserve plus accumulated depreciation plus goodwill written off [Mitchells & Butlers, 2004].
Productivity	Sales less hourly paid wages divided by the number of hours worked [Mitchells & Butlers, 2004].

Property Assets	This is the net book value (after depreciation) of the company's freehold and leasehold properties [Publican, 1993a].
Pre-tax Profit	This is the profit from all sources before deducting taxation. Normally this figure will include profit on disposal of properties [Publican, 1993a].
PubCo	A PubCo is independent from the control of a brewer, although it may negotiate long-term supply contracts and thus maintain links with the brewing industry [Mintel, 2003].
Refinancing	This is the repayment of an existing loan with the proceeds from a new loan [Mitchells & Butlers, 2004].
Real Estate Investment Trust	This is a tax-efficient investment vehicle which allows individuals to invest in property through the Stock Exchange [Deutsche Bank, 2006g].
Return on Investment (ROI)	This is the ratio of net profit to investment [Lashley & Lincoln, 2003].
Return on Capital Employed	This expresses the relationship between the net-profit generated by the business and the long-term capital invested in the business and is expressed in percentage terms and is calculated by dividing net profit before interest and taxation with share capital, reserves and long-term loans [Atrill & McLaney, 1996].
Question Marks	Low share business units in high-growth markets that require a lot of cash in order to hold their share or become Stars [Kotler & Armstrong, 1996].
Sales	The income generated when customers exchange money for the goods and services provided by the business [Lashley & Lincoln, 2003].
Sale & Leaseback	This is a trend that sees property companies, pub companies and investors such as banks buying properties and allowing other pub companies to manage or lease them back. This process allows companies who want more funds for investment or to pay off debt, raise large amounts of cash [Perrett, 2002].
Sale Price Multiple	This is the profit-based calculation that determines a company's price tag [Mullen, 2006].
Same Outlet Like-for-Like Sales Growth	Sales performance this year compared to the same period in the previous year for outlets open in both years including those which have had the benefit of capital investment to expand the

	pub or change the offer: i.e. excludes acquisitions and disposals [Mitchells & Butlers, 2004].
Securitisation	This is a form of long-term financing, where significant levels of long-term debt are secured against the cashflows of the business, rather than the physical assets [Deutsche Bank, 2003f].
Sell	The share price is only heading down [Stretton, 2003c].
Sentiment	If a prominent company releases good news to the market, quite often other pub operators will see their shares rise. If bad news is released then quite often other pub operators will see their shares fall [Stretton, 2003c].
Share Buy-Backs	The purchase in the open market by a listed company of its own shares [Mitchells & Butlers, 2004].
Staff Turnover	This is the movement of labour out and into a working organisation [Lashley & Lincoln, 2003].
Stars (BCG)	These are high-growth, high-share businesses/products that often require heavy investment to finance their rapid growth [Kotler & Armstrong, 1996].
Strategic Business Unit (SBU)	These are a unit of the company that has a separate mission and objectives that can be planned independently from other company businesses. An SBU can be a company division, a product line within a division, or sometimes a single product or brand [Kotler & Armstrong, 1996].
Target Price	The price analysts think would represent a true and fair reflection of the company's value [Stretton, 2003c].
Tenancies At Will (TAW)	These are temporary tenancies that are frequently just a holding agreement while the legal formalities of a lessee's new lease are being sorted out or are probationary agreements for new licensees [Deutsche Bank, 2003f].
Tenanted Pub	Owned by a brewery or pub company but managed by a tenant under a leasing agreement. The tenant is often self-employed and rents the property from the brewery/pub company [Key Note, 1991].
Tenancy	These are usually a short-term agreement (6 months to 6 years) and traditionally without the security of Landlord & Tenant Act Protection [Deutsche Bank, 2003f].

Tie	Tenant is obliged to buy beer, and sometimes other products, through the company [Publican, 2005g].
Tied House	Sells draught and bottled beers brewed by the landlord-brewer [Protz, 1996].
Triangulation	The use of different data collection methods within one study in order to ensure that the data are telling you what you think they are telling you [Saunders et al, 2003].
Turnover	This is sales, rents and other trading income, normally excluding VAT and intra-group sales [Publican, 1993b].
Total Shareholder Returns	The growth in value of a shareholding over a specific period, assuming that dividends are reinvested to purchase additional shares [Punch Taverns, 2006].
Underlying Earnings per Share	Earnings before exceptional items divided by the average number of shares in issue during the period and compared to the pro forma comparative for the first half last year [Mitchells & Butlers, 2004].
Uninvested Like-for-Like Gross Profits	Gross profit performance this year compared to the same period in the previous year of sites open in both years which have not had the benefit of expansionary capital investment of over £30,000 in either year [Mitchells & Butlers, 2004].
Uninvested Like-for-Like Sales Growth	Sales performance this year compared to the same period in the previous year of sites open in both years which have not had the benefit of expansionary capital investment of over £30,000 in either year [Mitchells & Butlers, 2004].
Underperform	These shares will do worse than the rest of the market somewhere between 10 and 20 per cent and should be not purchased [Stretton, 2003c].
Weighted Average Cost of Capital	The post-tax weighted average cost of capital, calculated using the post-tax cost of debt during the year and the cost of equity, weighted according to the proportion of the Company financed through debt and equity [Mitchells & Butlers, 2006a].
Whitbread umbrella	Substantial stakes held by the Whitbread Investment Company in regional brewers such as Greenalls, Boddingtons, Marston's, Vaux, Greene King and Morland [Sivell, 1994].
Working Capital	This is short-term disposable capital used to finance day-to-day operations [Punch Taverns, 2006].

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APPENDICES

APPENDIX 1

THE 'BIG SIX' – AN HISTORICAL OVERVIEW

Allied Breweries

Ind Coope Tetley Ansell Ltd was formed in 1961 as a merger of Ind Coope Ltd, Tetley Walker Ltd and Ansells Brewery Ltd, and changed its name to Allied Breweries in 1963. The rationale for the triple alliance was two-fold: first, a defence against predators such as the Canadian entrepreneur E.P. Taylor; and second, a strategic decision that 'the logical basis for a national group was a merger between large regional or quasi-national firms with well established brand names' [Wilson & Gourvish, 1994].

The three companies were themselves the products of significant previous amalgamations. In 1934, Ind Coope merged with Samuel Allsopp to form what was then the largest brewing concern in the country, and continued to grow by acquisition, incorporating the breweries and tied estates of Benskins of Watford in 1957 and Taylor Walker of Limehouse, London, in 1959. Tetley Walker was the outcome of a similar process, culminating in the 1960 merger of the Warrington-based Peter Walker Ltd and the Leeds firm of Joshua Tetley & Son Ltd. Up to 1952, Ansell's of Birmingham had similarly taken over nine brewing companies between Newport, Gwent and Leicester.

Following further acquisitions of Friary Meux of Guildford and Thomas Ramsden of Halifax in 1964, Allied Breweries operated fourteen breweries, 125 hotels, 8,575 on-licences and 1,780 off-licences. Early diversification followed, first into other forms of alcoholic drinks with the takeover of Showerings, then into international expansion with the acquisition of two breweries in the Netherlands in 1968. After attempts to achieve a strategic association with food and drink businesses through a projected merger with Unilever in 1968-69, and to move into the hotel industry in 1971 by bidding for Trust House Forte, Allied merged in 1978 with international food manufacturers and distributors J. Lyons & Co Ltd. The shock of a bid from Elders IXL in 1985 spurred Allied-Lyons to further international growth, and its global ambitions were emphasised by the £739m deal with the Spanish group Pedro Domecq in 1992 to form Allied Domecq. The re-naming, following the merger of its UK brewing interests with those of the Danish company Carlsberg to form Carlsberg-Tetley in 1992, results from Allied's concentration on its spirits rather than its brewing business. City speculation, questioning whether the group intends to remain in brewing, was first confirmed in November 1995 when Goldman Sachs issued a prospectus for the sale of Allied Domecq's 50 per cent stake in Carlsberg-Tetley, and finally in August 1996 with the announcement that Bass was the buyer [Wilson & Gourvish, 1994].

Allied Domecq acquired the Cantrell & Cochrane Group Ltd in 1998 and merged its UK off licences with Whitbread's to form First Quench. It later sold Cantrell & Cochrane to BC Partners in 1999 for £519m [Cantrell & Cochrane, 2004].

Allied sold its pubs business in 1999 to Punch Taverns for £2.75b [Punch Taverns, 2009]. This created a new focus for the group, which is now the world's second largest spirits and wines group.

In early 2005, a takeover bid for the company was launched by French-based rival Pernod Ricard SA. Pernod Ricard successfully completed the acquisition on 26th July 2005 and sold off the overlapping spirits brands to U.S.-based competitor Fortune Brands and

British giant Diageo. On 12th December 2005, Pernod Ricard announced that it had agreed to sell the restaurant businesses (Dunkin' Brands) to a consortium of three US private equity firms for $2.43 billion [Wikipedia, 2009].

Bass Charrington

Like Allsopp's, Bass was already a substantial concern in the 1870s. The largest brewery business in Great Britain by 1877, it was one of the first to have an international reputation, and certainly the first to register its trade marks in 1876. This early dominance led Bass to grow organically rather than by merger and acquisition. It also led to a near-fatal complacency. The firm owned few pubs before the 1880s, concentrating instead on supplying the free trade and other brewers for resale through their tied houses: as late as the 1950s, 70 per cent of Bass's output was sold through these routes. But the market was changing. First, Bass's dominance in the free trade was under aggressive threat from rising national brands owned by Ind Coope and Whitbread. Secondly, Whitbread in particular was concluding reciprocal trading agreements with local and regional brewers, excluding Bass in the process. And thirdly, with concentration in the industry, competitors who acquired other brewers and their tied pubs denied Bass access to their outlets [Wilson & Gourvish, 1994].

Though Bass had merged with its main Burton-based competitor, Worthington & Co Ltd, in 1926, the two companies continued to operate and brew independently until 1967, when the Worthington brewery was closed. This limited efficiency gains and trading synergy. Indeed, according to one history of Bass, 'the so-called amalgamation between Bass and Worthington never really happened'. By the late 1950s, with Bass's free trade declining and the opportunity to acquire a significant number of tied outlets clearly missed, the board had little room for manoeuvre and accepted the need to merge with a company processing both a strong base in the tied trade and dynamic management. After discussions with Watney Mann in 1959, Bass merged first with Mitchells & Butlers in 1961, and then in 1967 with Charrington United Breweries [Wilson & Gourvish, 1994].

The first merger brought together acknowledged strengths: Bass's national brands, distribution network and financial reserves; Mitchells & Butlers' efficiency, professional management and tied-trade base. But it still left Bass, Mitchells & Butlers in 1963 trailing in fifth place in terms of the number of tied houses the firm owned – 4,100 to the 9,300 pubs of Allied Breweries, 5,500 of Watney Mann, 5,000 of Charrington United Breweries and 4,800 of Courage, Barclay & Simonds. It was the second merger, with Charrington United Breweries, and what lay behind it, which pointed the future direction [Wilson & Gourvish, 1994].

Charrington United Breweries was itself the product of a whirlwind series of mergers promoted by E.P. Taylor who had built up Canadian Breweries by a series of mergers between 1934 and 1954 to a dominant position in Quebec and Ontario. Aiming to enter the European market with his leading brand, Carling lager, he formed a trading agreement in 1953 with the Hope & Anchor brewery of Sheffield. When it became clear to Taylor that the tied-house system was restricting the market penetration of Carling, he effectively turned Hope & Anchor into a vehicle for the formation of a national brewing group. Beginning in 1959, when lager only accounted for only 2 per cent of UK beer consumption, Taylor rapidly built up United Breweries into a group with some 2,800 pubs within two years. His aggressive tactics in a conservative industry sometimes had consequences opposite to those intended: his approach to Walker Cain Ltd led to their merger to Joshua Tetley in 1960; his bid in 1961 for Bristol Brewery Georges & Co Ltd stampeded them into accepting a counter bid from Courage, Barclay & Simonds. The merger of United Breweries and Charrington in 1961, however, went some way towards achieving Taylor's aim of creating a national brewing group, but United Breweries were largely northern based and Charrington was largely south-eastern, leaving a trading gap in the Midlands. In 1967, Taylor clinched a merger between Charrington United Breweries and Bass, Mitchells & Butlers, which had an obvious logic of strategic fit on the grounds of geographical trading coverage, brand portfolios and potential business economies. It created Britain's largest brewing group, Bass Charrington, with 10,230 pubs, Allied Breweries, the closest rival, then had 8,250 [Wilson & Gourvish, 1994].

The new group made few further acquisitions: Stones of Sheffield in 1968, and Joules of Stone two years later, were two of the most notable. Bass reverted to its traditional pattern of organic growth, with its board focusing its attention 'on achieving a more efficient use of the group's production and distribution facilities, on improving the return on assets employed, and on increasing their share of the beer, wine, and soft drinks market'. Bass came late to diversification, and even after extending its interests through such businesses as the European hotel market leader Holiday Inn chain and Coral betting shops, the impression that its core business remains in brewing was reinforced by City speculation in 1995, borne out by events, that Bass would seek to regain its position as industry sector leader by buying Allied-Domecq's 50 per cent stake in Carlsberg-Tetley [Wilson & Gourvish, 1994]. The Office of Fair Trading later turned down the proposed Bass/Carlsberg-Tetley merger in 1997 [Golding, 1997].

Throughout the 1990s Bass Taverns changed its retail business to reflect the many changes in consumer demand. The company recognised new niches within the market and created new concepts, as well as acquiring established brands. In September 1994, the first O'Neill's Irish bar opened in Aberdeen [Sangster, 1995b] and in September 1995 Bass Taverns acquired the Harvester chain from Forte [Sangster, 1995a].

A new generation of pub-goer was emerging and brands such as All Bar One were developed, appealing especially to women. The first All Bar One opened in Sutton, Surrey in 1994 [Bartlett, 1995]. In January 1998, Bass Taverns also acquired the then seven-strong group of Browns Restaurants [Jameson, 1998].

Between December 1997 and August 1998, Bass disposed of its leased pub estate, bingo businesses, its chain of betting shops and its electronic leisure entertainment and gaming machine manufacturing interests [Caterer, 1998].

In 1999, Bass Leisure Retail made its first acquisition in the continental market by purchasing Alex, an established brand of bars and brasseries, located largely in north-west Germany. Later in 1999, in line with the company's growth plans, Bass acquired 550 pubs from Allied Domecq [Bass plc, 2000].

The sale of 988 pubs to Nomura for a total of £625m in cash was announced in February 2001. This allowed the company to increase its focus on larger suburban and city-centre pubs as well as expanding its branded estate [Publican, 2001a].

As Bass plc built one of the world's largest hotel businesses in the 1990s and then sold its brewing business in 2000 [Bass plc, 2000], Bass plc was renamed Six Continents plc [Caterer, 2001c]. In October 2002 Six Continents announced the separation of the Hotels and Retail divisions. This has led to the rebirth of the Mitchells & Butlers name as a new independent force in pubs, bars and restaurants [Publican, 2003b].

Today's Mitchells & Butlers runs many of Britain's leading licensed retail brands including Vintage Inns, Ember Inns, Toby Carvery, O'Neill's, All Bar One and Scream, as well as some of the most famous pubs in Britain [Publican, 2003b]. Its estate of over 2,000 sites consists of the pick of the former Bass and Allied Domecq estates, together with a number of individual and brand acquisitions [Publican, 2003b].

Courage

Based in Southwark, London, since 1797, Courage did not begin to expand by acquisition until 1903. Between then and 1943, it took over six companies in London, Kent, Surrey and Hampshire. Its merger in 1955 with its great local rival Barclay, Perkins & Co Ltd followed this pattern, though differing in scale and in Barclay, Perkins's international interests. Looking to extend its trade outside its south London heartland, Courage and Barclay Ltd merged with H. & G. Simonds Ltd of Reading in 1960. Simonds had been highly predatory, accumulating around 1,200 pubs through some seventeen brewing company acquisitions, mainly in Berkshire and the south- western counties, between 1919 and 1954. In 1963, Courage, Barclay & Simonds had 4,800 tied houses, the fourth largest total [Wilson & Gourvish, 1994].

The new group at first looked to consolidation within its trading area, acquiring Bristol Brewery Georges & Co Ltd in 1961, when that company sought to avoid a hostile takeover by Eddie Taylor's United Breweries, and other breweries in Witney, London, Uxbridge and Eastbourne in the early 1960s. But by 1967, after the Bass Charrington merger and Whitbread's ingestion of its 'umbrella' companies, Courage, Barclay & Simonds had fallen to a poor fifth place in terms of pub ownership. Beside the industry leaders, it looked an also-ran, a large regional rather than a national group.

The first sign of a change of strategic direction in an attempt to grow into a national group came in 1967, with the takeover of James Hole of Newark, followed by John Smith's of Tadcaster in 1970. The natural culmination of this strategy would have been a merger between Courage and the sixth-placed brewing group, Scottish & Newcastle, but discussions in 1972 were discontinued when the Courage board realised the consequences might be unpalatable. Nevertheless, the strategic logic was so strong that a real attempt was made to merge the two companies in 1988 by Courage's then owners, Elders IXL of Australia. The Elders bid was blocked after being referred to the Monopolies and Mergers Commission, which concluded that 'the merger in contemplation may be expected to have serious adverse effects on competition in the brewing industry'. The Scottish-Courage link-up had to wait another seven years [Wilson & Gourvish, 1994].

Instead, in 1972, Courage agreed a deal with Imperial Tobacco, which was anxious to reduce its dependence on tobacco products and had already moved into the food market in 1969 by buying the Ross Group. The business logic was similar to Allied's discussions with Unilever, and Grand Metropolitan Hotels' takeovers of Trumans and Watney Mann. These deals set the pattern of the 1970s for diversification and conglomeration. In 1986, however, Hanson Trust broke up the Imperial Group after a hostile takeover, and sold Courage to Elders IXL, which (after its 1985 bid for Allied-Lyons was blocked) was still seeking a European launch base for its Foster's lager brand [Wilson & Gourvish, 1994].

In 1991, faced with the need to reduce its tied estate to meet the limits imposed as a result of the Monopolies and Mergers Commission investigation of the industry, Courage took the drastic action of transferring all its pubs to a company called Inntrepreneur Estates, owned jointly with Grand Metropolitan. As part of the deal, Courage took on the remaining Grand Metropolitan breweries. Grand Met thereby left brewing, while Courage became a brewery group, which technically owned no pubs, but supplied the Inntrepreneur Estates houses under contract. When Elders found itself financially over-extended in the recession of the early 1990s, it looked to realise cash by asset sales. The Courage brewery group was sold in 1995 to Scottish & Newcastle, achieving a strategic fit first envisaged twenty-three years previously and creating the largest brewing group in the UK, with over a quarter of the beer market [Wilson & Gourvish, 1994].

Scottish & Newcastle

Compared with Bass and Whitbread, Scottish & Newcastle is a relatively recent creation. Scottish Brewers Ltd was formed in 1931 as an amalgamation of two famed Edinburgh breweries, William McEwan & Co. Ltd and William Younger & Co. Ltd. Following a common pattern of taking over local rivals, it acquired three other Edinburgh-based breweries in 1960 and the Red Tower lager brewery in Manchester in 1956, before seeking a merger outside its home region with Newcastle Breweries Ltd. Newcastle Breweries had similarly come into existence in 1890 as an amalgamation of four Tyneside companies, and took over seven brewing companies in the north-east and Scotland before its merger with Scottish Brewers in 1960 [Richmond & Turton, 1990].

Scottish & Newcastle also came relatively late to growth by acquisition. After its bid for Cameron's of Hartlepool in 1984 was blocked by reference to the Monopolies and Mergers Commission, Scottish & Newcastle bought Home of Nottingham in 1986 and Mathew Brown of Blackburn in 1987 on its second attempt, thereby also acquiring Theakston's of Masham, which Mathew Brown had bought, three years earlier. These moves were in response to Scottish & Newcastle's perceived vulnerability as by far the smallest of the 'Big Six', with only around 1,350 tied houses in 1983 [Gourvish & Wilson, 1994].

But Scottish & Newcastle did not rely solely on growth through tied-trade acquisition. It established a strong position in the free trade, with brands such as Younger's, McEwan's and Newcastle Brown Ale. An indication of this strength is that in 1985, before the Home and Mathew Brown takeovers, Scottish & Newcastle, with only 1,757 tied houses, produced 3.44 million barrels, more than Watney's (3.21 million barrels) with 6,222 tied houses and Courage (3.17 million barrels) with 5,012 tied houses. In volume of production, only Bass (8.37 million barrels) was significantly larger [Gourvish & Wilson, 1994].

This free-trade orientation benefited Scottish & Newcastle after the 1989 Monopolies and Mergers Commission investigation, since it needed to free relatively few pubs while the other five of the ‘Big Six’ faced a fundamental choice over the future of their business. Prior to 1990, S&N’s retail business was integrated with the beer business and managed on a geographic basis. The formation of the Retail division in 1990 brought new focus and impetus to the retail business [Ritchie, 1999].

In 1991, Scottish & Newcastle acquired the outstanding minority interest in Center Parcs [Ritchie, 1999].

In 1993, Scottish & Newcastle acquired the Chef & Brewer estate from Grand Metropolitan for £628.5m. Chef & Brewer consisted of 1,650 outlets of which 460 were subsequently sold to comply with the Beer Orders legislation [Palmer, 1993].

Scottish Courage was formed in August 1995, following Scottish & Newcastle’s acquisition of Courage, at an initial acquisition cost of £429.8m [Publican, 1995a].

In February 1998, S&N acquired 311 pubs from the Inntrepreneur Pub Company for £206m. The pubs were converted into branded managed pubs [Burnyeat, 1998b].

In December 1999, Scottish & Newcastle acquired for £1.14bn the pubs, pub-restaurants and lodge business of Greenalls. The estate comprised of 531 managed pubs, 234 pub restaurants and 61 lodges as well as 14 recent openings and 19 development sites [Hyland, 1999].

In March 2000, Scottish & Newcastle announced a major partnership with Danone. The partnership created a new major European beer group. S&N paid £470m to establish the first partnership phase. Danone put an option to sell the remaining interest to S&N for £1.2bn [Publican, 2000g].

The disposal of Center Parcs was announced in August 2000. The business was sold to a company formed by DB Capital Partners and ‘Pierre et Vacances’ for £670m [Publican, 2000k]. In September 2000, Pontins was sold to a company owned by the family interests of Trevor Hemmings.

In August 2000 the company entered into a joint venture to run the Portuguese brewer and distributor Central de Cervejas. S&N paid approximately £93m [Publican, 2000j].

In February 2000, S&N disposed of 481 leased pubs to the Royal Bank of Scotland for £180m. The disposal was part of a programme to reduce S&N’s tied estate as required by the Beer Orders following the acquisition of the Greenalls business [Caterer, 2000a].

In March 2000, S&N disposed of 361 pubs to the Pub Estate Company for £100m. This disposal allowed S&N to meet its Beer Orders obligations to reduce its tied estate following the acquisition of the Greenalls business the previous year [Publican, 2000b].

In June 2001, S&N disposed of more than 600 managed outlets, 432 to a subsidiary of Enterprise Inns and 214 to Noble House Leisure. This sale formed a major part of the restructuring initiative to focus S&N Retail on large managed houses in the growth sectors of pub restaurants, branded pubs and bars, high quality, traditional outlets and Premier Lodge [Caterer, 2001b].

In October 2001, S&N sold 456 leased pubs to a wholly owned subsidiary of the Royal Bank of Scotland for £260m. S&N Pub Enterprises was appointed to manage the properties. The disposal was part of the group strategy to continue to exploit the company's expertise in the leased pub sector but to reduce direct property ownership [Publican, 2001i].

In January 2002, an agreement was reached to form a strategic partnership with United Breweries, the leading brewer in India. S&N agreed to invest in a new joint venture with United Breweries to develop and acquire brewing businesses. S&N and UB will each have 40% and the independent management team of the joint venture will also have a 20% share. The S&N commitment is around £60m [Publican, 2002a].

In February 2002, S&N announced the acquisition of the Hartwall brewing business through a recommended share offer, valuing the business at £1.2bn. Hartwall is Finland's leading beverage company and owner of 50% of Baltic Beverage Holdings encompassing brewing interests in Russia, Ukraine, Kazakhstan and the Baltic Countries of Latvia, Lithuania and Estonia.

The combination of S&N, Hartwall and the BBH businesses resulted in an enlarged group with leading European market positions, substantial growth opportunities, an outstanding brand portfolio and a highly experienced management team [Bowers, 2002].

In March 2002, S&N announced a partnership with the Boutari Group – a Greek listed beverage business, taking an investment in their brewing subsidiary Mythos Breweries. S&N paid £16m for a 46% stake in the business [Bowers, 2002].

In May 2003, S&N announced that it had entered into an agreement to acquire full control of Sociedade Central de Cervejas in which S&N had previously had a 49% stake. In June S&N confirmed that it had completed the acquisition [Stretton, 2003a].

The Boards of S&N and HP Bulmer Holdings plc announced in April 2003 that they had reached agreement on the terms of an offer for Bulmer by S&N. In June S&N received clearance from the European Competition Commission for the acquisition of Bulmer and the offer was declared unconditional on 1st July 2003 [Stretton, 2003a].

In December 2002 S&N confirmed that it intended to release capital from its retail estate through a sale and manage-back agreement for part of the estate. In April, the Group announced its intention to make a full disposal of its managed retail business of 1,450 pubs. This will enable S&N to become a focused international brewing group [Stretton, 2003b]. The auction for the managed estate was won in October by a consortium led by Spirit, which bid more than £2.5bn [Garrahan, 2003].

Scottish & Newcastle was acquired jointly in 2008 by Heineken and Carlsberg for £7.8b. Heineken took control of S&NUK, Beamish & Crawford – Ireland, Hartwall – Finland, Alken Maes – Belgium, Central de Cervejas – Portugal, Indian JV with United Breweries, US export business and other venture markets. Carlsberg took control of remaining 50% holding in Baltic Beverages, Kronenbourg, Mythos – Greece, Chongqing JV in China and venture markets in Switzerland, Africa, Hungary, Luxembourg, Indian Ocean, South & Central America, Andorra and Asia [Bradley, 2008].

Watney Mann & Truman

Watney, Combe, Reid & Co. Ltd was formed in 1898, a path-breaking, heavily capitalised amalgamation of historic London firms. It grew rapidly, acquiring other companies in London, Kent, Sussex, Middlesex and Hampshire over the next fifty years, and generally closing their breweries [Richmond & Turton, 1990]. Having run out of space for expansion at its Stag Brewery, Watney Combe Reid took over Mann, Crossman & Paulin Ltd in 1958, transferred brewing to Mann's Albion Brewery in Whitechapel, and closed the Stag. At this point, Watney Mann was the largest brewery group in London and the Home Counties, with some 3,670 pubs [Hawkins & Pass, 1979].

In 1959, Charles Clore, chairman of Sears Holdings, an outsider in the tightly drawn brewers' world, launched a surprise takeover bid for Watney Mann, which along with the activities of Eddie Taylor proved a key catalyst to concentration in the industry. Based on the calculation that Watney Mann's shares were trading at a substantial discount to the real value of assets, the bid only failed when the market pushed the shares from a pre-bid price of 51s 3d to 77s [Hawkins & Pass, 1979].

Recovering from the shock, and determined to grow beyond the clutches of similar predators, the company was a leader in the merger boom of the 1960s, expanding its trading area by acquiring breweries and their pubs in Northampton, Trowbridge, Manchester, Norwich, Edinburgh, Wakefield and Halifax. Four years after the Clore bid, 'Watney Mann had transformed itself into a national brewer'. It also pioneered aggressive promotion of a single keg beer brand, Red Barrel, culminating in the 'Red Revolution' of 1971 when it adopted a bright red corporate identity for all its pubs.

But in 1970, Watney Mann was effectively equal fourth with Courage in the 'Big Six' league, with around 6,100 pubs, well behind Bass Charrington's 9,450 [Gourvish & Wilson, 1994]. Its attempt to grow further in 1971 by counter-bidding against Grand Metropolitan Hotels for London brewer Truman Hanbury & Buxton rebounded when Grand Met won. Grand Metropolitan recognised the logic and itself took over Watney Mann in 1972 after a hard-fought battle, thereby bringing together Watney Mann and Truman to form the brewing division of an increasingly international conglomerate.

The real weakness of Watney Mann lay in its brands. Having rationalised its beer portfolio, concentrating on the Red brand, it was in a poor position when consumer resistance developed to its highly visible flagship in the 1970s. This, and Grand Met's overall business strategy, rendered brewing increasingly marginal to the company's interests, and it eventually gave up brewing altogether in 1991 when as a response to the MMC's recommendations it transferred its pubs to Inntrepreneur Estates and its breweries to Courage [Gourvish & Wilson, 1994].

Whitbread

The leading London brewer since 1784, Whitbread & Co. had a worldwide trade by its incorporation in 1889. It made some small acquisitions, mainly in London and Kent, in the 1920s, but showed little inclination to grow by takeover thereafter, developing instead reciprocal trading agreements with other brewers whereby its beers were sold through their pubs. In 1948-49, Whitbread had only 808 tied houses, well behind the 2,697 owned by Ind Coope & Allsopp [Gourvish & Wilson, 1994].

In the mid 1950s, Whitbread reinforced its reciprocal trading agreements by taking equity holdings in some twenty-four regional and local brewers, the so-called ‘umbrella’. In so far as this was a defensive ploy, it was shown to be a failure in 1961 when two ‘umbrella’ companies were taken over: Hewitt Brothers of Grimsby by Taylor’s United Breweries and Wells & Winch of Biggleswade by Greene King. This experience, and mergers by other companies, ‘induced the Whitbread board to discontinue its “umbrella” strategy and adopt a programme of direct acquisitions’ [Hawkins & Pass, 1979]. Between 1961 and 1971, Whitbread took over twenty-three brewing companies, including most of the ‘umbrella’ companies, since Whitbread’s existing shareholdings formed a good base from which to mount a bid [Redman, 1991].

Whitbread owned a total of 10,282 outlets by 1971, emerging as the third-largest British brewing company on the measure of pubs owned. Throughout the 1970s and 1980s, it consolidated its brewing operations, closing half of its sixteen breweries in three years 1981-1984, and began to diversify through retail development and international acquisitions [Gourvish & Wilson, 1994]. In 1987, Sam Whitbread, the chairman, wrote that Whitbread is ‘an international company producing and marketing all types of drinks, … equally committed to the retailing of drinks and food through Threshers, Beefeater Restaurants, Roast Inns and the Pizza Hut chain’ [Redman, 1991]. When the Monopolies and Mergers Commission’s investigation was announced in 1986, the company began an extensive strategic review of its operations. This led to the realisation that Whitbread could not support the investment necessary to become an international leader in wines and spirits, and in 1990 it sold its major wine and spirits interests to Allied-Lyons for £542m. Its business focus was defined as ‘a major UK brewer, a significant owner and manager of public houses, and an operator of an expanding chain of leisure retail companies’ [Redman, 1991].

During the 1990s, Whitbread acquired businesses such as David Lloyd Leisure, Pelican Group, Bright Reasons and most notably, the Marriott master franchise for the UK [www.whitbread.co.uk]. These businesses were deemed to have faster growth prospects than the brewing and pub operations, which made Whitbread a household name.

The end of the 20th century and the start of the 21st marked a watershed in the company’s history as Whitbread sold its breweries and then exited its pubs and bars business. After several decades of diversification, during which the beer and pubs giant branched out into new markets, Whitbread re-focused its business on the growth areas of hotels, restaurants and health and fitness clubs [www.whitbread.co.uk].

APPENDIX 2

KEY PUB DEALS OVER THE PAST THREE DECADES

1977	Camerons sold to Ellerman Lines.
1978	Shipstone’s sold to Greenalls; Allied Breweries bought Lyons.
1979	Tolly Cobbald sold to Ellerman Lines; Royal, Manchester & Harp, Holyrood sold to Scottish & Newcastle.
1982	Hartley’s sold to Robinsons.
1983	Tom Hoskins sold to TRD Estates.
1984	Theakston’s sold to Matthew Brown.
1985	Higson’s sold to Boddingtons.
1986	Courage sold to Elders (Foster’s); J.A. Devenish acquires Inn Leisure for £34.5m.
1987	Matthew Brown sold to Scottish & Newcastle; Bass acquires the Kellys Kitchen roadside diner chain for an undisclosed sum.
1988	Buckley’s bought by Barlow Clowes; Firkin pubs sold to Midsummer Leisure; Regent Inns merges with Lockton Inns.
1989	Tolly Cobbald and Camerons sold to Brent Walker.
1990	Tolly Cobbald sold via an MBO; Whitbread acquires 115 Berni Inns from Grand Met for £115m.
1991	Grand Met sold its breweries to Courage, which sold its pubs to Grand Met; Ushers of Trowbridge is sold by Grand Met with 433 pubs for £72m; Bass sells 370 pubs to Enterprise Inns; Bass sells 185 pubs to Century Inns; Stakis’ Firkin pubs sold to Allied Lyons; Young & Co acquires HH Finch.
1992	Cameron’s sold to Wolverhampton & Dudley Breweries; J.A. Devenish acquires 28 pubs from Whitbread for £16.9m; Vaux acquires 28 pubs from Whitbread; Discovery Inns acquires 223 pubs from Whitbread for £25m; Grand Met disposes of 85 pubs to Vaux; Grand Met disposes of 30 pubs to Century Inns; Bass disposes of 150 pubs to Centric Pub Company; Maple Leaf Inns acquires 18 pubs from Bass.
1993	Devenish sold to Greenalls for £215m; Allied-Lyons acquires Domecq; Scottish & Newcastle acquires 1,600-strong Chef & Brewer estate from Grand Met for £703m; Guinness sells Crown Buckley to Brains; Morgan Grenfell acquires 235 Inntrepreneur pubs from Grand Met for £94m; Belhaven bought for £23.5m by its management; Tom Cobleigh acquires

	51 pubs from Whitbread; Inn Business acquires 84 pubs from Whitbread.
1994	S&N sells 463 pubs to the Magic Pub Company which disposes of 168 to John Labbatt Retail and 11 to Whitbread.
1995	Boddingtons pubs sold to Greenalls for £518m; Inn Business sold to United Breweries in a reverse takeover; Nomura acquires 1,800 ex-Grand Met pubs; Morgan Grenfell acquires 1,750 pubs from Inntrepreneur for £254m; Scottish & Newcastle disposes of 230 pubs to the Pub Estate Company for £100m; Bass acquires the 78-strong Harvester chain from Forte for £165m; Greene King acquires 44 pubs from Bass; Morland acquires Unicorn Inns for £12.3m; Mill House Inns founded with the acquisition of 12 pubs from Phoenix Inns; Ushers of Trowbridge acquires the Welsh estate of Marr Taverns; Shepherd Neame acquires 18 pubs from Phoenix Inns for £3.7m.
1996	Tom Cobleigh sold to Rank for £95.6m; Enterprise Inns acquires John Labbatt Retail for £51m; Magic Pub Company sold to Greene King for £197.5m; Pubmaster sold to management; Pubmaster acquires 137 pubs from Whitbread for £12.3m; United Breweries acquires 70 pubs from Whitbread for £6.9m; Whitbread disposes of 37 pubs to the Famous Pub Company; Whitbread acquires the Pelican Group for £133m; Whitbread acquires BrightReasons for £46m; Regent Inns acquires the Muswell chain of café-bars for £6.3m; Inn Business acquires Marr Taverns; Inn Business acquires 216-strong Sycamore Taverns for £30m; S&N acquires the freeholds of 306 Chef & Brewer pubs from Phoenix Inns for £198m; Mayfair Taverns founded through £30m management buyout of Ascot Holdings; Wolverhampton & Dudley acquires a 33.3% stake in Mercury Taverns for £3.75m; Mercury Taverns acquires 23 pubs from Saxon Inns.
1997	Inntrepreneur sold to Nomura, Discovery Inns acquired by Enterprise Inns for £19.5m; Enterprise Inns acquires 94 pubs from Whitbread for £9.4m; Enterprise Inns disposes of 11 pubs to Ann Street for £6.8m; Pubmaster's managed pubs sold to Century Inns; Punch Taverns formed with the acquisition of 1,399 pubs from Bass; S&N acquires 17-strong Thistle Inns for £20m; Avebury Taverns acquires 62 pubs from Whitbread; Morland acquires 16 pubs from Whitbread for £3.4m; Old English Inns acquires 19-strong Country Style Inns for £10.75m; Mayfair Taverns acquires 25 pubs from the Pub Estate Company.
1998	Bass acquires the 7-strong Browns restaurant chain for £35m; Mercury Taverns sold to Pubmaster for £35m; Beards sold to Greene King for £12.2m; Enterprise Inns acquires 310-strong Gibbs Mew for £48m; Enterprise Inns acquires 276-strong Mercury Taverns for £37m; Ushers of Trowbridge acquires The Little Pub Company for £6.5m; Ushers of Trowbridge acquired by Alchemy Partners for £116m; Scottish & Newcastle acquires 311 pubs from Inntrepreneur for £206m; S&N

	disposes of 91 pubs to Shapelogic; Nomura acquires Greenalls leased/franchised estate for £370m; Whitbread disposes of 40 Beefeater pub-restaurants to Crowded House for £36m; Avebury Taverns acquires 253 pubs from Whitbread; Avebury Taverns acquires 222 pubs from Bass; Old English Pub Company acquires 40 pubs from various companies; Inn Business acquires 14 pubs from Allied Domecq for £2.2m; Wizard Inns founded with the acquisition of 37 pubs from Phoenix Inns; Wellington Pub Company founded with the acquisition of 845 pubs from Phoenix Inns; Pubmaster acquires 54 pubs from the Devonshire Pub Company; Morrells of Oxford acquired by Michael Cannon for £48m.
1999	Allied Domecq Retailing sold to Punch for £2.75b; Inn Business acquires 83-strong Trent Taverns for £12.2m; Inn Business acquires a 25% stake in Scorpio Inns for £500,000; Punch acquires Inn Businesses 688-strong estate for £69m; Greene King acquires Morland for £182m; Marston's acquires six Bar Excellence sites from Eldridge Pope; Wolverhampton & Dudley Breweries acquires Marston's for £410m and disposes of Marston's 165-strong southern estate to Greene King for £80m; Wolverhampton & Dudley Breweries acquires Mansfield for £361m; S&N acquires Greenalls managed estate for £1.14bn; Bass acquires 550 former Allied pubs from Punch Taverns for £1bn; Vaux tenancies sold to Pubmaster; Phoenix Inns sells 400 pubs to Pennant Inns; Bass sells 217 pubs to Enterprise Inns for £69.3m; Century Inns sold to Enterprise Inns for £139m; Enterprise Inns acquires Mayfair Taverns for £37.4m; Luminar acquires 27 venues from Allied Leisure for £35m; RBS acquires 172 pubs from S&N for £50m; Bass acquires the Alex chain of bar & brassieres in Germany; Hall & Woodhouse acquires King & Barnes for £25.5m; Po Na Na acquires DP Leisure for £4m; Alehouse Company acquires 75 pubs from Whitbread for £23.9m; Ushers of Trowbridge and the Alehouse Company merge to form InnSpired Pubs.
2000	Slug & Lettuce sold to SFI; Paramount pubs sold to RBS; Tom Hoskins sold to Burns Leisure; Luminar acquires Northern Leisure; Mill House Inns acquired by Phoenix Equity Partners for £60m; Noble House Leisure acquires Fatty Arbuckles for an undisclosed sum; Whitbread acquires Swallow Group for £578m; Enterprise Inns acquires 183 pubs from Whitbread for £119m; Barracuda Group is formed with the £50m acquisition of 35 pubs from Enterprise Inns; Famous Pub Company acquired by Enterprise Inns for £3.8m; Barracuda acquires the 61-strong Ambishus Pub Company for £36.5m; Hardys & Hansons acquires Watling Street Inns from Yates Group for £12m; JD Wetherspoon acquires the 10-strong Lloyds No.1 brand from Wolverhampton & Dudley Breweries for an undisclosed sum; London Inn Group acquires 47 pubs from Greene King for £7m; Regent Inns acquires its eight Jongleurs venues outright for £7m; Young & Co acquires 17 pubs from Smiles Holdings for £5.8m; Avebury Taverns acquires 84 pubs from Whitbread;

	Tom Cobleigh acquired by Electra Partners for £90m; Wizard Inns acquires six pubs from Greene King.
2001	Whitbread sells both its leased and managed pubs to MGPE for £1.6bn; Greene King acquires 136-strong Old English Inns for £104.8m; Bass sells 988 of its managed pubs to Nomura for £625m; Noble House acquires 214 pubs from Scottish & Newcastle for £97.1m; Noble House acquires 44 pub-restaurants from Whitbread for £31m; Enterprise Inns acquires 432 pubs from S&N for £260m; Enterprise Inns acquires 439 former Whitbread pubs from Laurel for £262m; InnSpired acquires 13 pubs from Noble House for an undisclosed sum; Barracuda acquires 50 pubs & bars from W&DB for £37.25m; Belhaven acquires 15 pubs from Maclay Group for £4.5m; Honeycombe Leisure acquires the 35-strong Devonshire Pub Company; Punch acquires the 75-strong Commer Group for £19m; RBS acquires 456 pubs from S&N for £260m; Avebury Taverns acquires 54 pubs from S&N for £22m.
2002	Inn Partnership sold to Pubmaster for £489m; Laurel Pub Partnership sold to Enterprise Inns for £881m; Enterprise Inns invests £75m for a 16.8% stake in NewCo – a consortium created to buy 3,219 Unique and 940 Voyager pubs from Nomura for £2bn; Greene King acquires 107-strong Morrell’s for £67m; Greene King acquires 8-strong Dalgety Taverns for £12.2m; Greene King disposes of 37 pubs to Punch Taverns for £6.85m; Noble House acquires five pubs from Everards for £10.6m; Barracuda pays £8.2m for eight pubs from the administrators of Old Monk; Wizard Inns acquires 20 pubs from Regent Inns for £27.9m.
2003	Six Continents Retail changes its name to Mitchells & Butlers plc following its demerger from Six Continents Hotels; Tom Cobleigh disposes of its 28-strong tenanted estate to Daniel Thwaites for £11.2m; Pubmaster sold to Punch for £1.2b; Punch acquires 283 pubs for £121m from a number of pub companies; Spirit Group acquires 1,406-strong S&N Retail for £2.5bn; Spirit Group acquires 75-strong Tom Cobleigh for £108m from Electra Partners Europe; Scottish & Newcastle Pub Enterprises acquires 25 pubs for £12m; London Inn Group acquires 21 pubs from S&NPE for £6.75m; London Inn Group acquires 252 pubs from Punch Taverns for £57m; Honeycombe Leisure disposes of 12 pubs to Punch Taverns for £11.7m; Noble House acquires 12 pub-restaurants from Whitbread; Mill House Inns acquires 8 pub-restaurants from Whitbread; InnSpired Pubs acquires 52 pubs from Enterprise Inns for £16m; Po Na Na goes into administration; Barvest formed with the £7m purchase of 28 Po Na Na venues; Whitbread disposes of 45 Beefeaters for between £49m and £54m.
2004	Unique Pub Company acquired by Enterprise Inns for £609m, Wizard Inns sold to W&DB for £96.7m; Laurel’s 432-strong community estate sold to Greene King for £654m; Laurel’s 157-strong high street estate

	acquired by Robert Tchenguiz for £151m; Yates Group acquired by GI Partners for £155m; InnSpired sold to Punch for £335m; Wellington Pub Company acquired by the Reuben Brothers for £400m; Admiral Taverns acquires 241 pubs from Enterprise Inns for £62.6m and subsequently sells 155 to County Estate Management; Admiral Taverns acquires 88 pubs from Punch Taverns for £22.6m; Pubfolio acquires 157 pubs from Enterprise Inns for £34m; Pubfolio acquires 545 former InnSpired pubs from Punch Taverns for £162.5m; Globe Pub Company formed with the £345m acquisition of 364 pubs from Spirit Group; Whitbread acquires the 132-strong Premier Lodge budget hotel chain and 19 adjoining pub-restaurants from Spirit Group for £505m; Spirit Group disposes of 220 pubs to Prestbury for £500m and enters into a 30 year lease agreement; Spirit Group sells 65 pubs on a 30 year leaseback agreement to British Land for £174m; Eldridge Pope acquired by Michael Cannon for £82m.
2005	Ridley's & Belhaven sold to Greene King for £45.6m and £187m respectively; W&DB acquires Burtonwood for £119m; W&DB acquires Jennings Brothers for £46m; W&DB acquires English Country Inns for £13.4m; Laurel Pub Company acquires Yates Group for £202m; Charterhouse Capital Partners buys Barracuda for £262m; Bank of Scotland Corporate acquires Mill House Inns for £90m; Mill House Inns acquires Pioneer Pub Company for an undisclosed sum; Laurel Pub Company pays £80m for 98 former SFI pubs & bars; Admiral Taverns acquires 41 pubs from Enterprise Inns for £10.45m; Globe Pub Company acquires 231-strong Heritage Pub Company and subsequently sells 127 pubs to Admiral Taverns for £35m; Admiral Taverns acquires 203 pubs from Punch Taverns for £40m; Admiral Taverns acquires 253 pubs from Avebury Taverns; Avebury Taverns acquired by Punch for £219m; Admiral Taverns acquires 34 pubs from Greene King for £14.85m; Admiral Taverns acquires 45 former Avebury pubs from Punch for £14.8m; Jack Petchey acquires 200 pubs from Punch Taverns for £98m; Fuller Smith & Turner acquire 111-strong George Gale & Co for £91.8m; Ultimate Leisure acquires the Prohibition cocktails-led concept from Living Ventures for £2.75m; Luminar acquires 10 nightclubs from First Leisure for £9.5m; Barvest goes into administration; Barclub Trading formed with the £8.25m acquisition of 18 Barvest venues; Hardys & Hansons acquires five former Beefeater's from Shadeweir Inns for £11m; The Restaurant Group acquires a 40% stake in Living Ventures for £7.7m and sells its Est Est Est brand to Living Ventures for £16.4m; Urbium acquired by Electra Partners for £113m; Alchemy Partners acquires Spirit's 178-strong high street portfolio for £177m; Spirit Group disposes of 10 pubs to the Capital Pub Company for £31m; Punch Taverns gains control of 1,832-strong Spirit Group for £2.7bn; The Food & Drink Group acquires five strong Henry J Beans for £5.8m.
2006	Hardys & Hansons sold to Greene King for £271m; Whitbread sells 239 pub-restaurants to Mitchells & Butlers for £497m; GI Partners acquires

	290 pubs from Punch Taverns for £571m; Admiral Taverns acquires 769 pubs from Enterprise Inns for £318.1m; Regent Inns acquires 31 Old Orleans/Quincey sites from Punch Taverns for £26m; Wolverhampton & Dudley acquires Celtic Inns for £43.6m; Admiral Taverns acquires 376 pubs from the Pyramid Pub Management Company for £137.4m; Luminar disposes of six properties for £8.5m; London & Edinburgh Swallow merges its tenanted estate with County Estate Management's estate to create County & London Inns Ltd; London & Edinburgh Swallow Group collapses into administration; Alchemy Partners acquires Inventive Leisure for £42.5m; Scottish & Newcastle Pub Enterprises acquires 5-strong Harbourmaster Taverns for an undisclosed sum; Punch Taverns acquires 82-strong Mill House Inns for £164m; Tattershall Castle Group disposes of 18 pubs to Free Spirit Group; Flodrive Group acquires the leases of 250 pubs/hotels from London & Edinburgh Swallow Group's administrators for £1m; Shepherd Neame acquires 9 pubs from Spirit Group & Mitchells & Butlers for £13.5m; Trust Inns acquires 102 pubs from Mitchells & Butlers for £101m; Scottish & Newcastle Pub Enterprises acquires 38 pubs from Pubfolio for an undisclosed sum; Punch Taverns acquires 69 pub freeholds from ING Real Estate Income Trust for £17.55m; Young & Co acquires 14 pubs from Punch Taverns for £32.5m; Admiral Taverns acquires 155 pubs from Greene King for £56.5m; Retail & Licensed Properties acquires 137 pubs from Enterprise Inns for £115m; Scottish & Newcastle Pub Enterprises disposes of 46 pubs to Retail & Licensed Properties for £35m; JT Davies acquires Brakspear for £106m; London Town acquires 14 pubs for £5.4m; London Town acquires 167 pubs from Jack Petchey's Save Investments for £94.6m; Enterprise Inns acquires 11 pubs for £7m and disposes of 15 pubs for £7m; Luminar disposes of 54 Chicago Rock and Jumpin Jak venues along with 31 unbranded nightclubs for £95.8m; Penta Capital invests £10m to take a controlling interest in 15-strong Geronimo Inns; JD Wetherspoon disposes of three pubs and opens eight; Fuller Smith & Turner acquires five managed pubs for £7.2m; Ultimate Leisure expands its Northern Ireland estate by acquiring two bars from Belfast-based Life Inns for £1.4m and disposes of two bars for £2.2m.
2007	Wolverhampton & Dudley Breweries plc changes its name to Marston's plc; Whitbread disposes of its 45 TGI Friday's restaurants to ABN AMRO Capital & Carlson Restaurants Worldwide for £70.4m; London Town acquires five pubs for £2.95m; Marston's acquires 158-strong Eldridge Pope for £155.1m; Marston's acquires 33-strong Sovereign Inns for £19.4m; Luminar completes a £76.8m sale and leaseback on 20 of its venues; InnDeeD Group acquires 11 pubs from the Newport & Cedar Pub Companies for an undisclosed sum; Definnitive Leisure goes into administration & is acquired by Ladhar Group for an undisclosed sum; Scottish & Newcastle Pub Enterprises acquires four pubs from Maclay Inns for an undisclosed sum; London Town acquires 39 pubs from a property holding company for £16.24m; Heavitree Brewery disposes of

	seven pubs for more than £2m; Robert Tchenguiz acquires La Tasca for £104.2m and announces his intention to merge it with his Laurel Pub Company; Pubs ‘n’ Bars acquires 7-strong Moorgate London for £6.6m; The Food & Drink Group acquires seven leasehold sites from the Puzzle Pub Company for £1.2m; Punch Taverns acquires a 50% stake in Matthew Clark for £35m; Punch Taverns disposes of 869 leased & tenanted pubs to Admiral Taverns for £326m; Wadworth & Co acquires four pubs for an undisclosed sum; Robert Cain & Co acquires 100-strong Honeycombe Leisure for £37m in a reverse takeover and renames itself Cains Beer Company; Enterprise Inns acquires 52 pubs for £38m; Ultimate Leisure acquires the 4-strong Bel & the Dragon pub restaurant estate from Gourmet Holdings for £8.75m; Orchid Group disposes of 16 sites to Bar Room Bar Ltd for £20m; Daniel Thwaites acquires 10 pubs; Daniel Thwaites disposes of 12 pubs and a hotel for £5.4m; Daniel Thwaites acquires five pubs for £1.93m; Ultimate Leisure acquires 13-strong Living Ventures for £28m; CI Traders acquired by Sandpiper Bidco for £260m; Tragus acquires Strada for £140m; Food & Fuel acquires 5-strong Front Page Pubs for an undisclosed sum; Camerons Brewery disposes of its free on-trade business to Coors for an undisclosed sum in order to develop its pub estate; Three Wishes Group disposes of five pubs; Marston’s acquires Ringwood Brewery for £19.2m; Hydes Brewery transfers 20 managed houses into its leased/tenanted estate; Clear Pub Company formed with the acquisition of 25 pubs from Punch Taverns for an undisclosed sum; Rock Inn Pub Company formed with the acquisition of three new leases from Punch Taverns; Calco Midlands acquires 30-strong Bold Pub Company for an undisclosed sum; InnDeeD Group acquires 12 pubs from Pub People Company for an undisclosed sum; London Town disposes of 12 pubs; Faucet Inn Pub Group acquires six leasehold sites from Broken Foot Inns for £1.45m; Marston’s Pub Company acquires four-strong Rutland Pub Company for £5.5m; Daniel Thwaites disposes of 14 pubs; Capital Pub Company acquires 2-strong Puzzle Pub Holdings for £5.75m; Pubfolio disposes of 27 pubs; Inventive Leisure becomes a 100% leasehold company after selling freeholds on nine of its bars for £17m; Pubfolio disposes of 100 pubs for circa £40m; Restaurant Group acquires 14-strong Brunning & Price for £32m; Sir John Ritblat & Robert Breare acquire 5-strong Merchant Inns for £11m plus £10m debt funding; Heavitree Brewery disposes of four pubs; Shepherd Neame acquires 16 freehold pubs for £16.4m and disposes of 7 for £2.9m; Scottish & Newcastle Pub Enterprises announces the disposal of 11 freehold pubs with a total asking price of £5.32m; Scottish & Newcastle Pub Enterprises creates the Discovery Pub Company to encompass the estate of 250 ex-Marston’s sites bought earlier in the year by Active Asset Investment Management; Enterprise Inns announces the disposal of 96 unviable pubs for alternative use; Marstons transfers 437 pubs to its securitised estate in a £330m refinancing arrangement; Charles Wells acquires 13 pubs in individual sales for an undisclosed sum; Ultimate Leisure changes its name to Premium Bars & Restaurants;

	Premium Bars & Restaurants disposes of three bars for £1.4m; Greene King acquires 49-strong New Century Inns for £32.6m; Pubs 'n' Bars disposes of two leasehold managed pubs for £50,000; Adnams announces the disposal of nine of its leased/tenanted pubs; Punch Taverns disposes of GRS Inns for an undisclosed sum; G1 Group acquires 20 pubs from Scottish & Newcastle Pub Enterprises for an undisclosed sum; Enterprise Inns acquires 28 pubs for £26m and disposes of 10 for £7m; Charles Wells Pub Company acquires 10 freehold pubs from Traditional Freehouses for £9m.
2008	Globe Pub Company puts 17 pubs up for sale; London Town acquires 60-strong GRS Inns for £4.31m; Sports Café goes into administration and Agilo acquires five of its eight sites for an undisclosed sum; Massive Pub Company places 34 of its 46 sites into administration; Innventive Pubs & Restaurants acquires 33 pubs from the administrators of Massive Pub Company for an undisclosed sum; Fuller's disposes of three tenanted pubs and three unlicensed properties for £6m; Frederic Robinson converts its eight remaining managed houses into tenancies; Punch Taverns announces plans to dispose of 39 pubs; Fountain Inns acquires five pubs from the Ladhar Group; Corney & Barrow acquires two sites for an undisclosed sum; Young & Co acquires three pubs from Capital Pub Company for £9m; US leisure entrepreneur Frank Dowling acquires 6-strong Elbow Room for an undisclosed sum; Regent Inns places seven bars on the market in order to generate £25m through a sale-and-leaseback deal; Laurel Pub Company places 94 of its leasehold sites on the market; Laurel Pub Company is placed into administration by Robert Tchenguiz who immediately re-acquires 293 sites through the newly formed Town & City Pub Company and the Bay Restaurant Group; Enterprise Inns disposes of 82 freehold and leasehold pubs; LGV Capital acquires 65-strong Sandpiper CI for an undisclosed sum; JD Wetherspoon acquires four ex-Laurel sites from administrators; Luminar disposes of 26 units to Cavendish Bars & pays Cavendish £880,000 to take on the loss making bars; McManus Pub Company acquires full-control of six-strong Estuary Pub Company after acquiring the outstanding 50 per cent shareholding for £3m; Enterprise Inns acquires 51 pubs for £44m and disposes of 45 pubs for £25m; Bar Sport goes into administration; Cougar Leisure formed to operate 21 pubs and bars operated by Herald Inns & Bars; Food & Drink Group goes into administration with 17 branded and unbranded sites along with 17 franchise sites being acquired with immediate effect by MainPoint; Marston's disposes of 18 tenanted pubs & transfers 47 managed pubs over to leases & tenancies; Spirit Group transfers 49 managed pubs to Punch Taverns leased estate; Trust Inns places 15 pubs on the market; Whitbread acquires 21 Express by Holiday Inn hotels from Mitchells & Butlers in exchange for 44 Whitbread pub restaurants; Cains Beer Company collapses into administration and 24 loss-making sites are shuttered; Tadcaster Pub Company disposes of 30 tenanted and leased

	pubs to Scottish & Newcastle Pub Enterprises for an undisclosed sum; Robert Tchenguiz buys back another 80 former Laurel sites through his Town & City Pub Company; Marston's acquires Refresh UK for an undisclosed sum; Agilo acquires Candu Entertainment from its administrators and merges it with its newly acquired Sports Café operation; Scottish & Newcastle Pub Enterprises acquires 10 pubs from Tun Taverns and 4 pubs from Progressive Pubs for an undisclosed sum; Scottish & Newcastle is acquired jointly by Carlsberg & Heineken for £7.6bn; Suburban Style Bar Company acquires eight freehold and two leasehold pubs for £4.5m; Novus Leisure acquires seven sites from the administrators of Soho Clubs & Bars in a deal worth between £8m and £10m; Regent Inns seeks offers for the leasehold interest in 12 of its bars and restaurants; Cains Beer Company is bought out of administration by brothers Suderghara and Ajmail Dusanj who also acquire nine leasehold pubs as part of the deal; Scottish & Newcastle Pub Enterprises acquires five freehold pubs from Adnams in a £1.5m deal; Heavitree Brewery announces that it is to transfer its 20-strong managed estate to leases and tenancies; Admiral Taverns puts 100 pubs up for sale; Orchid collapses into administration which sees 240 of the group's 287 pubs bought back by GI Partners; Admiral Taverns places another 20 pubs up for sale and disposes of its 27-strong Scottish pub estate to a subsidiary of G1 Group for an undisclosed sum; Marstons disposes of 43 pubs for around £22m; Nectar Taverns takes control of 28 pubs formerly operated by Cains Beer Company; Spirit Group acquires 31 ex-Orchid pubs from PriceWaterhouseCoopers for an undisclosed sum.
2009	Grant Thornton takes back 19 pubs from Innventive Pubs & Restaurants after it failed to pay for them; Scottish & Newcastle Pub Enterprises puts 32 pubs up for sale; 3D Entertainment announces that it plans to concentrate on its Chicago Rock Café chain and transfers 28 units to nightclub entrepreneur Martin King; TCG Acquisitions Ltd puts 26 of its leasehold sites up for sale; Enlighten Inns acquires 12 pubs from Peninsula Inns; Fuller's acquires three London pubs from Mitchells & Butlers for £8m; Admiral Taverns places 51 pubs on the market; Adnams acquires three pubs from Punch Taverns for £2.7m; Heavitree Brewery places three pubs on the market; Punch Taverns sells six managed pubs to Fuller's for £21.1m; Peach Pub Company acquires the freeholds of two pubs it leases from Punch Taverns for £2.85m; Amber Taverns acquires 23 pubs from the receivers of Cains Beer Company for an undisclosed sum.

APPENDIX 3

PubCo QUESTIONNAIRE SAMPLE

PubCo QUESTIONNAIRE SAMPLE

PubCo	Address	No of Pubs
Adnams plc	Adnams plc, Sole Bay Brewery, East Green, Southwold, Suffolk, IP18 6JW	80 tens, 4 lse, 2 mgd
Arkells Brewery Ltd	Arkells Brewery Ltd, Kingsdown, Swindon, Wiltshire, SN2 7RU	87 tens, 1 lse, 14 mgd
Avebury Taverns Ltd	Avebury Taverns Ltd, Sterling House, 20 Station Road, Gerrards Cross, Buckinghamshire, SL9 8EL	450 tens, 300 lse
The Bar Group	The Bar Group, Eden House, Enterprise Way, Edenbridge, Kent, TN8 6HF	30 mgd
Barracuda Group Ltd	Barracuda Group Ltd, Henley Road, Medmenham, Marlow, Buckinghamshire, SL7 2ER	149 mgd, 1 tens
Barter Inns	Barter Inns, 132 Gipsy Hill, London, SE19 1PW	28 mgd
Barvest	Barvest, 18-21 Cavaye Place, London, SW10 9PT	28 mgd
George Bateman & Son Ltd	George Bateman & Son Ltd, Salem Bridge Brewery, Wainfleet, Lincolnshire, PE24 4JE	71 tens
Belhaven Group plc	Belhaven Pubs Division, Atrium House, 6 Back Walk, Stirling, FK8 2QA	116 lse, 74 mgd
SA Brain & Co Ltd	SA Brain & Co Ltd, The Cardiff Brewery, Crawshay Street, Cardiff, CF10 1SP	101 tens, 120 mgd
W.H. Brakspear & Sons plc	Brakspear & Sons plc, The Bull Courtyard, Bell Street, Henley on Thames, RG9 2BA	90 tens, 11 lse, 3 mgd
Burtonwood Brewery plc	Burtonwood Brewery plc, Bold Lane, Burtonwood, Cheshire, WA5 4PJ	393 tens, 19 lse, 39 mgd
Caledonian Heritable Ltd	Caledonian Heritable Ltd, 4 Hope Street, Edinburgh, EH2 4DB	16 tens, 240 lse, 36 mgd

Camerons Brewery	Camerons Brewery, Lion Brewery, Hartlepool, TS24 7QS	32 tens
CCT Group Ltd	CCT Group Ltd, 76 Mitcham Road, Tooting, London, SW17 9NG	33 mgd
Celtic Inns	Celtic Inns, c/o Tradeteam, Nutsey Lane, Calmore Industrial Estate, Totton, S040 3NB	47 tens, 2 lse, 2 mgd
Chapmans Group	Chapmans Group, Syon House, High Street, Angmering, West Sussex, BN16 4AG	30 mgd
Charles Wells Ltd	Charles Wells Ltd, The Eagle Brewery, Havelock Street, Bedford, MK40 4LU	206 tens, 30 lse, 18 mgd
CI Traders	CI Traders, Traders House, PO Box 4, 1-3 L'Avenue Le Bas, St Saviour, Jersey, JE4 8NB	41 tens, 46 mgd
Corporate Catering Company Ltd	Corporate Catering Company Ltd, 135 Petersham Road, Richmond, Surrey, TW10 7AA	36 mgd
County Estate Management Ltd	County Estate Management Ltd, 9 Harley Street, London, W1G 9QF	421 tens
Daisychain Inns Ltd	Daisychain Inns Ltd, Chesterton Way, Eastwood Trading Estate, Rotherham, South Yorks, S65 1ST	50 mgd
Davy & Co Ltd	Davy & Co Ltd, 59/63 Bermondsey Street, Southwark, London, SE1 3XF	45 mgd
Dorbiere Public Houses	Dorbiere Public Houses, Unit F3-F5, Green Lane, Patricroft, Eccles, Manchester, M30 ORJ	1 tens, 38 mgd
Dukedom	Dukedom, Blenheim House, Falcon Court, Preston Farm Industrial Estate, Stockton on Tees, TS18 3TS	30 mgd
Eldridge Pope& Co plc	Eldridge Pope & Co plc, Weymouth Avenue, Dorchester, Dorset, DT1 1QT	45 tens, 105 mgd
Elgood & Sons Ltd	Elgood & Sons Ltd, North Brink Brewery, Wisbech, Cambridgeshire, PE13 1LN	43 tens

Elizabeth Holdings plc	Elizabeth Holdings plc, Merchant House, 33 Fore Street, Ipswich, Suffolk, IP4 1JL	70 lse
Enterprise Inns plc	Enterprise Inns plc, 3 Monkspath Hall Road, Solihull, West Midlands, B90 4SJ	1,450 tens, 3,600 lse
Everards Brewery Ltd	Everards Brewery Ltd, Castle Acres, Narborough, Leicestershire, LE19 1BY	136 tens
Felinfoel Brewery	Felinfoel Brewery, Farmers Row, Felinfoel, Llanelli, Carmarthenshire, SA14 8LB	84 tens
Frederic Robinson Ltd	Frederic Robinson Ltd, Unicorn Brewery, Stockport, Cheshire, SK1 1JJ	385 tens, 2 lse, 16 mgd
Fuller, Smith & Turner plc	Fuller, Smith & Turner plc, Griffin Brewery, Chiswick Lane South, Chiswick, London, W4 2QB	65 tens, 50 lse, 124 mgd
G1 Group	G1 Group, Virginia House, 62 Virginia Street, Glasgow, G1 1TX	25 mgd
George Gale & Co Ltd	George Gale & Co Ltd, The Hampshire Brewery, Horndean, Hants, PO8 0DA	69 tens, 41 mgd
Gray & Sons Ltd	Gray & Sons (Chelmsford) Ltd, Rignals Lane, Galleywood, Chelmsford, Essex, CM2 8RE	49 tens
Great British Pub Company	Great British Pub Company, The Stable Lodge, Chester Road, Huntingdon, Chester, CH3 6BS	35 mgd
Greene King plc	Greene King plc, Westgate Brewery, Bury St Edmunds, Suffolk, IP83 1QT	1,134 tens 550 mgd
Hall & Woodhouse Ltd	Hall & Woodhouse Ltd, The Brewery, Blandford St Mary, Dorset, DT11 9LS	174 tens, 86 mgd
Hardys & Hansons plc	Hardys & Hansons plc, Kimberley Brewery, Kimberley, Nottingham, NG16 2NS	179 tens, 75 mgd
Harvey & Son Ltd	Harvey & Son (Lewes) Ltd, Bridge Wharf Brewery, 6 Cliffe High Street, Lewes, East Sussex, BN7 2AH	45 tens

Heavitree Brewery plc	Heavitree Brewery plc, Trood Lane, Matford, Exeter, EX2 8YP	80 tens, 21 mgd
Heritage Pub Company Ltd	Heritage Pub Company Ltd, Donington House, Riverside Road, Pride Park, Derby, Derbyshire, DE24 8HY	235 tens
Heron & Brearley Ltd	Heron & Brearley Ltd, Kewaigue, Douglas, Isle of Man, IM2 1QG	7 tens, 3 lse, 48 mgd
Honeycombe Leisure plc	Honeycombe Leisure plc, Marian House, Beech Grove, Preston, Lancs, PR2 1DU	95 mgd
Hook Norton Brewery	Hook Norton Brewery Co Ltd, Brewery Lane, Hook Norton, Banbury, Oxfordshire, OX15 5NY	44 tens
Hydes' Brewery Ltd	Hydes' Brewery Ltd, 46 Moss Lane West, Manchester, M15 5PH	32 tens, 2 lse, 41 mgd
InnKeeper UK Ltd	InnKeeper UK Ltd, Ty Canol, 1st Floor, 1-3 Pendre, Cardigan, Ceredigion, SA43 1JL	30 mgd
Inns & Leisure Ltd	Inns & Leisure Ltd, 20-24 Leicester Road, Preston, Lancashire, PR1 1PP	17 tens, 1 lse, 12 mgd
InnSpired Pubs plc	InnSpired Pubs plc, Wiltshire Drive, Trowbridge, Wiltshire, BA14 0TT	314 tens, 752 lse
Inventive Leisure plc	Inventive Leisure plc, 21 Old Street, Ashton-under-Lyne, Lancashire, OL6 6LA	42 mgd
Jennings Brothers plc	Jennings Brothers plc, Castle Brewery, Cockermouth, Cumbria, CA13 9NE	100 tens, 30 lse
Joseph Holt Ltd	Joseph Holt Ltd, Derby Brewery, Empire Street, Cheetham, Manchester, M3 1JD	3 tens, 122 mgd
JT Davies & Sons Ltd	JT Davies & Sons Ltd, 7 Aberdeen Road, Croydon, Surrey, CR0 1EQ	48 tens, 5 lse
JW Lees Ltd	JW Lees Ltd, Greengate Brewery, Middleton Junction, Manchester, M24 2AX	132 tens, 38 mgd
Kingdom Taverns Ltd	Kingdom Taverns Ltd, Dean House, 191 Nicol Street, Kirkcaldy, Fife, KY1 1PS	33 tens, 1 mgd
Laurel Pub	Laurel Pub Company, Porter Tun House,	625 mgd

Company	500 Capability Green, Luton, Bedfordshire, LU1 3LS	
London & Edinburgh Inns	London & Edinburgh Inns, 4 Clarendon Place, King Street, Maidstone, Kent, ME14 1BQ	50 tens, 260 lse, 402 mgd
Luminar plc	Luminar plc, 41 Kings Street, Luton, Bedfordshire, LU1 2DW	312 mgd
Massive Ltd	Massive Ltd, Central House, 124 High Street, Hampton Hill, Middlesex, TW12 1NS	40 mgd
McManus Pub Company	McManus Pub Company, Kingsthorpe Road, Northampton, NN2 6HT	25 mgd
McMullen & Sons Ltd	McMullen & Sons Ltd, The Hertford Brewery, 26 Old Cross, Hertford, Hertfordshire, SG14 1RD	35 tens, 98 mgd
Mill House Inns	Mill House Inns, Berkeley House, Falcon Close, Quedgeley, Gloucester, GL2 4LY	60 mgd
Mitchells & Butlers plc	Mitchells & Butlers plc, 27 Fleet Street, Birmingham, B3 1JP	2,077 mgd
Mitchells of Lancaster Ltd	Mitchells of Lancaster (Brewers) Ltd, 11 Moor Lane, Lancaster, LA1 1QB	45 tens, 21 mgd
New Century Inns	New Century Inns, Belasis Business Centre, Coxwold Way, Billingham, Stockton-on-Tees, TS23 4EA	50 tens
Noble House Pub Company	Noble House Pub Company, Chapel House, Alma Road, Windsor, Berkshire, SL4 3HD	90 mgd
JC & RH Palmer	JC & RH Palmer, Old Brewery, West Bay Road, Bridport, Dorset, DT6 4JA	54 tens
Peninsula Inns Ltd	Peninsula Inns Ltd, Peninsula House, Castle Circus, Torquay, Devon, TQ2 5QQ	26 mgd
Pub Estate Company Ltd	Pub Estate Company Ltd, Blenheim House, Foxhole Road, Ackhurst Park, Chorley, Lancashire, PR7 1NY	507 tens, 2 lse

Pubs 'n' Bars plc	Pubs 'n' Bars plc, Stanwood House, 10-12 Weir Road, London, SW12 0NA	21 tens, 44 mgd
Pub People Company	Pub People Company, Morewood House, Broadmeadows Business Park, South Normanton, Alfreton, DE55 3NA	55 mgd
Punch Taverns plc	Punch Taverns plc, Jubilee House, Second Avenue, Burton upon Trent, Staffordshire, DE14 2WF	7,400 [50/50 split between tens & lse]
Pyramid Pub Management Co	Pyramid Pub Management Company, Suite H3, Steam Mill Business Centre, Steam Mill Street, Chester, CH3 5AN	420 tens, 2 mgd, 11 lse
Randalls Vautier	Randalls Vautier, PO Box 43, Clare House, Clare Street, St Helier, Jersey, JE4 8NZ	15 tens, 30 mgd
Regent Inns plc	Regent Inns plc, 77 Muswell Hill, London, N10 3PJ	78 mgd
TD Ridley & Sons Ltd	TD Ridley & Sons Ltd, Hartford End Brewery, Hartford End, Chelmsford, Essex, CM3 1JZ	74 tens, 2 lse
Rosemount Taverns Ltd	Rosemount Taverns Ltd, 5 Fitzroy Place, Glasgow, G3 7RH.	35 tens
Samuel Smith	Samuel Smith, The Old Brewery, Tadcaster, North Yorkshire, LS24 9SB	205 mgd
S&N Pub Enterprises	Scottish & Newcastle Pub Enterprises, Gilmore Park, Fountainbridge, Edinburgh, EH3 9SB	1,119 lse
SFI Group plc	SFI Group plc, SFI House, 165 Church Street East, Woking, Surrey, GU21 1HJ	165 mgd
Shepherd Neame Ltd	Shepherd Neame Ltd, 17 Court Street, Faversham, Kent, ME13 7AX	300 tens, 70 mgd
Sir John Fitzgerald	Sir John Fitzgerald, Café Royal Buildings, 8 Nelson Street, Newcastle Upon Tyne, NE1 5AW	30 mgd
Sovereign Inns	Sovereign Inns, 65 King Richard's Road, Leicester, LE3 5QG	23 tens, 5 lse, 3 mgd

Spirit Group	Spirit Group, 107 Station Street, Burton-upon-Trent, Staffordshire, DE14 1BZ	2,470 mgd
Springwood Leisure Ltd	Springwood Leisure Ltd, Chancery House, Roseberry Road, Anstey, Leicestershire, LE7 7EL	28 mgd
St Austell Brewery Company Ltd	St Austell Brewery Company Ltd, 63 Trevarthian Road, St Austell, Cornwall, PL25 4BY	110 tens, 6 lse, 38 mgd
Tadcaster Pub Company Ltd	Tadcaster Pub Company Ltd, Commer House, Station Road, Tadcaster, North Yorks, LS24 9JF	21 tens, 22 lse
Taverna Inns	Taverna Inns, Marquis of Granby, Main Street, Hoveringham, Notts, NG14 7JR	24 tens, 6 lse
Thorley Taverns Ltd	Thorley Taverns Ltd, The Old Police Station, 60 Gladstone Road, Broadstairs, Kent, CT10 2TA	1 ten, 36 mgd
Daniel Thwaites plc	Daniel Thwaites plc, Star Brewery, PO Box 50, Blackburn, Lancashire, BB1 5BU	335 tens, 68 mgd
Timothy Taylor	Timothy Taylor, Knowle Spring Brewery, Keighley, West Yorkshire, BD21 1AW	17 tens, 7 mgd
Ultimate Leisure	Ultimate Leisure, 26 Mosley Street, Newcastle, NE1 1DF	28 mgd
Unique Pub Company	Unique Pub Company, Mill House, Aylesbury Road, Thame, Oxfordshire, OX9 3AT	667 tens 3,367 lse
Urbium plc	Urbium plc, Vernon House, 40 Shaftesbury Avenue, London, W1D 7ER	26 mgd
Valleyhill	Valleyhill, 3 Drayson Mews, Kensington, London, W8 4LY	4 tens, 62 mgd
Wadworth & Co Ltd	Wadworth & Co Ltd, Northgate Brewery, Devizes, Wiltshire, SN10 1JW	212 tens, 45 mgd
Wellington Pub Co	Wellington Pub Company, Beechwood Place, Thame Business Park, Wenman Road, Thame, Oxfordshire, OX9 3XA	835 lse

Wessex Taverns	Wessex Taverns, 56 North Parade, Whitley Bay, Tyne & Wear, NE26 1PB	35 mgd
JD Wetherspoon plc	JD Wetherspoon plc, Wetherspoon House, Reeds Crescent, Central Park, Watford, WD24 4QL	645 mgd
Wharfedale Taverns	Wharfedale Taverns, 1 Highcliffe Court, Greenfold Lane, Whetherby, West Yorkshire, LS22 6RG	9 tens, 18 mgd
Whitbread Restaurants	Whitbread Restaurants, Whitbread Court, PO Box 777, Dunstable, Bedfordshire, LU5 5XG	614 mgd
Wizard Inns Ltd	Wizard Inns Ltd, City Gate, 17 Victoria Street, St Albans, Hertfordshire, AL1 3JJ	65 mgd
Wolverhampton & Dudley Breweries plc	Wolverhampton & Dudley Breweries plc, Albany House, Albany Road, Wolverhampton, WV1 4NY	1,128 tens, 477 mgd
Yates Group plc	Yates Group plc, Peter Yates House, Manchester Road, Bolton, BL3 2PY	153 mgd
Young & Co Brewery plc	Young & Co Brewery plc, The Ram Brewery, Wandsworth, London, SW18 4JD	95 tens, 111 mgd
Zelgrain	Zelgrain, The Five Way Rooms, 146 Springwood Road, Brighton, East Sussex, BN1 6BZ	26 mgd, 1 tens

APPENDIX 4

PUBCO QUESTIONNAIRE

24th June 2004

The University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Frederic Robinson Ltd
Unicorn Brewery
Stockport
Cheshire
SK1 1JJ

Dear Sir/Madam,

I am a part time PhD student at the University of Huddersfield where I am conducting research into the use of financial and operational performance measures within managed, leased and tenanted pub estates.

Performance measurement has been widely covered within the hotel sector but has not as yet been studied to the same extent within the licensed retail sector.

My research will be extensive and will result in the development of a model for enhancing a pub company's performance.

I would be very grateful if you could assist me with my research by completing the enclosed questionnaire. A stamped addressed envelope is enclosed for this purpose.

The information supplied will be strictly confidential.

Thank you in advance for your time. I hope you can assist in my research.

If you would like to be kept informed of progress, then I shall be pleased to do so.

Yours sincerely,

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management

Email:

PubCo QUESTIONNAIRE

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many public houses do you operate within your estate? [Please mark the most appropriate box].

1 – 25	
26 – 50	
51 – 100	
101 – 250	
251 – 500	
501 – 750	
751 – 1000	
1001 – 2000	
2001 – 4000	
4000 +	

Q2. Where geographically is your public house estate concentrated? [Please mark the appropriate boxes].

East Anglia	
South East	
London	
South West	
East Midlands	
West Midlands	
Yorkshire & Humberside	
North West	
North East	
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please tick the appropriate boxes].

Average Weekly Sales	
Average EBITDAR	
EBITDA Margins **EBITDAR Margins**	

Wages to Sales	
Like-for-Like Sales **Like-for-Like Profit Growth**	
Return on Invested Capital	
Trading Profit	
Stock Results	
Mystery Guest	
Quality Audits	
Labour Turnover	
Sales Mix	

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Weekly Sales	
Average EBITDAR	
EBITDA Margins **EBITDAR Margins**	
Wages to Sales	
Depreciation to Sales	
Like-for-Like Sales **Like-for-Like Profit Growth**	
Return on Invested Capital	
Admin Costs to Sales	
Fixed Asset Turns	
Capital Expenditure	
Net Debt	

Return on Capital Employed	
Operational Gearing	
Interest Cover	
Cashflow	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Monday 02nd May 2005.

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management
University of Huddersfield

Email:

COMMENTS & SUGGESTIONS RECEIVED FROM PubCo's

- Questionnaire is biased towards managed pubs. We work with our tenants/lessees to grow their businesses through increased volumes of beer, increased machine usage and food sales. This in turn increases the rent that we can charge.

- We would like to compare all of our ratios/measures to those of our competitors and peers but information is very limited.

- Different measurements are needed for tenanted/leased pubs as opposed to managed. I have answered the questionnaire for managed pub operations [we have both managed and tenanted]. For tenanted pubs we are not interested in base to sales, stock results, labour turnover because these all fall on the tenant/lessee not the PubCo. You should substitute the following metrics for tenanted pubs: Rent per pub, rent per barrel, wholesale margin, machine income share per pub, EBITDA per pub, barrelage [i.e. volume sales to tenants].

- Annual growth in barrels per pub; Average gross take per tenanted pub; Annual growth in rent achieved per pub; Average rent per pub; AWP income per barrel & Tenant stability.

- We only have tied public houses so the information we receive from them is limited to what they would like us to know.

- Due to the limited amount of information disclosed we find it difficult to compare results against those of our competitors. Definitions of like-for-like sales vary widely across the industry.

- We study economic profit at both house and company level. EBITDA/R is a company measure. At house level we measure Branch Operating Profit [BOP] before Head Office costs.

- A true like-for-like sales definition – everyone "bends" the rules to show the best result.

- Our main business is freetrade sale of our beers. We only operate traditional tenancies. We do not compare performance with others. I have no idea what EBITDAR/EBITDA mean with regard to a business of our size and nature.

- See enclosed benchmarking study which may be of help.

- Our current system has meant that we have great difficulty producing sales analysis reports. We are currently looking to move to a complete new system which will enable us to access far more relevant and useful information. I believe it will be a major step forward for the company as the fact I can't give you much information is frustrating and leaves manager's with very little to work on.

- We don't have a formal process of competitor analysis. Benchmarking would help with performance measurement. GPOS development will allow measurement of sales mix.

- In addition to the measures you have used above, we also monitor and report upon the following measures at house level:

  - Volumes, compared to last year and budget; and

  - Income generated on different income streams compared to budget and prior year (income streams being drinks income, property income and other income).

- Like-for-like is not well defined anywhere and is open to abuse. We apply consistent rules but do other companies?

- We do not benchmark against other competitors in a formal manner as we are as much a brewer as a pub company.

- We operate tenant/lease properties and use barrelage figures for comparison and measurement.

- Investment cost per square metre.

- As a managed estate, capital investment [and return on it] is not as vital for us as some of our competitors who hold extensive property portfolios.

- Managed house model will differ from the tenanted model. Outlet net profit to sales is a performance measure I use to assess the performance – net profit can be defined as outlet EBITDA.

- It is extremely difficult to obtain detailed information about competitor's activities and to make any sensible comparisons. The structure of estates, high street branding and location are further factors which impact comparisons. As a privately owned company such comparisons are also largely irrelevant.

- As a small tenanted pub business, many of the measures you describe above do not apply. We measure volume sales per outlet and outlet profitability to monitor individual performance. The three sources of income are discounts from brewers, rent from tenant and a share of gaming machine income.

- Refer to industry performance reviews in hotel industry that collect data and publish it geographically: e.g. BDO Hospitality Hotstats, Deloitte & Touche & PKF publications. Pub industry has nothing like these.

- Our estate is 99% tenanted and managed house performance measures are largely not applicable.

- Need to distinguish between a leased pub operation and a managed house operation. Operational measures are quite different. We compare our information with competitors on any information we can get hold of.

- The company is the landlord of 33 pubs. Our main concern is the return we, as landlords, make on our investment. We are not, therefore, particularly interested in the ‘trading’ performance of individual pubs.

- Our business is the leased pub business – not managed houses – so we look at other measurements of performance: e.g. rent to turnover, tenant’s profit and beer margins.

- Financial management had been poor until my appointment two years ago in respect to the retail estate. P&L’s were produced every six months. However, the installation of EPoS allows information to be analysed quicker and to be used for benchmarking exercises.

- The questionnaire seems to concentrate on managed pubs rather than leased/tenanted. Pub companies could have a mixture of both, and of course the revenue/profit streams are very different in each. We have a tiny number of local pubs; our core business is a brewery. Another important issue in such organisations is the transfer-price of brewery supplied products, as company policy on this can dramatically affect reported results. This is one reason why we don’t do much comparison with the “outside world”, as well as our very small size of estate.

- The estate is free of tie and the key measure is rent/rental growth.

- Profit per pub.

- Different companies sometimes have different ways of measuring key indicators: e.g. like-for-like sales.

- Pub groups can hide all sorts of things in their balance sheets. Last year a number of groups went bust even though their Profit & Loss accounts looked good. This was because they were capitalising everything in order to show a profit when like-for-like sales were between 6% - 10% down. Big mistake. Therefore the only measure I use for comparison is like-for-like sales.

APPENDIX 5

MANAGED PubCo QUESTIONNAIRE

20th June 2005

University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

McMullen & Sons Ltd
The Hertford Brewery
26 Old Cross
Hertford
Hertfordshire
SG14 1RD

Dear Sir/Madam,

I am a doctoral research student from Huddersfield University and I am currently conducting research into the use of performance measures within public house estates.

Performance measurement has been widely covered within the hotel sector but hasn't been studied to the same extent within the licensed retail sector.

My research will be extensive and will result in the development of a model for enhancing a pub company's performance.

I would be very grateful if you could assist me with my research by completing the enclosed questionnaires. A stamped addressed envelope is enclosed for this purpose.

The information supplied will be strictly confidential.

Thank you in advance for your time. I hope you can assist in my research.

If you would like to be kept informed of progress, then I shall be pleased to do so.

Yours sincerely,

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management

Email:

MANAGED PubCo QUESTIONNAIRE

I am currently conducting research into the use of financial and operational performance measures within managed pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many managed public houses do you operate within your estate? [Please mark the appropriate box].

1-25	
26-50	
51-100	
101-250	
251-500	
501-750	
751-1000	
10001-2000	
2001-4000	
4000+	

Q2. Where geographically is your managed public house estate concentrated? [Please mark the appropriate boxes].

South East	
London	
South West	
East Midlands	
West Midlands	
Yorkshire & Humberside	
North West	
North East	
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please mark the appropriate boxes].

Average Weekly Sales	
Average EBITDA	
EBITDA Margins	
Profit per Pub	

Net Profit to Sales	
Gross Margins	
Wages to Sales	
Like-for-Like Sales	
Like-for-Like Profit Growth	
Return on Invested Capital	
Investment per Sq Metre	
Labour Turnover	
Stock Results	
Quality Audits	
Mystery Guest	

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Weekly Sales	
Average EBITDA	
EBITDA Margins	
Profit per Pub	
Gross Margins	
Like-for-Like Sales	
Like-for-Like Profit Growth	
Return on Invested Capital	
Admin Costs to Sales	

Fixed Asset Turns	
Capital Expenditure	
Net Debt	
Return on Capital Employed	
Operational Gearing	
Cashflow	
Interest Cover	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Friday 7th November 2008.

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management
University of Huddersfield

Email:

COMMENTS & SUGGESTIONS RECEIVED

- Key operational measures are profit excluding machine income, GP drink, GP food and labour: sales ratio.
- Barrelage volumes.
- Wine & spirit mix.
- We have only just completed our first year of trading. Therefore, many of the normal financial measures are not yet applicable. Also our financial systems are not all in place yet.
- More detailed questions may provide more specific information, for example, infinancial nformation in order of importance: - sales, GP's, wages in our case.
- As per tenanted sheet.
- We measure takings per staff member per hour to monitor efficiency.
- Thank you very much for your letter received this morning. I'm afraid to say that our organisation does not participate in surveys. It would be worth noting that most of the answers could be on our investor website which you have access to or in our annual report.
- I don't feel we can participate in your survey because the information you are requesting is fairly sensitive which I don't think the company will be prepared to disclose.
- Comparison with quoted PubCo's is difficult because operators manipulate the houses included in/out of last year's figures.
- The effect of transfer prices on pub estates owned by regional brewers.

APPENDIX 6

LEASED/TENANTED PubCo QUESTIONNAIRE

01st April 2006

University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Finance Director
Celtic Inns
C/o Tradeteam
Calmore Industrial Estate
Nursery Lane
Totton
Hampshire
S040 3NB

Dear Sir/Madam,

I am a doctoral research student from Huddersfield University and I am currently conducting research into the use of performance measures within public house estates.

Performance measurement has been widely covered within the hotel sector but hasn't been studied to the same extent within the licensed retail sector.

My research will be extensive and will result in the development of a model for enhancing a pub company's performance,

I would be very grateful if you could assist me with my research by completing the enclosed questionnaires. A stamped addressed envelope is enclosed for this purpose.

The information supplied will be strictly confidential.

Thank you in advance for your time. I hope you can assist in my research.

If you would like to be kept informed of progress, then I shall be pleased to do so.

Yours sincerely,

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management

Email:

LEASED/TENANTED PubCo QUESTIONNAIRE

I am currently conducting research into the use of financial and operational performance measures within leased/tenanted pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many leased/tenanted public houses do you operate within your estate? [Please mark the appropriate box].

1-25	
26-50	
51-100	
101-250	
251-500	
501-750	
751-1000	
1001-2000	
2001-4000	
4000+	

Q2. Where geographically is your tenanted/leased public house estate concentrated? [Please mark the appropriate boxes].

South East	
London	
South West	
East Midlands	
West Midlands	
Yorkshire & Humberside	
North West	
North East	
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please tick the appropriate boxes].

Average Gross Take per Pub	
Average Rent per Pub	
EBITDA Margins	

EBITDAR Margins	
Tenants Profit	
Rent to Turnover	
Annual Growth in Rent	
Rent per Barrel	
Annual Growth in Barrels	
AWP Income	
Beer Margin	
Wholesale Margin	
Tenant Stability	
Return on Invested Capital	

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Gross Take per Pub	
Average Rent per Pub	
EBITDA Margins	
EBITDAR Margins	
Rent per Barrel	
Beer Margin/Wholesale Margin	
Admin Costs to Sales	
Capital Expenditure	
Return on Invested Capital	

Return on Capital Employed	
Net Debt	
Operational Gearing	
Interest Cover	
Cashflow	
Fixed Asset Turns	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Friday 7th November 2008.

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management
University of Huddersfield

Email:

COMMENTS & SUGGESTIONS RECEIVED

- Regret we do not have the facilities to deal with questionnaires.

- The capital structures of various pub companies make top level comparisons difficult. The most revealing measures therefore centre around cash flow as this is the most difficult to manipulate.

- I apologise for the delay in responding to your letter dated 04th October 2008. Unfortunately I can’t assist with your research because we do not discuss our internal financial and operational performance measures with third parties.

- Very difficult to make comparisons when comparing private companies with historical cost values.

- Like-for-Like growth – sales value/percentage.

- At present the main comparisons are houses fully let, houses operated as tenancies at will or houses closed. Pubs supported with rent concessions are another measure along with bad debt.

APPENDIX 7

PUBCO LETTER

31st October 2008

The University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Dear Sir/Madam,

I am a doctoral research student from Huddersfield University and I am currently conducting research into the use of performance measures within public house estates.

Performance measurement has been widely covered within the hotel sector but hasn't been studied to the same extent within the licensed retail sector.

My research will be extensive and will assist in the development of a model for enhancing a pub company's performance.

I would be very grateful if you could assist me with my research by completing the enclosed questionnaire(s). A stamped addressed envelope is enclosed for this purpose and the information supplied will be strictly confidential.

Thank you in advance for your time and I hope you can assist me with my research.

If you would like to be kept informed of progress, then I shall be pleased to do so.

Yours sincerely,

Aidan James

Doctoral Research Student
Department of Logistics & Hospitality Management
University of Huddersfield

Email:

APPENDIX 8

SECONDARY RESEARCH – PubCo's

PubCo	**Measures Deployed**
Brakspear. [2003]	• Operating profit • Group turnover • Cashflow
Burtonwood Brewery plc. [2002 & 2003]	• Operating profit • Operating margin • Sales • Average weekly sales • Cashflow • Return on capital employed • Profit before tax & exceptional items • Gearing • Like-for-like house profit • Capital expenditure • Earnings per share • Debt • Beer volumes • Food sales
Fuller, Smith & Turner plc. [2002]	• EBITDA • Earnings per share • Gearing ratio • Like-for-like • Labour turnover • Dividend per share • Assets per share • Capital investment/capital expenditure • Average weekly turnover per outlet • Beer barrelage & volume growth
Greene King plc. [2001]	• Like-for-like • Average barrelage per tenanted/leased pub • Managed house average turnover per pub • EBITDA • Earnings per share • Capital expenditure • House trading profit • Trading margin • Food sales as a % • Average investment per scheme • Return on capital • Free cashflow

Hardys & Hansons plc. [2002]	• Turnover • Operating profit • Earnings per share • Own beer volumes • Capital expenditure • Cashflow • Food sales %
Inventive Leisure plc. [2002]	• Earnings per share • Gearing • Returns on investment – in excess of 20% • Average weekly turnover • Food sales & margins • Pre-tax profits • Operating profit Capital expenditure/capital investment • Margins • Like-for-like • EBITDA • Net debt • Turnover
JD Wetherspoon plc. [2002, 2003a & 2003b]	• Earnings per share • Cashflow/free cashflow • Operating margins • Labour turnover • Capital investment/expenditure • Gearing • Average weekly sales • Like-for-like sales • Like-for-like profit • Food sales - % of revenue • Cash profit per pub
Jennings Brothers plc. [2002 & 2003]	• Earnings per share • Net debt • Operating margin • Like-for-like • Volume sales of own produced beer % • Return on capital employed • Gearing
Pubs 'n' bars plc. [2002]	• Net assets per share • EBITDA • Like-for-like

	• Net debt
Punch Taverns plc. [2002 & 2003a & 2003b]	• Turnover • Earnings per share • Return on capital • EBITDA • Operating profit • Operating profit growth – short & long term • Like-for-like • Like-for-like pub contribution/growth • EBIT • Gross profit • Gross margin • Net debt • Return on investment – 30% • Return on assets • PBT – profit before tax
Regent Inns plc. [2002 & 2003]	• Turnover • Pre-tax profit • Dividends per share • Gearing • EBITDA • Sales • Operating profit • Earnings per share • Capital expenditure • Gross weekly sales – average • Return on capital – 28% for new openings • Net debt • Average weekly sales • Venue profitability • Operating margins • Operating profit margin
Scottish & Newcastle plc. [2003]	• Like-for-like • Earnings per share • Return on invested capital • Operating margin • Cashflow • Return on investment • Operating profit • Net debt • Average sales per outlet • Return on assets

SFI Group plc. [2002]	• Turnover • Profit before tax • Earnings per share • Like-for-like • Retail margins • Cashflow • Average weekly sales • Return on capital – 30% • EBITDA • EBITDA per site • Gearing • Gross margins
Six Continents plc. [2001a & 2001b]	• Operating profits • Average sales per outlet • Operating margins • Earnings per share • Return on capital • Cashflow • Sales mix - % • Capital expenditure • Like-for-like
Yates Group plc. [2002 & 2003]	• Like-for-like sales • Gross margin/margins • Average weekly sales • Debt • Earnings per share • Cashflow • Gearing • Returns on investment • Capital expenditure – 20% - 30% return • Sales • Operating margin • Operating profit
Wolverhampton & Dudley Breweries plc. [2001]	• Like-for-like • Earnings per share • Average weekly sales • Operating profit • Operating margin • Net debt • Net assets • Return on capital

	• Return on capital employed • Return on incremental capital • Food sales as a % of retail sales • Average volume (barrels) per pub per year • Rent per barrel • EBITDA/turnover margin • Capital investment

APPENDIX 9

SECONDARY RESEARCH – FINANCIAL ANALYSTS

Source	**Measures Deployed**
Deutsche Bank. [2001]	• PBT [£m] • EPS [p] • EPS Growth [%] • P/E [x] • EV/EBITDA [x] • DPS [p] • Operational Gearing • Interest Cover • EV per pub • Depreciation • EV/Sales • EV/EBDIT [x] • EV/EBIT [x] • Market capitalisation/Enterprise value • EBIT • Cashflow • WACC • Like-for-like growth • Capital pending • ROCE • Debt-to-EBITDA • Yeld • Net debt
Deutsche Bank. [2002a]	• CEPS • Pre-tax profits [£m]
Deutsche Bank. [2002b]	• CAGR • Sales/Sales growth [%] • EBDIT • EBITDA growth [%] • ROI • Balance sheet • EBITA
Deutsche Bank. [2002e]	• PBT • EBIT growth [%] • EPS • EPS growth [%] • Cash EPS • Cash EPS growth [%] • Net dividend • EV/Sales

	• EV/EBDIT [x] • EV/EBIT [x] • P/E [x] • Cash P/E • Net yield
Deutsche Bank. [2003a]	• Bps • Average weekly sales [£] • EBIT margin • EBITDAR • Capex • Retail EBIT [£m]

APPENDIX 10

FINANCIAL ANALYST CONTACT LIST

Organisation	**Analyst**
ABN-AMRO	Nick Thomas +44 (0) 20 76787572 nicholas.thomas@uk.abnamro.com
Citigroup Smith Barney	Ivor Jones +44 (0) 20 7986 4079 ivor.jones@citigroup.com
CSFB	Tassos Stassopoulos +44 (0) 20 7888 0333 tassos.stassopoulos@csfb.com
Deutsche Bank	Geof Collyer +44 (0) 20 7547 5325 geof.collyer@db.com
Dresdner Kleinwort Wasserstein	James Ainley +44 (0) 20 7475 1634 james.ainley@DRKW.com
Goldman Sachs	Patrick Hargreaves +44 (0) 20 7552 5003 Patrick.hargreaves@gs.com
Investec	James Wheatcroft +44 (0) 20 7597 5308 james.wheatcroft@investec.co.uk
Merrill Lynch	Ian Rennardson +44 (0) 20 7996 4748

	ian_rennardson@ml.com
Panmure Gordon	Douglas Jack +44 (0) 20 7187 2392 Douglas.jack@lazard.com
Teather & Greenwood	Nigel Popham +44 (0) 20 426 9082 Nigel.popham@teathers.com
UBS Warburg	Julian Easthope +44 (0) 20 7568 1964 julian.easthope@ubsw.com
Williams de Broe	Nigel Parson +44 (0) 20 7898 2515 Nigel.parson@wdebroe.com

Source: Mitchells & Butlers [2003]

APPENDIX 11

FINANCIAL ANALYST QUESTIONNAIRE

30th June 2004

University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Dear Sir/Madam,

I am a doctoral research student from Huddersfield University and I am currently conducting research into the use of performance measures within both managed and tenanted pub estates.

Performance measurement has been widely covered within the hotel sector, but has not as yet been studied to the same extent within the licensed retail sector.

My research will be extensive and will result in the development of a model for enhancing a pub company's performance.

I would be very grateful if you could assist me with my research by completing the attached questionnaire. I would be grateful if you could return the completed questionnaire either by post or email.

The information supplied will be strictly confidential.

Thank you in advance for your time. I hope you can assist in my research.

Yours Sincerely,

Aidan James

Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

FINANCIAL ANALYST QUESTIONNAIRE

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. Which financial and operational performance measures are commonly used to measure the performance of individual public houses/districts of public houses? [Please mark the appropriate boxes].

Average Weekly Sales	
Average EBITDAR	
EBITDA Margins	
EBITDAR Margins	
Wages to Sales	
Like-for-Like Sales	
Like-for-Like Profit Growth	
Return on Invested Capital	
Trading Profit	
Stock Results	
Mystery Guest	
Quality Audits	
Labour Turnover	
Sales Mix	

Q2. Which financial and operational performance measures do you use to compare the performance of pub companies? [Please mark the appropriate boxes].

Average Weekly Sales	

EBITDA Margins	
EBITDAR Margins	
Wages to Sales	
Depreciation to Sales	
Like-for-Like Sales	
Like-for-Like Profit Growth	
Return on Invested Capital	
Average EBITDAR	
Admin Costs to Sales	
Fixed Asset Turns	
Capital Expenditure	
Net Debt	
Return on Capital Employed	
Operational Gearing	
Interest Cover	
Cashflow	

Q3. Please provide any additional information or comments which you feel may assist me in the development of an industry specific performance measure?

Q4. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire by either email or post for Monday July 19th 2004.

Mr Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

APPENDIX 12

FINANCIAL ANALYST RESPONSES

FINANCIAL ANALYST QUESTIONNAIRE (ABN AMRO)

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. Which financial and operational performance measures are commonly used to measure the performance of individual public houses/districts of public houses? [Please mark the appropriate boxes].

PubCo's in my view should look at all of these, but with varying levels of importance.

Average Weekly Sales	Yes
Average EBITDAR	Yes
EBITDA Margins	Yes
EBITDAR Margins	Yes
Wages to Sales	Yes
Like-for-Like Sales	Yes
Like-for-Like Profit Growth	Yes
Return on Invested Capital	Yes
Trading Profit	Yes
Stock Results	Yes
Mystery Guest	Yes
Quality Audits	Yes
Labour Turnover	Yes
Sales Mix	Yes

Q2. Which financial and operational performance measures do you use to compare the performance of pub companies? [Please mark the appropriate boxes].

I do look at all of these, but many are not that useful for comparison, e.g. a low average weekly sales pubco can still be a very good pubco. I've marked the ones I find most useful for comparing performance.

Average Weekly Sales	
Average EBITDAR	
EBITDA Margins	
EBITDAR Margins	
Wages to Sales	
Depreciation to Sales	
Like-for-Like Sales	Yes, but must consider in conjunction with margin.
Like-for-Like Profit Growth	Yes – far more important than lfl sales but rarely disclosed.
Return on Invested Capital	Yes – very important valuation measure.
Admin Costs to Sales	

Q3. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure?

At the moment, most pubco's report like-for-like sales growth as the best indicator of trading trends. This raises several problems:

How to define like for like. Some companies exclude a large tail of pubs which they plan to dispose. Should you include pubs which have benefited from refurbishment expenditure? There is no industry standard so comparability is low.

The Like-for-like sales measure is not the same as like-for-like profit. Some pubco's achieve impressive sales growth but at the expense of margin e.g. Mitchells & Butlers, JD Wetherspoon.

Two key things drive value growth for pubco's (probably true in most industry's): -

Like-for-like profit growth, i.e. sweat existing assets harder without investing (other than maintenance capex or depreciation).

Generating good returns (ahead of WACC) on capital expenditure, whether this be new site acquisitions or improvement capex on existing pubs.

While the P&L account provides the main basis for performance comparison, remember that it is cash generation which is the key. Some pubco's have a far more prudent depreciation policy than others, thus depressing profit.

Q4. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Nick Thomas Leisure Analyst ABN AMRO Bank I would be interested to be kept informed of progress.

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire either by post or email for Monday November 16th 2004.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

FINANCIAL ANALYST QUESTIONNAIRE (Deutsche Bank)

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. Which financial and operational performance measures are commonly used to measure the performance of individual public houses/districts of public houses? [Please mark the appropriate boxes].

Average Weekly Sales	Yes
Average EBITDAR	Yes
EBITDA Margins	Yes
EBITDAR Margins	
Wages to Sales	Yes
Like-for-Like Sales	Yes, but which definition?
Like-for-Like Profit Growth	Yes
Return on Invested Capital	Yes
Trading Profit	Yes
Stock Results	More a way of getting rid of managers
Mystery Guest	Yes
Quality Audits	Yes
Labour Turnover	Yes
Sales Mix	Yes

Q2. Which financial and operational performance measures do you use to compare the performance of pub companies? [Please mark the appropriate boxes].

Average Weekly Sales	Yes
Average EBITDAR	Yes

EBITDA Margins	No
EBITDAR Margins	Yes
Wages to Sales	Yes
Depreciation to Sales	Yes
Like-for-Like Sales	Yes, but which definition?
Like-for-Like Profit Growth	Yes
Return on Invested Capital	Yes
Admin Costs to Sales	Yes

Q3. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure?

If you can come up with an all-encompassing definition of like-for-like sales, it would be a start. A new trend to like-for-like sales on uninvested and invested basis, plus total sales growth is a better way. I favour looking at the 'annual R&M via P&L' and 'maintenance capex spend via b/s' added together. Any pub that has had more than this amount spent should be excluded from the like-for-like sample. This would remove the squabbling amongst the pub companies many of which claim that their definition is the true one.

On average, the two amounts added together tend to come to c.5% of turnover. This would adjust for the difference in average sales per site – i.e. JDW spends 5% consistently on its pubs as does M&B, yet 5% of sales is £60/- for JDW but just over half of that for M&B. There are however, at least 20 ways of fiddling the like-for-like stats!

It can also be used to adjust for the age [old scam of shifting revenue spend into the b/s from the p/l in order to hit PBT targets]. For some groups, this has been a form of systematic abuse, for others, it has been a self inflicted wound – e.g. If JDW had maintained its R&M spend as a % of sales over the past 4 years instead of moving more into revenue than capital, its PBT would be 18% higher.

Not sure how you would do it, but trying to ex-out promotional spend would also be a good start – it can be material, yet no one volunteers the information.

Q4. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Geoff Collyer, Deutsche Bank Pub Analyst Please keep me informed of how things progress.

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire for Monday 19th July 2004.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

FINANCIAL ANALYST QUESTIONNAIRE (Goldman Sachs)

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. Which financial and operational performance measures are commonly used to measure the performance of individual public houses/districts of public houses? [Please mark the appropriate boxes].

Average Weekly Sales	Yes
Average EBITDAR	
EBITDA Margins	Yes
EBITDAR Margins	
Wages to Sales	Yes
Like-for-Like Sales	Yes
Like-for-Like Profit Growth	Yes
Return on Invested Capital	Yes
Trading Profit	Yes
Stock Results	?
Mystery Guest	
Quality Audits	
Labour Turnover	
Sales Mix	Yes

Q2. Which financial and operational performance measures do you use to compare the performance of pub companies? [Please mark the appropriate boxes].

Average Weekly Sales	Yes
Average EBITDAR	

EBITDA Margins	Yes
EBITDAR Margins	
Wages to Sales	Yes
Depreciation to Sales	
Like-for-Like Sales	Yes
Like-for-Like Profit Growth	Yes
Return on Invested Capital	Yes
Admin Costs to Sales	

Q3. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure?

Given the (low) level of financial data we're typically given by the PubCos, question 1 is not particularly relevant.

Our major focus at the moment is ROIC (and variations, particularly CROCCE) – both on the whole estate and, where relevant, on incremental capex.

Q4. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Patrick Hargreaves, Pan European leisure analyst at Goldman Sachs.

Please feel free to send through any results that may be of interest.

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire either by post or email for Monday November 15th 2004.

Aidan James
Doctoral Research Student
University of Huddersfield

Email:

PANMURE GORDON

Given our focus on financial performance we do not examine issues such as productivity (e.g., sales or profit/employee) or volume-related metrics (e.g., sales/cover). This is often due to a lack of regular disclosure by the companies in our coverage. Instead, we try and separate the operational performance from financing and capital structure variables. So, with these caveats in mind, the following are relevant. Please note that these are not necessarily calculated on a continuous basis but depends largely on the reports we write and (in some instances) our awareness of the metric. You should also note that financial metrics are also prone to fashion life cycles – for example, the p/e was out of favour for most of the late 1990s – it now seems to have made a return to favour in some quarters.

Operational

- Average weekly sales/unit & % changes.
- Average EBITDAR/unit and % changes.
- EBITDA margins and EBITDAR margins.
- Wages to sales.
- Depreciation to sales.
- Like-for-like sales and like-for-like profit growth.
- Return on invested capital.
- Incremental ROIC.
- Incremental returns (change in EBIT or EBITDAR/capex).
- Sales mix changes.
- Administration costs to sales.
- Working capital management (e.g., stock days etc).
- Fixed asset turns.
- Capital expenditure/unit.
- Cash generation.

Capital Structure (for enterprise value & WACC calculations)

- Interest cover relative to covenants.
- Fixed cover (i.e., treating rent like debt).
- Debt/equity (including operating leases).
- Free cash-flow.

Value-based Metrics (helping with stock valuation)

- EVA.
- Sustainable sales growth.
- Residual income.
- CROCCE.
- CFROI.
- Threshold margins.

Others

- EPS/EPS growth.
- Dividend: pay-out ratio.

APPENDIX 13

PUBCO PARTICIPATION LETTERS & INTERVIEW SCHEDULE

19th June 2003

The University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Dear Sir/Madam,

I am a doctoral research student from Huddersfield University and I am currently conducting research into the use of performance measures within both managed and tenanted pub estates.

Performance measurement has been widely covered within the hotel sector but hasn't been studied to the same extent within the licensed retail sector.

The research I am conducting will be extensive and will result in the development of a model for enhancing performance. The research will be specific to the licensed retail sector and will cover managed, independent and regional operators.

In order to progress with the research, I am seeking assistance from managed, regional and independent operators.

I was wondering whether it would be possible for me to interview your finance and strategy directors.

The information supplied would be strictly confidential and wouldn't in any way be passed on to a competitor.

I would acknowledge your assistance by supplying you with the results of the study and if requested, I would be more than willing to present the results of the study to your board on its completion.

I would be extremely grateful for any support or assistance you could provide.

Yours sincerely,

Aidan James
Doctoral Research Student
University of Huddersfield

Email:

19th April 2004

The University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Dear Sir,

I am writing regarding my PhD research study on the use of performance measures within the licensed retail sector.

I am currently making progress on identifying the measures that are commonly used throughout the sector and hope to be in a position to conduct primary research over the coming months.

I would be extremely grateful if you could confirm by letter whether you are still interested in participating with the study. A stamped addressed envelope is enclosed for this purpose. I would also be grateful if you could specify the level of involvement you are prepared to provide, i.e. interviews, shadowing key personnel, etc.

I also currently work for Holiday Inn as a junior manager and I would also be grateful if you could provide documentary assurance that you are aware of my work role as the study is likely to deal in confidential commercial information that might be shared with a neutral researcher but not with an employee of a rival organisation.

I would also be grateful if you could complete the enclosed questionnaire on performance measures.

I hope to be in a position to visit collaborating companies during the summer and will provide more details in due course.

Yours sincerely,

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management
University of Huddersfield

Email:

INTERVIEW SCHEDULE

Explain the purpose of both the research and the interview and explain to the interviewee that you anticipate that the interview will last no longer than one hour.

1) Can we start with you telling me about your role in the company?

How long have you worked with the company and what are your responsibilities?

What are your particular areas of interest within the company?

2) Could you please provide an historical overview of your company?

How many pubs do you operate and how many pubs to a district?

Could you explain your organisational structure and the roles that the management team have?

How would you describe the culture of your organisation?

3) Which financial and operational performance measures do you use to measure the performance of individual pubs?

4) Which financial and operational performance measures do you use to measure the performance of districts/areas of pubs?

5) Which financial and operational performance measures do you use at the corporate level?

6) Would your organisation be willing to participate with the development of an industry specific Balanced Scorecard and if so to what extent?

APPENDIX 14

AVEBURY TAVERNS – PRIMARY RESEARCH

PubCo Questionnaire

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many public houses do you operate within your estate? [Please mark the most appropriate box}.

1-25	
26-50	
51-100	
101-250	
251-500	
501-750	➢
751-1000	
1001-2000	
2001-4000	
4001+	

Q2. Where geographically is your public house estate concentrated? [Please mark the appropriate boxes].

East Anglia	
South East	➢
London	➢
South West	
East Midlands	➢
West Midlands	➢
Yorkshire & Humberside	➢
North West	➢
North East	➢
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please tick the appropriate boxes].

Average Weekly Sales	
Average EBITDAR	➢
EBITDA Margins **EBITDAR Margins**	
Wages to Sales	
Like-for-Like Sales **Like-for-Like Profit Growth**	➢
Return on Invested Capital	➢
Trading Profit	
Stock Results	
Mystery Guest	
Quality Audits	
Labour Turnover	
Sales Mix	➢

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Weekly Sales	
Average EBITDAR	➢
EBITDA Margins **EBITDAR Margins**	
Wages to Sales	
Depreciation to Sales	
Like-for-Like Sales **Like-for-Like Profit Growth**	➢

Return on Invested Capital	➢
Admin Costs to Sales	
Fixed Asset Turns	
Capital Expenditure	
Net Debt	
ROCE	
Operational Gearing	
Interest Cover	
Cashflow	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Questionnaire is biased towards managed pubs. Avebury works with its tenants/lessees to grow through increased volumes of beer, increased machine usage and food sales, which in turn increases the rent that Avebury can charge.

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Ian Frost [Commercial Director]

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Monday 02nd May 2005.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield

Email:

Leased/Tenanted Questionnaire

I am currently conducting research into the use of financial and operational performance measures within leased/tenanted pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many leased/tenanted public houses do you operate within your estate? [Please mark the appropriate box].

1-25	
26-50	
51-100	
101-250	
251-500	
501-1000	✓
1001-2000	
2001-4000	
4001+	

Q2. Where geographically is your tenanted/leased public house estate concentrated? [Please mark the appropriate boxes].

East Anglia	
South East	✓
London	✓
South West	
East Midlands	✓
West Midlands	✓
Yorkshire & Humberside	✓
North West	✓
North East	✓
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please tick the appropriate boxes].

Average Gross Take per Pub	
Average Rent per Pub	✓
EBITDA Margins	
EBITDAR Margins	
Tenants Profit	
Rent to Turnover	✓
Annual Growth in Rent	✓
Rent per Barrel	✓
Annual Growth in Barrels	✓
AWP Income	✓
Beer Margin **Wholesale Margin**	
Tenant Stability	
Return on Invested Capital	✓

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Gross Take per Pub	
Average Rent per Pub	✓
EBITDA Margins	
EBITDAR Margins	✓
Rent per Barrel	✓

Beer Margin **Wholesale Margin**	✓
Admin Costs to Sales	
Capital Expenditure	✓
Return on Invested Capital	✓
ROCE	✓
Net Debt	
Operational Gearing	
Interest Cover	
Cashflow	
Fixed Asset Turns	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Ian Frost [Commercial Director]

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Monday 30th May 2005.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield

Email:

APPENDIX 15

GREENE KING – PRIMARY RESEARCH

<u>PubCo Questionnaire</u>

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many public houses do you operate within your estate? [Please mark the most appropriate box].

1-25	
26-50	
51-100	
101-250	
251-500	
501-750	➢ [Managed]
751-1000	
1001-2000	➢ [Tenanted & Leased]
2001-4000	
4000+	

Q2. Where geographically is your public house estate concentrated? [Please mark the appropriate boxes].

South East	➢ [Managed & Tenanted]
London	➢ [Managed & Tenanted]
South West	➢ [Managed & Tenanted]
Wales	
East of England	
East Midlands	
West Midlands	
Yorkshire	
North West	
North East	➢ [Managed]
Scotland	➢ [Managed]
Other	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please tick the appropriate boxes].

Average Weekly Sales	➢
Average EBITDAR	➢ [Company Level]
EBITDA Margins **EBITDAR Margins**	➢ Food GP% ➢ Liquor GP%

	➢ Accommodation % ➢ Machines
Wages to Sales	➢
Like-for-Like Sales/Like-for-Like Profit Growth	➢
Return on Invested Capital	
Trading Profit	➢
Stock Results	➢
Mystery Guest	➢ Not all
Quality Audits	➢
Labour Turnover	➢ At divisional level
Sales Mix	➢ For analysis, not performance

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Weekly Sales	➢ Where available & published
Average EBITDAR	➢ Where available & published
EBITDA Margins **EBITDAR Margins**	
Wages to Sales	➢
Depreciation to Sales	
Like-for-Like Sales/Like-for-Like Profit Growth	➢
Return on Invested Capital	➢
Admin Costs to Sales	➢
Fixed Asset Turns	
Capital Expenditure	
Net Debt	

ROCE	➢ City level, not PubCo
Operational Gearing	➢ City level, not PubCo
Interest Cover	➢ City level, not PubCo
Cashflow	➢ City level, not PubCo

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

- We study economic profit at both house and corporate levels.
- EBITDA/R is a company measure, at house level we measure BOP [Branch Operating Profit] before HQ costs.

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Adam Collett
Marketing Director
Greene King Pub Company

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Monday 5th April 2004.

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

25th February 2005

University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Mr Adam Collett
Marketing Director
Greene King Pub Company
Abbot House
PO Box 337
Bury St. Edmunds
Suffolk
IP33 1QW

Dear Mr Collett,

You may recall meeting and assisting me last year with my PhD on the use of performance measures within the licensed house sector.

I am still in the process of collecting data and I have developed two further questionnaires in order to collect specific data relating to both managed and leased/tenanted pub estates.

I would be very grateful if you could assist me with my research by completing the enclosed questionnaires. A stamped addressed envelope is enclosed for this purpose.

I would also be extremely grateful if you could supply me with any further information on the performance measures used within the Pub Company, especially those used by Laurel. The information supplied would be strictly confidential.

Thank you in advance for your time. I hope that you can assist me with my research.

Yours Sincerely,

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
HD1 3DH

Email:

MANAGED PubCo QUESTIONNAIRE

I am currently conducting research into the use of financial and operational performance measures within managed pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many managed public houses do you operate within your estate? [Please mark the appropriate box].

1-25	
26-50	
51-100	
101-250	
251-500	
501-750	
751-1000	➢
1001-2000	
2001-4000	
4001+	

Q2. Where geographically is your managed public house estate concentrated? [Please mark the appropriate boxes].

South East	➢
London	➢
South West	➢
East Midlands	➢
West Midlands	➢
Yorkshire & Humberside	
North West	
North East	
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please mark the appropriate boxes].

Average Weekly Sales	➢
Average EBITDA	➢
EBITDA Margins	

Profit per Pub	➢
Net Profit to Sales	
Gross Margin	
Wages to Sales	➢
Like-for-Like Sales	➢
Like-for-Like Profit Growth	➢
Return on Invested Capital	➢
Investment per Sq Metre	
Labour Turnover	
Stock Results	
Quality Audits	➢
Mystery Guests	➢

Q4. Which financial and operational performance measures do you use to compare your performance with that of your fellow operators? [Please mark the appropriate boxes].

Average Weekly Sales	➢
Average EBITDA	➢
EBITDA Margins	
Profit per Pub	
Gross Margins	
Like-for-Like Sales	➢
Like-for-Like Profit Growth	➢
Return on Invested Capital	➢
Admin Costs to Sales	

Fixed Asset Turns	
Capital Expenditure	
Net Debt	➢
Return on Capital Employed	➢
Operational Gearing	➢
Cashflow	
Interest Cover	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

- Adam Collett, Marketing Director
- No, please do not inform of progress

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Monday 28th March 2005.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

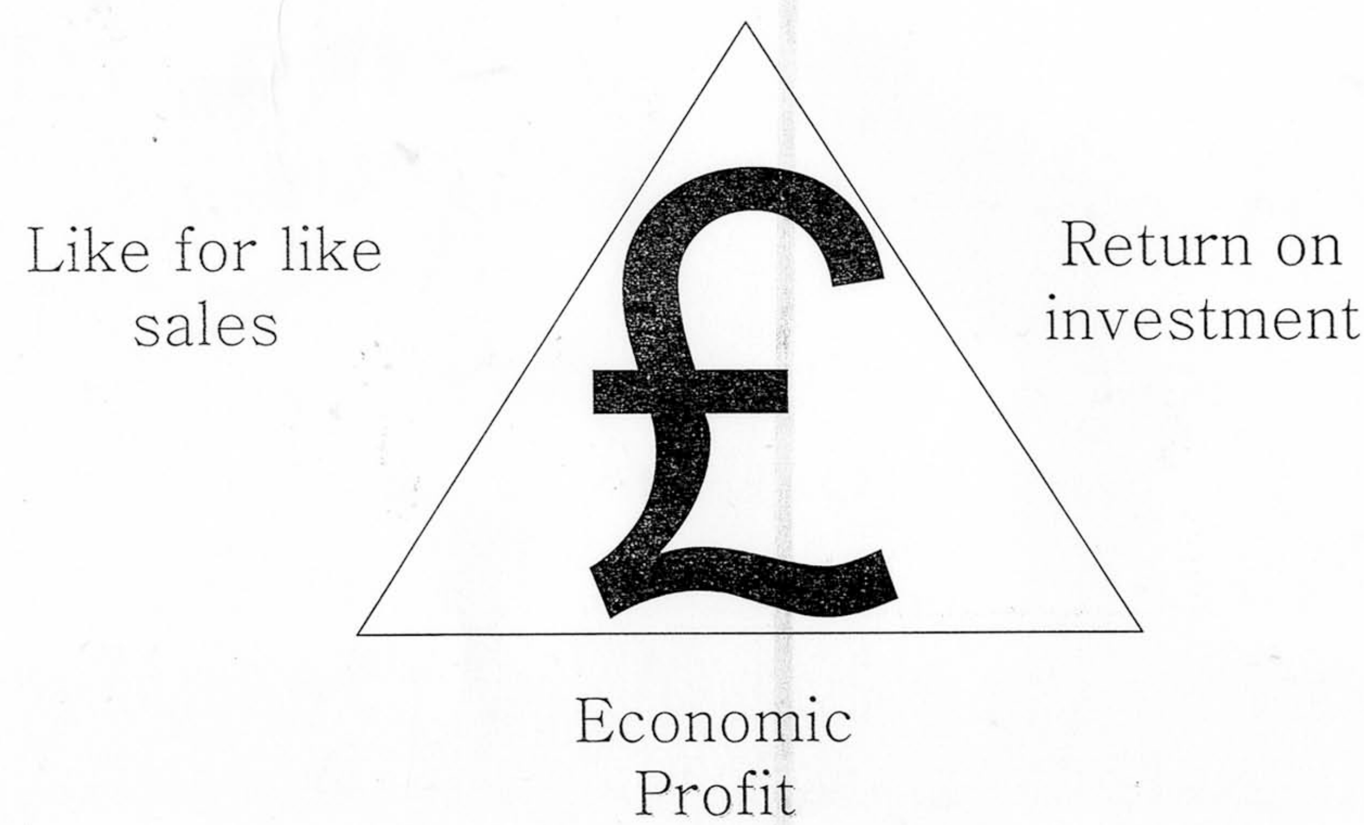
APPENDIX 16

GREENE KING PRESENTATION

Measurement of performance

Greene King Pub Company
VOTED BRITAIN'S BEST PUBS
2 Years Running!
Publican 2003 Publican 2002

The "Holy Trinity"



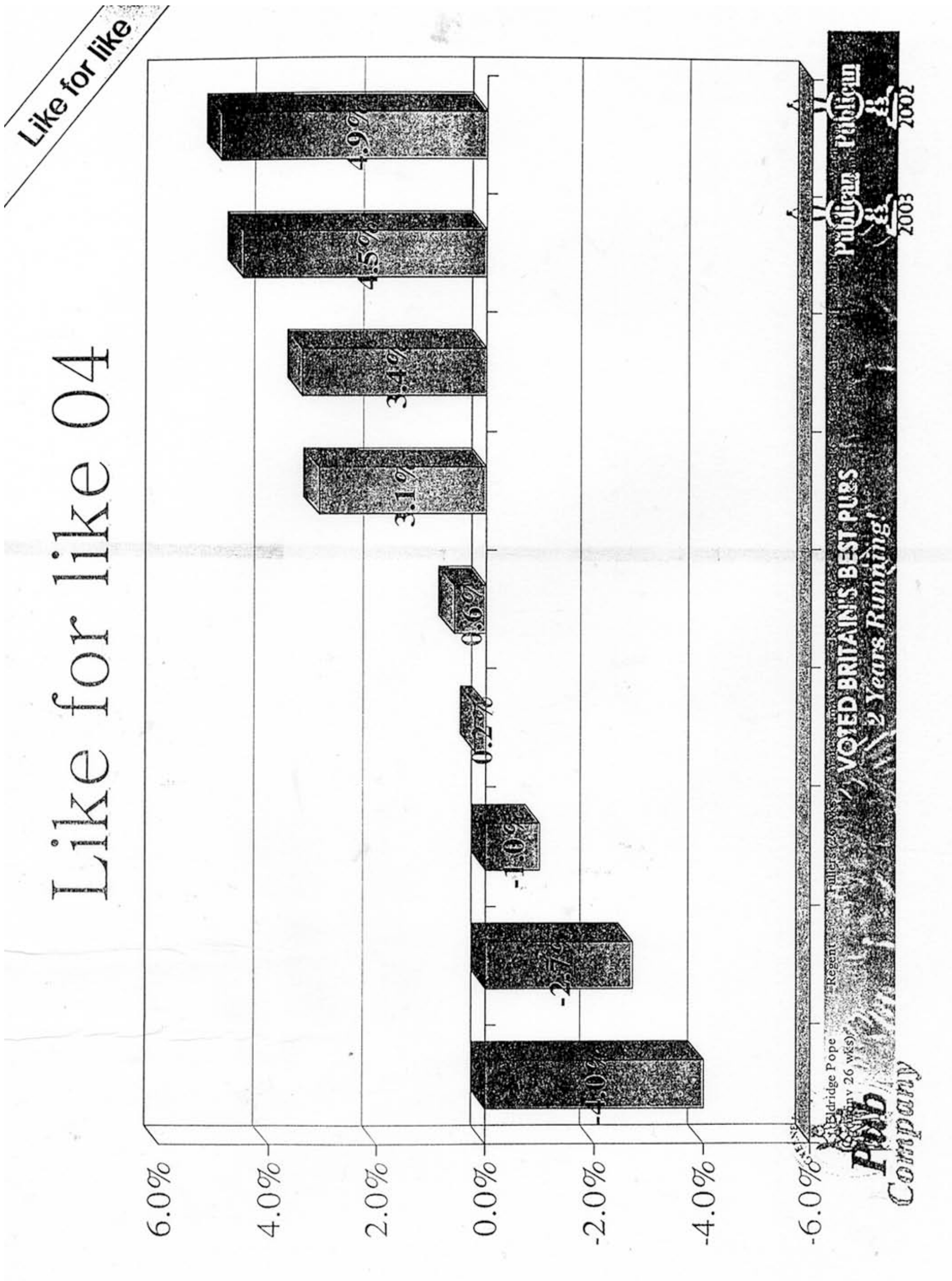
Like for like

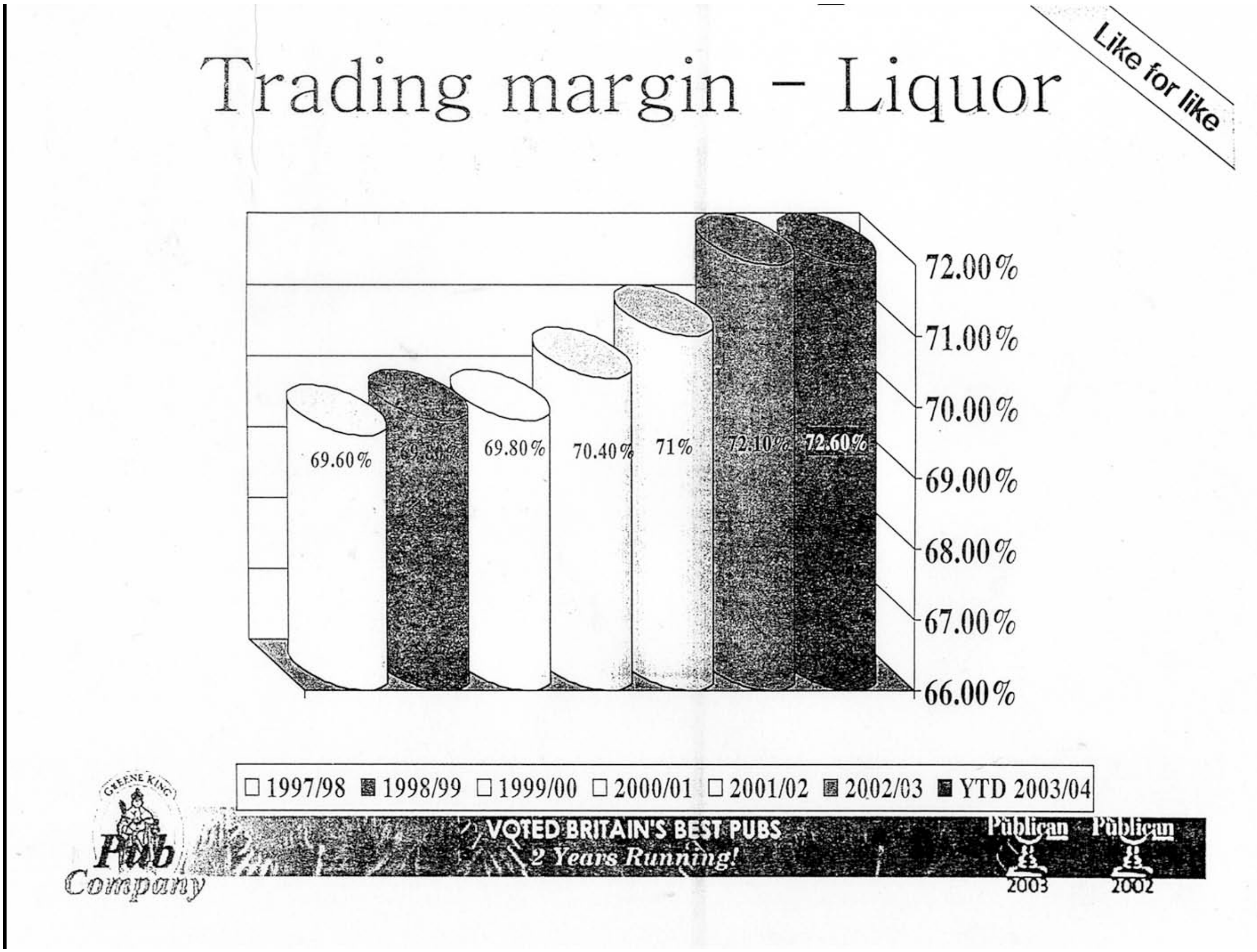
Transactions X Spend

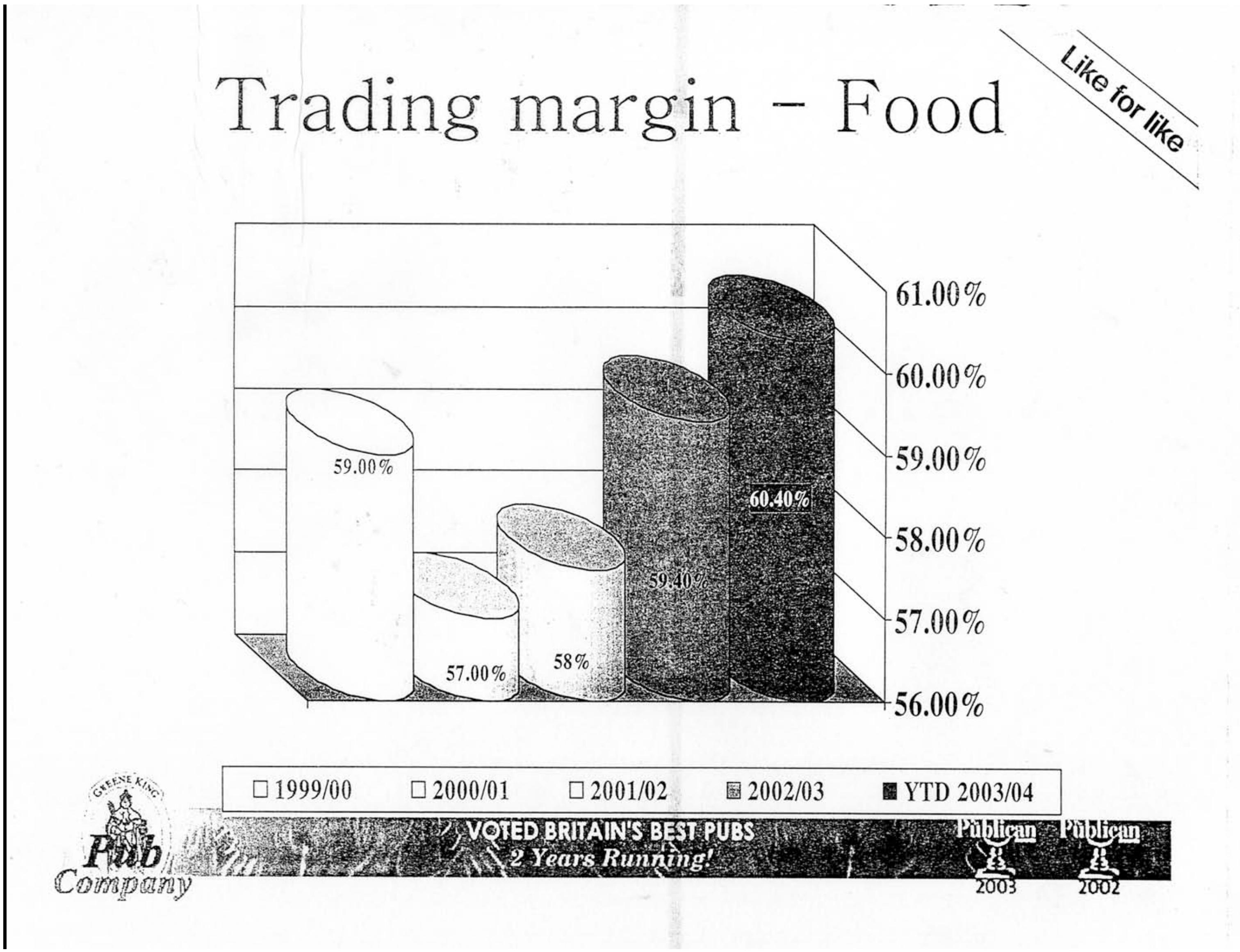
GREENE KING Pub Company

VOTED BRITAIN'S BEST PUBS
2 Years Running!

Publican 2003 Publican 2002


Like for like
Like for like 04
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
-6.0%
-4.0%
-2.7%
-1.0%
0.2%
0.6%
3.1%
3.4%
4.5%
4.9%
Eldridge Pope
Regent
VOTED BRITAIN'S BEST PUBS
2 Years Running!
Publican
2003
Publican
2002
Pub Company


Trading margin – Liquor
Like for like
69.60%
69.80%
70.40%
71%
72.10%
72.60%
72.00%
71.00%
70.00%
69.00%
68.00%
67.00%
66.00%
□ 1997/98 ■ 1998/99 □ 1999/00 □ 2000/01 □ 2001/02 ■ 2002/03 ■ YTD 2003/04
GREENE KING
Pub Company
VOTED BRITAIN'S BEST PUBS
2 Years Running!
Publican
2003
Publican
2002



Trading margin - Food
Like for like
61.00%
60.00%
59.00%
58.00%
57.00%
56.00%
59.00%
57.00%
58%
59.40%
60.40%
1999/00
2000/01
2001/02
2002/03
YTD 2003/04
GREENE KING
Pub Company
VOTED BRITAIN'S BEST PUBS
2 Years Running!
Publican 2003
Publican 2002

R.O.I.

ROI (£'000s)

	Capital	Incremental Profit	ROI
Real Pubs	2,400	336	42%
High Street	3,400	7	1%
Inns & Hotels	7,106	248	10%
Hungry Horse	4,511	401	18%
	17,400	992	14%

GREENE KING

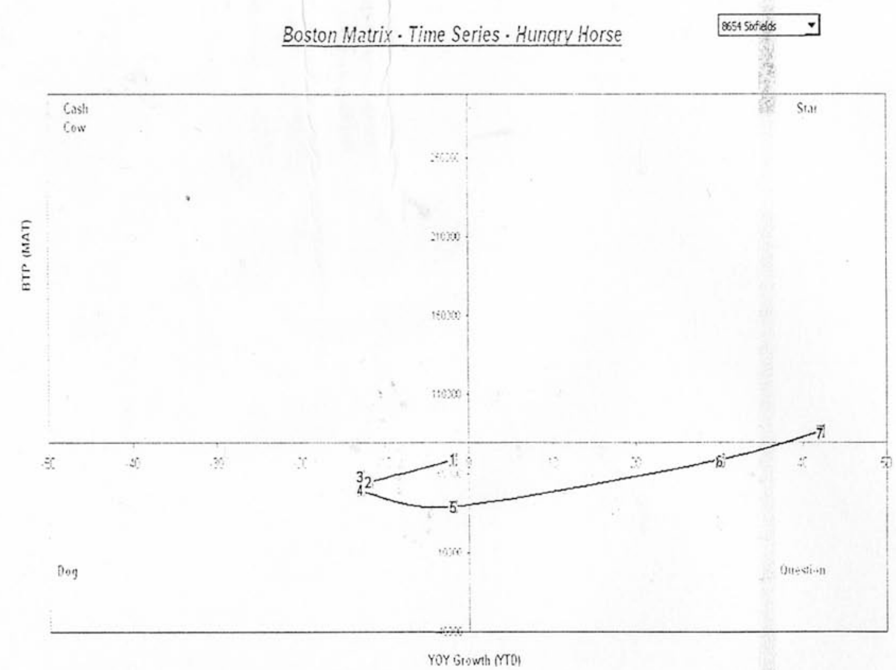
Eco. Profit

Performance (£'millions)

	Actual	Last Year
Liquor	134.4	132.5
Food	73.8	70.8
Other	13.9	13.4
Machines	9.5	10.3
Trading Profit	39.9	37.1
Economic Profit	2.8	1.2

GREENE KING

Sixfields – Good turnaround



Profit seems to be directly correlated to sales. There has been a huge increase in sales which has converted into profit.

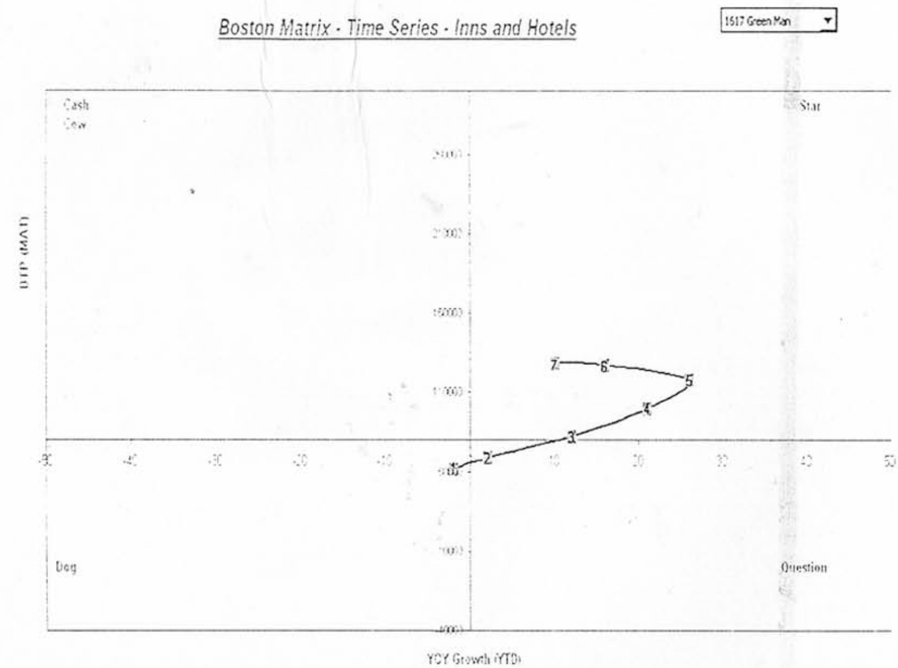
So What Now??

Sales =profit in this business, so better conversion perhaps needed. Must be careful as a sales decline could mean a return to the bottom quadrant.

Greene King Pub Company
VOTED BRITAIN'S BEST PUBS
2 Years Running!
Publican 2003 Publican 2002

Green Man, Ringmer – from Dog to Star

Boston Matrix - Time Series - Inns and Hotels



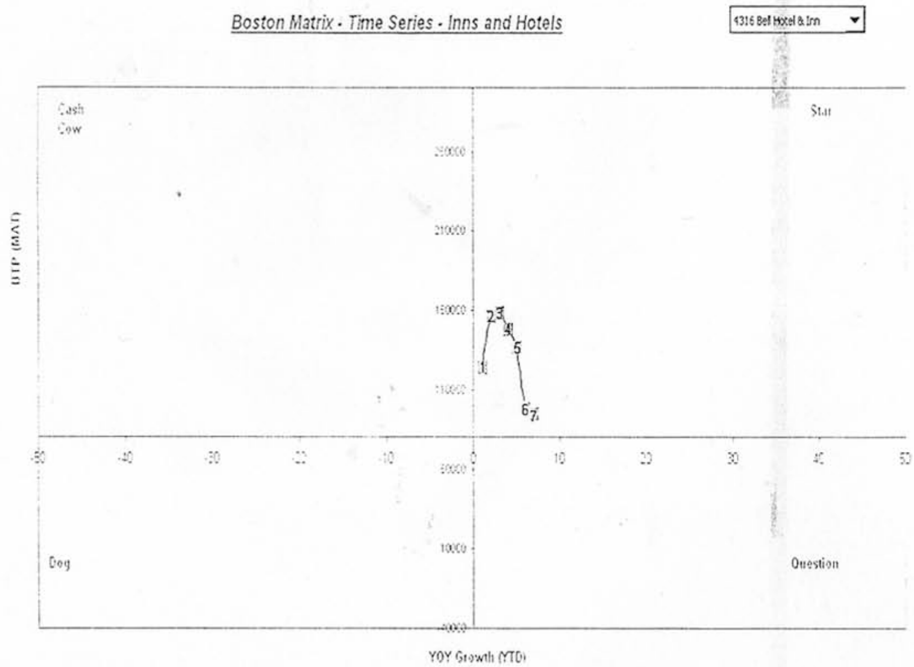
This business has been able to grow profit along with sales growth and maintain it when sales started to slow

So What Now??

Maintain profit - perhaps becoming cyclical around the cash cow/star quadrants.

Greene King Pub Company
VOTED BRITAIN'S BEST PUBS 2 Years Running!
Publican 2003 Publican 2002

Bell Hotel, Woburn – where's the profit

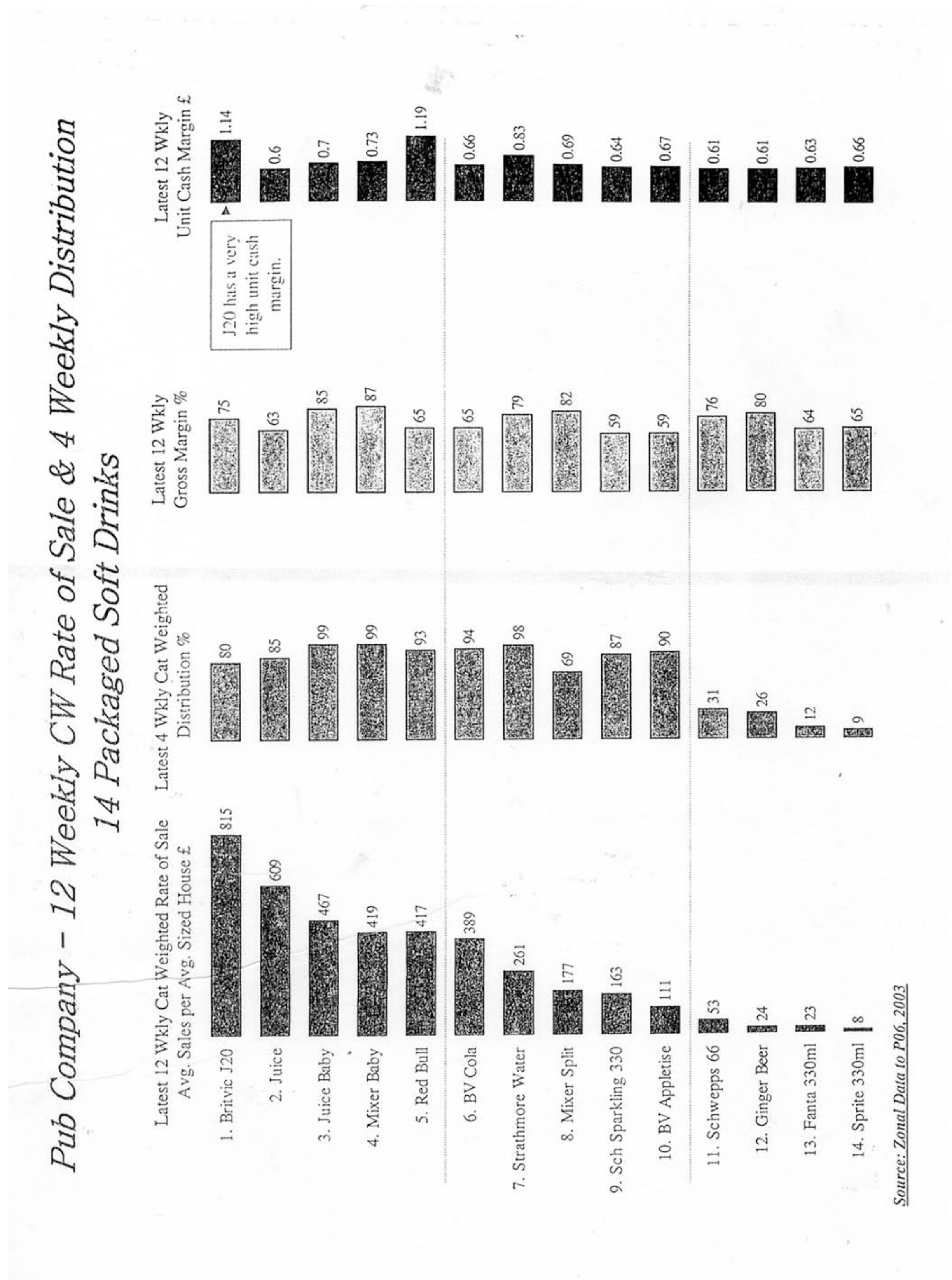


YOY sales growth is increasing - but where is the profit??

So What Now??

Conversion is needed or this will fall into the "question quadrant". If sales then decline - this business will become a dog!!

Greene King Pub Company
VOTED BRITAIN'S BEST PUBS 2 Years Running!
Publican 2003 Publican 2002


Pub Company – 12 Weekly CW Rate of Sale & 4 Weekly Distribution
14 Packaged Soft Drinks
Latest 12 Wkly Cat Weighted Rate of Sale Avg. Sales per Avg. Sized House £
Latest 4 Wkly Cat Weighted Distribution %
Latest 12 Wkly Gross Margin %
Latest 12 Wkly Unit Cash Margin £
1. Britvic J20 815 80 75 1.14
2. Juice 609 85 63 0.6
3. Juice Baby 467 99 85 0.7
4. Mixer Baby 419 99 87 0.73
5. Red Bull 417 93 65 1.19
6. BV Cola 389 94 65 0.66
7. Strathmore Water 261 98 79 0.83
8. Mixer Split 177 69 82 0.69
9. Sch Sparkling 330 163 87 59 0.64
10. BV Appletise 111 90 59 0.67
11. Schwepps 66 53 31 76 0.61
12. Ginger Beer 24 26 80 0.61
13. Fanta 330ml 23 12 64 0.63
14. Sprite 330ml 8 9 65 0.66
J20 has a very high unit cash margin.
Source: Zonal Data to P06, 2003

House Name	Real Pubs Average	Area 09	Sandmartin	Freelands Tavern	Crown & Anchor
House Number			1447	1863	5246
Right Manager Right Pub	-	-			
Boston Matrix Group			Star	Dog	Question
Ave weekly sales (latest period)	7,998	7,901	19,601	4,743	3,796
Average Weekly Sales (MAT)	7,200	7,106	15,016	4,411	5,418
Economic Profit (YTD)	8,274	4,720	204,724	-5,111	-2,328
Branch Trading Profit (MAT)	115,982	110,411	413,982	58,505	44,034
Liquor %	92.12%	94.53%	91.31%	99.83%	98.00%
Food %	7.80%	5.47%	8.69%	0.17%	2.00%
Accomodation %	0.07%	0.00%	0.00%	0.00%	0.00%
Year On Year Growth % (YTD)	6.64	6.80	5.2	-12.2	27.8
Liquor Margin %	71.23%	72.15%	73.15%	71.38%	71.74%
Return on Investment %	23.88%	22.20%			
Development Status	-	-	DEV 2004	LFL	LFL
Net Book Value	646,338	634,946	977,860	294,386	247,425
Weekly Sales per sqm	47.2	49.0		39.5	22.6
Quality Standards Score	86.1%	83.5%	93.6%	81.0%	86.4%
Years since last development	3.10	2.33	0.2		2.6
Last Expenditure	125,622	114,061	70,257	69,000	24,000
Last 3 Years Expenditure	96,310	88,353	85,636	33,854	25,940
Licensed Area (sqm)	185	171		120	168
Food Margin %	51.54%	52.64%	62.98%	-1435.80%	14.99%
Menu Type	-	-	Real Tavern	Filling Station	Real Tavern
Food Sales (weekly)	624	433	1,703	8	76
Year On Year Food Growth % (YTD)	8.25	19.94	6.7	-86.2	232.3
Average Total Order Time	19.80				
Kitchen Size (sqm)	25.68	26.00		9	12
Wkly Food Sales per sqm Kitchen	31	20		1	6
Entertainment Spend	-1,458	-1,969	-986	-1,131	-1,745
Sky League	-	-	PL	1st	DM
Manpower %	-19.99%	-21.00%	-12.63%	-19.40%	-32.18%
Wage %	-12.59%	-12.74%	-8.38%	-8.33%	-15.41%
Manager Years in Situ	2.38	3.07	16.5	0.9	1.3
Managers Monthly Salary	-2,368	-2,612			
Employees over 60 hours	1.18	0.38	0	1	0
Stock Discrepancy (YTD)	-2,054	-2,945	1,923	-4,763	-2,948
Unreceipted Petty Cash	-21	-19	-270	0	0
No. of Complaints	0.01	0.06	0	0	0
Health and Safety Audit	88.59	89.44	100	92	100

APPENDIX 17

INNSPIRED PUBS - PRIMARY RESEARCH

PubCo Questionnaire

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me with my research by answering the following questions.

Q1. How many public houses do you operate within your estate? [Please mark the most appropriate box].

1-25	
26-50	
51-100	
101-250	
251-500	
501-750	
751-1000	
1001-2000	➢
2001-4000	
4001+	

Q2. Where geographically is your public house estate concentrated? [Please mark the most appropriate box].

South East	➢
London	➢
South West	➢
Wales	➢
East of England	➢
East Midlands	➢
West Midlands	➢
Yorkshire	➢
North West	➢
North East	➢
Scotland	
Other	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please tick the appropriate boxes].

Average Weekly Sales	➢
Average EBITDAR	
EBITDA Margins **EBITDAR Margins**	

Wages to Sales	
Like-for-Like Sales/Like-for-Like Profit Growth	➢
Return on Invested Capital	➢
Trading Profit	
Stock Results	
Mystery Guest	
Quality Audits	
Labour Turnover	
Sales Mix	➢

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Weekly Sales	
Average EBITDAR	
EBITDA Margins **EBITDAR Margins**	
Wages to Sales	
Depreciation to Sales	
Like-for-Like Sales/Like-for-Like Profit Growth	
Return on Invested Capital	
Admin Costs to Sales	
Fixed Asset Turns	
Capital Expenditure	
Net Debt	

ROCE	
Operational Gearing	
Interest Cover	
Cashflow	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

In addition to the measures you have used above, we also monitor and report upon the following measures at house level

- Volumes, compared to last year and budget.
- Income generated on different income streams compared to budget and prior year [Income streams being drinks income, property income and other income].

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

David Blackledge
Finance Director
InnSpired Group Limited

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by 1st July 2004.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

APPENDIX 18

W.H. BRAKSPEAR – PRIMARY RESEARCH

Managed PubCo Questionnaire

I am currently conducting research into the use of financial and operational performance measures within managed pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many managed public houses do you operate within your estate? [Please mark the appropriate box].

1-25	✓
26-50	
51-100	
101-250	
251-500	
501-750	
751-1000	
1001-2000	
2001-4000	
4001+	

Q2. Where geographically is your managed public house estate concentrated? [Please mark the appropriate boxes].

The company operates its managed public house(s) in the South Midlands.

South East	
London	
South West	
East Midlands	
West Midlands	
Yorkshire & Humberside	
North West	
North East	
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please mark the appropriate boxes].

Average Weekly Sales	
Average EBITDA	

EBITDA Margins	
Profit per Pub	
Net Profit to Sales	
Gross Margins	
Wages to Sales	
Like-for-Like Sales	
Like-for-Like Profit Growth	
Return on Invested Capital	
Investment per Sq Metre	
Labour Turnover	
Stock Results	
Quality Audits	
Mystery Guests	

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Weekly Sales	
Average EBITDA	
EBITDA Margins	
Profit per Pub	
Gross Margins	
Like-for-Like Sales	
Like-for-Like Profit Growth	

Return on Invested Capital	
Admin Costs to Sales	
Fixed Asset Turns	
Capital Expenditure	
Net Debt	
Return on Capital Employed	
Operational Gearing	
Cashflow	
Interest Cover	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Monday 31st January 2005.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
HD1 3DH

Email:

Leased/Tenanted PubCo Questionnaire

I am currently conducting research into the use of financial and operational performance measures within leased/tenanted pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many leased/tenanted public houses do you operate within your estate? [Please mark the appropriate box].

1-25	
26-50	
51-100	✓
101-250	
251-500	
501-750	
751-1000	
1001-2000	
2001-4000	
4000+	

Q2. Where geographically is your leased/tenanted public house estate concentrated? [Please mark the appropriate boxes].

South East	
London	
South West	
East Midlands	
West Midlands	
Yorkshire & Humberside	
North West	
North East	
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please mark the appropriate boxes].

Average Gross Take per Pub	
Average Rent per Pub	
EBITDA Margins	

EBITDAR Margins	
Tenants Profit	
Rent to Turnover	
Annual Growth in Rent	
Rent per Barrel	
Annual Growth in Barrels	
Beer Margin **Wholesale Margin**	
AWP Income	
Return on Invested Capital	
Tenant Stability	

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Gross Take per Pub	
Average Rent per Pub	
EBITDA Margins	
EBITDAR Margins	
Rent per Barrel	
Beer Margin **Wholesale Margin**	
Admin Costs to Sales	
Capital Expenditure	
Return on Invested Capital	
ROCE	
Net Debt	

Operational Gearing	
Interest Cover	
Cashflow	
Fixed Asset Turns	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Monday 31st January 2005.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

<u>**LEASED/TENANTED PubCo QUESTIONNAIRE**</u>

I am currently conducting research into the use of financial and operational performance measures within leased/tenanted pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many leased/tenanted public houses do you operate within your estate? [Please mark the appropriate box].

1-25	
26-50	
51-100	
101-250	✓
251-500	
501-750	
751-1000	
1001-2000	
2001-4000	
4000+	

Q2. Where geographically is your tenanted/leased public house estate concentrated? [Please mark the appropriate boxes].

South East	✓
London	
South West	
East Midlands	
West Midlands	
Yorkshire & Humberside	
North West	
North East	
Scotland	
Wales	
Northern Ireland	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please tick the appropriate boxes].

Average Gross Take per Pub	
Average Rent per Pub	✓
EBITDA Margins	✓
EBITDAR Margins	

Tenants Profit	✓
Rent to Turnover	
Annual Growth in Rent	✓
Rent per Barrel	
Annual Growth in Barrels	
AWP Income	
Beer Margin **Wholesale Margin**	✓
Tenant Stability	
Return on Invested Capital	✓

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Gross Take per Pub	
Average Rent per Pub	✓
EBITDA Margins	✓
EBITDAR Margins	
Rent per Barrel	
Beer Margin **Wholesale Margin**	
Admin Costs to Sales	
Capital Expenditure	
Return on Invested Capital	✓
ROCE	
Net Debt	
Operational Gearing	

Interest Cover	
Cashflow	✓
Fixed Asset Turns	

- Share Price/Dividend Growth.

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

The capital structures of various pub companies make top level comparisons difficult. The most revealing measures therefore centre around cashflow as this is the most difficult to manipulate!

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Don Bridgman, Chief Executive, W.H. Brakspear & Sons PLC, The Bull Courtyard, Bell Street, Henley-on-Thames, Oxfordshire, RG9 2BA

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by April 28th 2006.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield

Email:

APPENDIX 19

WIZARD INNS – PRIMARY RESEARCH

MEETING TRANSCRIPT

Meeting took place with Julian Sargeson (Operations Director) at Wizard's St Albans headquarters on 25th September 2003.

1. Which financial and non-financial performance measures does Wizard Inns use to measure the performance of its individual pubs?

- Sales v budgeted like-for-like
- Sales post projected
- Margins %
- Costs % or £
- Training & development of staff
- Trading profit £ & like-for-like
- Stock results
- Mystery visitor scores (www.service)
- Quality audits (including external suppliers)
- House audits

2. Which financial and non-financial performance measures does Wizard Inns use to measure the performance of its districts/areas?

Wizard uses the same measures as above to measure the performance of its districts. The main measure is Area like-for-like.

3. Which financial and non-financial performance measures does Wizard Inns use at the corporate level?

- Sales & costs v budget & like-for-like
- EBITDA
- Company margin
- Cashflow
- Pipeline
- Return on Capital Employed (ROCE)
- Mystery visitor scores (www.service)
- Liquidity
- Growth of EBITDA v sales

<u>PubCo Questionnaire</u>

I am currently conducting research into the use of financial and operational performance measures within pub companies. I would be very grateful if you could assist me by answering the following questions.

Q1. How many public houses do you operate within your estate? [Please mark the most appropriate box].

1-25	
26-50	
51-100	➢
101-250	
251-500	
501-750	
751-1000	
1001-2000	
2001-4000	
4000+	

Q2. Where geographically is your public house estate concentrated? [Please mark the appropriate boxes].

South East	➢
London	➢
South West	➢
Wales	
East of England	➢
East Midlands	
West Midlands	
Yorkshire	
North West	
North East	
Scotland	
Other	

Q3. Which financial and operational performance measures do you use to measure the performance of an individual public house/area of public houses? [Please tick the appropriate boxes].

Average Weekly Sales	➢
Average EBITDAR	➢
EBITDA Margins **EBITDAR Margins**	➢

Wages to Sales	➢
Like-for-Like Sales **Like-for-Like Profit Growth**	➢
Return on Invested Capital	
Trading Profit	
Stock Results	➢
Mystery Guest	➢
Quality Audits	➢
Labour Turnover	
Sales Mix	

Q4. Which financial and operational performance measures do you use to compare your performance with that of fellow operators? [Please mark the appropriate boxes].

Average Weekly Sales	➢
Average EBITDAR	➢
EBITDA Margins **EBITDAR Margins**	➢
Wages to Sales	
Depreciation to Sales	
Like-for-Like Sales **Like-for-Like Profit Growth**	➢
Return on Invested Capital	➢
Admin Cost to Sales	
Fixed Asset Turns	
Capital Expenditure	
Net Debt	
ROCE	➢

Operational Gearing	
Interest Cover	
Cashflow	

Q5. Please provide any additional information or comments which you feel might assist me in the development of an industry specific performance measure:

Different companies sometimes have different ways of measuring key indicators – e.g. Like-for-like sales.

Q6. Please provide your name and position and also please indicate whether you wish to be kept informed of progress?

Mr J Sargeson Operations Director Yes

Thank you for taking the time to fill out the questionnaire. I would be very grateful if you could return the completed questionnaire in the enclosed stamped addressed envelope by Monday 5th April 2004.

Aidan James
Doctoral Research Student

Department of Logistics & Hospitality Management
University of Huddersfield
Queensgate
Huddersfield
West Yorkshire
HD1 3DH

Email:

APPENDIX 20

ORGANISATIONS USING THE BALANCED SCORECARD

- Volkswagen uses the ‘Balanced Scorecard’ to rate more than 260 dealers throughout the country [Birmingham Post, 2005].

- Barclay’s staff are now measured on the balanced scorecard [Croft, 2005b].

- Lloyds TSB says it uses a balanced scorecard to measure staff performance, which includes other elements such as customer satisfaction [Croft, 2005a].

- Tesco, PwC, Highways Agency and the Ministry of Defence use the balanced scorecard. It has been claimed that the balanced scorecard has been adopted by 44 per cent of the UK’s FTSE 100 companies [Geary, 2005].

- United Biscuits have been using the balanced scorecard [Times, 2004].

- Leeds & Holbeck Building Society has been using the balanced scorecard [Yorkshire Post, 2004].

- NHS uses a balanced scorecard [Hambridge, 2003].

- Barking & Dagenham Council uses a balanced scorecard to measure its performance [Leadbeater, 2003].

- Remy Cointreau uses a balanced scorecard [Newing, 2003].

- Norwich Union uses a balanced scorecard [Bibby, 2002].

- Vodafone uses a balanced scorecard [Independent, 2002].

- BNFL uses a balanced scorecard to measure itself against six targets [Jones & Taylor, 2000].

- Parcelforce uses the balanced scorecard [Lester, 2001].

- AWG uses the balanced scorecard [Mellor, 2001].

- The NHS in North Wales uses a balanced scorecard to measure accountability and progress against targets [Bodden, 2004].

- Tesco joins major American corporations such as Mobil Oil in crediting the balanced scorecard approach with helping to achieve strategic change and business transformation [Butler, 2004].

- BP introduced a balanced scorecard, using financial and non-financial targets. The latter included qualitative factors such as response time, time to fix, product innovation, business process improvements, customer satisfaction and skills enhancements [Rajan, 2004].

- More than 80 per cent of large US companies use the balanced scorecard, as do many government departments. In Europe, the proportion of users is lower, but the numbers are growing and there is no sign of a peak as yet [Lester, 2004].

- NatWest uses the balanced scorecard as a framework for monitoring branch performance [Bittlestone, 1994].

- Coopers & Lybrand has also developed a performance measurement practice within its consulting group [Bittlestone, 1994].

- Figures from Hackett Benchmarking Solutions, the US management consultancy, which surveyed 1,400 global businesses, show that almost 50 per cent of companies apply some kind of balanced scorecard approach [Littlewood, 1999].

- In the UK, according to Business Intelligence, 71 per cent of big companies use it. Organisations such as British Telecom, NatWest and the BBC are implementing the method [Littlewood, 1999].

- Greene King Pub Company has begun to use the balanced scorecard and has named it "Excellence Every Time" [Publican, 2006e].

- Hilton Hotels Corporation has developed a balanced scorecard system in conjunction with CorVu's sophisticated performance management software [www.wiredhotelier.com/news]. The balanced scorecard has subsequently assisted Hilton to achieve the highest operating profit margins versus its competitors and Hilton's internal customer loyalty and brand measures have also steadily improved since it was adopted by Hilton Hotels Corporation [www.wiredhotelier.com/news].

APPENDIX 21

PUB BUSINESS OPPORTUNITIES

Punch TAVERNS
Jubilee House | Second Avenue | Burton upon Trent | Staffordshire | DE14 2WF
T: 01283 501 600 | F: 01283 501 601 | W: www.punchtaverns.com

May 2007

Mr Aidan Michael James

Dear Sir / Madam

Brand new pub business opportunities

Further to your application to Punch Taverns, I would like to confirm that you have been successful with your initial application as you have demonstrated that you have the talent to be considered for leased opportunities with Punch.

Please find attached details of some of our current vacancies in the West Yorkshire, an area which you have specified as being of interest. We have several pub business opportunities which are brand new to our core estate, the following sites are ex-spirit managed pubs which are been transferred to a lease agreement.

Punch Taverns offer a bounty of £500 to anyone who introduces an applicant who goes on to complete a substantive Retailer Agreement. To be eligible for this you must make sure that you register at the time the application is made.

If you require further details please feel free to contact Phil Lysaght (Retailer Recruitment Manager) on 07979-240105. Or alternatively please contact Matt Ralphs (Selection Coordinator) on 01283-501993

Branch Hotel
Bradford Road
Shipley
Bradford
BD18 3BX

- The business trades as a "Great Local" pub, offering traditional bar meals.
- Turnover - £500,913
- Rent - £49000

Ring O'Bells Hotel
3 Bradford Road
Shipley
Bradford
BD18 3PR

- The business trades as a "Great Local" pub, offering traditional bar meals.
- Turnover - £503,862
- Rent - £55000

P.T.O

2006 WINNER BII nita Publican

Punch Taverns is a trading name of Punch Taverns (PTL) Limited Reg No. 3512363; Punch Taverns (PML) Limited Reg No. 3321199; Punch Taverns (Avebury) Limited Reg No. 3417873; Punch Taverns (Barton) Limited Reg No. 5432394; Punch Taverns (Branston) Limited Reg No. 5596581; Punch Taverns (PGRP) Limited Reg No. 3988664 and Punch Taverns (Pubs) Limited Reg No. 5699544.

Each of the companies noted above is registered in England and has its Registered Office at Jubilee House, Second Avenue, Burton upon Trent, Staffordshire DE14 2WF

Publican 2006 WINNER

Queen Hotel
102 Burley Road
Leeds
LS3 1JP

- The business trades as a "Great Local" pub, offering traditional bar meals.
- Turnover - £351,333
- Rent - £29000

Swing Gate Inn
413 Idle Road
Bradford
BD2 2AH

- The business trades as a "Great Local" pub, offering traditional bar meals.
- Turnover - £526,620
- Rent - £45000

Ye Olde Highwayman
Valley Road
Pontefract
WF8 1LW

- The business trades as a "City Pub", offering traditional bar meals.
- Turnover - £245,540
- Rent - £27500

Eyrie
Holtdale Approach
Otley Old Road
Leeds
LS16 7RX

- The business trades as a "Mr Q's pub. It is a traditional wet-led community pub with scope to introduce traditional pub food.
- Turnover - £306,772
- Rent - £32000

Yours sincerely

Recruitment Co-coordinator
01283 501999

APPENDIX 22

BALANCED SCORECARD – CROWNE PLAZA LEEDS

BALANCE SCORECARD - CROWNE PLAZA LEEDS – TARGETS FOR 2004
YTD – September

RED	AMBER	GREEN
Not achieving IBFC in £	Within 5% of meeting Budget IBFC in £	Ahead of Budget IBFC in £
		YTD 32400
[illegible]	RGI On line	RGI growth
-1.5%		
[illegible]	PULSE Score	PULSE Score
480		
[illegible]	GSTS 205-250	GSTS <204
	233	
IBFC Conversion < 38%	IBFC Conversion >38%	IBFC Conversion > 40%
YTD 36.6%		
[illegible]	BDRC score 60-80%	BDRC score >80%
	YTD 66%	

APPENDIX 23

BALANCED SCORECARD - HARVESTER RESTAURANTS

Project One - Sales & Profit

Below are details of the Dog And Duck Harvester in relation to the Balanced Scorecard. You have been asked by your Retail Business Manager to prepare a ten minute presentation to include the following:

- SWOT analysis of the business (Strengths, Weaknesses, Opportunities, Threats)
- Action plan detailing action point, by whom, by when

The Dog & Duck Harvester

Development

Sales	Previous period v budget	YTD versus budget	YTD Versus last year
Liquor	+4%	+6%	+12%
Food	+2%	(6%)	(8%)
Total DFA sales	+2%	(4%)	(6%)

Conversion

	Previous period v budget	YTD versus budget	YTD Versus last year
Wages	3% overspent	on target	2% underspent

	Previous period	Budget	Last Year
Food GP	66%	68%	68%
Liquor GP	70%	72%	74%

Delivering the Offer

Mystery Guest Scores	Last Period 75%	YTD 62%
Food Hygiene Bureau	Last round 71%	Previous 56%
Guest Complaints	Last quarter 11	Previous quarter 18

Inspiring People

Team Member Turnover	Last Quarter 115%	Last Year 122%
Team Members with less than 3 months service	Last quarter 25%	Year End 43%

APPENDIX 24

CORRESPONDENCE TO BALANCED SCORECARD USERS (HOSPITALITY)

04th March 2008

Greene King Pub Company
Westgate Brewery
Westgate Street
Bury St Edmunds
Suffolk
IP33 1QT

Dear Sir/Madam,

I am a doctoral research student from Huddersfield University and I am currently conducting research into the use of performance measures within public house estates.

My research is focused on the development and use of balanced scorecards as a means of measuring performance.

During the course of the research I have become aware that your organisation has adopted the balanced scorecard and I would therefore be grateful if you could supply me with any information which you have available on your balanced scorecard.

I would be extremely grateful for any assistance you can provide.

Yours Sincerely,

Aidan James
Doctoral Research Student
Department of Logistics & Hospitality Management
University of Huddersfield

Email:

APPENDIX 25

LAUREL PUBCO DISPOSALS

LAUREL

Disposals February 2008

COLLIERS CRE

Unit Name	Address	Town	Postcode	Current Rent	Next Rent Review	Lease Comm	Lease Expiry	Trading Status	CCRE Office	Joint Agents
Bank	9 Lichfield St	Wolverhampton	WV1 1EA	92,500	26/01/2011	26/01/1996	25/01/2031	Trading	Birmingham	
Bar Me	20-32 Great Horton Rd	Bradford	BD7 1AL	66,825	05/04/2009	05/04/1999	04/04/2024	Closed	Leeds	Davis Coffer Lyons
Bar Me (closed)	14-16 Baldwin St	Bristol	BS1 1SR	108,000	04/01/2009	04/01/1999	03/01/2034	Trading	London	
Bar Med	Quadrant Centre, St Peter's Rd	Bournemouth	BH1 2AB	113,000	06/01/2007	24/06/87& 06/01/97& 20/07/00	24/06/2012	Trading	London	
Bar Med	Lower Claremont Bank, Victoria Quay	Shrewsbury	SY1 1RT	90,000	15/01/2007	15/01/2002	15/01/2037	Trading	Birmingham	
Bar Med	Winter Gardens, Fleet Walk Shopping Centre	Torquay	TQ2 5DZ	70,000	29/09/2006	29/09/2001	28/09/2036	Closed	London	
Beduin	The Old Picture House, 75-79 East St	Brighton	BN1 1NF	135,000	04/03/2007	25/12/2001	24/12/2026	Trading	London	
Cahoots	Unit 10 Westgate Retail Park	Basildon	SS14 1WP	87,500	28/09/2009	28/09/1999	28/09/2024	Closed	London	
Casa	30-34 Chiswick High Road	Chiswick	W4 1TE	118,420	23/09/2011			Trading	London	Davis Coffer Lyons
Casa	Abbey Hall, 11-13 Kings Rd	Reading	RG1 3AR	87,500	05/03/2006	05/03/2001	04/03/2026	Trading	London	Davis Coffer Lyons
Cork and Bottle	Canutes Pavillion, Ocean Village	Southampton	SO14 3JS	65,500	11/04/2007	11/04/1997	11/04/2032	Trading	London	
Ha Ha	Mattock Lane	Ealing	W5 5BT	188,000	29/08/2010	29/08/1997	28/08/2032	Trading	London	
Ha Ha	Gracechurch St	Sutton Coldfield	B72 1BD	115,000	01/10/2006	01/10/1996	30/09/2021	Closed	Birmingham	
Hereford Shell Unit	59 Commercial Road	Hereford	HR1 2BP	53,500	08/11/2009			Vacant	London	Davis Coffer Lyons
Hogshead	156 Marlowes	Hemel Hempstead	HP1 1BA	72,500	25/03/2010	25/03/2000	24/03/2025	Trading	London	Davis Coffer Lyons
Hogshead	120-123 Oxford Rd	High Wycombe	HP11 2DN	95,000	11/04/2007	11/04/1997	10/04/2032	Trading	London	
Hogshead	109-110 The High St	Kings Lynn	PE30 1DA	55,000	21/05/2007	21/05/1997	20/05/2032	Closed	London	Davis Coffer Lyons
Hogshead	1-2 Whitefriargate	Kingston U Hull	HU1 2ER	50,000	17/03/2005	17/03/2000	16/03/2020	Closed	Leeds	
Hogshead	14 Corporation Rd	Middlesbrough	TS1 1LJ	68,000	19/06/2008	19/06/1998	18/06/2033	Trading	Leeds	
Hogshead	45 High Street	Paisley	PA1 2AH	65,000	14/09/2008			Trading	Glasgow	
Hogshead	Unit 3, Earl St	Stafford	ST16 2DF	78,000	27/07/2008	27/07/1998	26/07/2033	Trading	Birmingham	
Hogshead	3-5 Union St	Torquay	TQ1 1ES	105,000	20/05/2009	20/05/1994	19/05/2019	Closed	London	Davis Coffer Lyons
Hogshead	9-19 Leicester St	Walsall	WS1 1PT	70,000	14/04/2010	14/04/2000	13/04/2035	Closed	Birmingham	
Hogshead	1 Frederick Place	Weymouth	DT4 8HQ	35,000	29/09/2006	30/09/1996	29/09/2031	Trading	London	
Iguana	19 The Avenue	Egham	TW20 9AZ	75,000	25/06/2007	25/06/1992	24/06/2032	Trading	London	Davis Coffer Lyons
John Cabot	41 Corn St	Bristol	BS1 1HT	120,000	04/02/2007	04/02/1997	06/02/2032	Trading	London	
Label	284-292 Old Christchurch Rd	Bournemouth	BH1 1PH	70,000	24/06/2012	24/06/1998	24/06/2033	Trading	London	Davis Coffer Lyons
Liquid	32/34 Cloth St	Newcastle U Tyne	NE1 1EE	75,000	24/06/2006	24/06/1981	23/06/2080	Trading	Leeds	Davis Coffer Lyons
Litten Tree	29-33 Winchester St	Basingstoke	RG21 7EE	90,000	23/06/2008	24/06/1998	21/08/2033	Closed	London	Davis Coffer Lyons
Litten Tree	10, English Gate Plaza, Botchergate	Carlisle	CA1 1QP	90,000	24/06/2008	24/06/2003	04/10/2038	Trading	Leeds	
Litten Tree	Unit 17, Marlborough Sq	Coalville	LE67 3WD	57,000	25/12/2011	25/12/2001	25/12/2036	Closed	Birmingham	
Litten Tree	Unit 1, High Cross Buildings, Regent St	Hinckley	LE10 0AZ	60,750	25/12/2009	25/12/1999	24/12/2034	Closed	Birmingham	
Litten Tree	87/91 High St	Leicester	LE1 4JB	97,250	03/05/2010	03/05/2000	02/05/2035	Trading	Birmingham	
Litten Tree	174-180 Old St	London Old Street	EC1V 9BP	125,000	29/09/2007	29/09/1997	28/09/2032	Trading	London	
Litten Tree	47 Market Place, Nottingham	Long Eaton	NG10 1JL	58,000	25/12/2006	25/12/2001	24/12/2036	Closed	Leeds	Davis Coffer Lyons
Litten Tree	24 Silver St, Market Sq	Wellingborough	NN8 1AY	70,000	01/04/2007	01/04/2002	31/03/2037	Closed	Birmingham	
Mojama	36 High St	Croydon	CR0 1YB	180,000	29/09/2016	29/09/1965	28/09/2055	Trading	London	
Mojama	426-430 Sauchiehall St	Glasgow	G2 3LG	80,000	26/07/2009	27/07/1999	26/07/2034	Closed	Glasgow	
Mojama	58-62 Heath St, Hampstead	London Hampstead	NW3 1EN	185,000	25/12/2005	25/12/1995	24/12/2020	Trading	London	Davis Coffer Lyons
Mojama	St Peters Gate	Nottingham		104,079	2011			Trading	Leeds	
Place	104 Stamford New Rd	Altrincham	WA14 1DN	63,000	20/09/2009	20/09/1999	19/09/2024	Closed	Leeds	Davis Coffer Lyons
Place	113-117 South St	Romford	RM1 1NX	117,500	25/12/2010	29/01/1996	28/01/2031	Closed	London	
Santa fe	Unit F1 &S1, The Cornerhouse	Nottingham	NG1 4DB	115,930	29/01/2011	29/01/2001	28/01/2026	Trading	Leeds	Davis Coffer Lyons
Slug & Lettuce	63-67 Broad St	Banbury	OX16 5BL	80,000	18/10/2010	18/10/2000	17/10/2035	Trading	London	
Slug and Lettuce	2 Upper King St	Norwich	NR3 1HA	83,500	04/05/2010	25/04/2000	25/04/2025	Trading	London	
Slug & Lettuce	51 George St	Oxford	OX1 3BE	170,000	29/08/2005	29/08/1997	28/08/2032	Trading	London	
Slug & Lettuce	137-141 Lord St	Southport	PR8 1PU	96,000	12/06/2008	12/06/1998	11/06/2033	Trading	Leeds	
Slug and Lettuce	46-47 The Mall	Ealing	W5 3TJ	65,000	25/03/2011	01/04/1996	31/03/2031	Trading	London	
The Abbey	32-36 Kings Rd	Reading	RG1 4AE	85,000	29/09/2008	29/09/1998	28/09/2033	Trading	London	
The Chanter	30-32 Bread St	Edinburgh	EH3 9AF	81,414	10/02/2012	10/02/1997	09/02/2032	Trading	Glasgow	
The Crown	17 West Market Place	Cirencester	GL7 2NH	90,000	15/03/2008	15/03/1993	15/03/2013	Trading	London	
Tut 'n' Shive	Market St	Chorley	PR7 1BD	55,000	25/02/2009	25/02/1983	24/02/2082	Trading	Leeds	
Vacant Warehouse	Unit 3, 41 Carnarvon Street	Manchester		49,401	02/01/1985	01/01/2010		Vacant	Leeds	
Yates	Langstane Place, Bon Accord St	Aberdeen	AB1 6DX	93,700	28/05/2007	04/04/1997	04/07/2047	Trading	Glasgow	
Yates	8 Shambles St	Barnsley	S70 2SW	91,250	22/03/2010	22/03/1995	21/03/2030	Trading	Leeds	
Yates	River / Exmouth St	Birkenhead	L41 6EJ	87,500	29/08/2010	29/08/1997	28/08/2032	Closed	Leeds	
Yates	Corporation St	Birmingham	B4 6QD	69,500	24/06/2010	24/06/1990	23/06/2025	Trading	Birmingham	

Disposals February 2008

Unit Name	Address	Town	Postcode	Current Rent	Next Rent Review	Lease Comm	Lease Expiry	Trading Status	CCRE Office	Joint Agents
Yates	9-19 Queensgate	Bradford	BD1 1RB	80,000	29/09/2009	29/09/1999	28/09/2024	Trading	Leeds	
Yates	Parker Lane, St James St	Burnley	BB11 2BY	35,000	tbc	27/08/1987	26/08/2017	Trading	Leeds	
Yates	154 High St	Burton on Trent	DE14 1JE	77,000	06/08/2009	06/08/1999	05/08/2034	Trading	Leeds	
Yates	77 High St	Cannock	WS11 1BN	69,000	25/12/2009	25/12/1999	24/12/2034	Trading	Birmingham	
Yates	8 Westgate St	Cardiff	CF10 1DA	173,891	19/06/2010	19/06/2000	18/06/2035	Trading	London	Davis Coffer Lyons
Yates	English St	Carlisle	CA3 8LU	105,000	14/04/2007	14/04/97 +25/03/98	13/04/2047	Closed	Leeds	
Yates	15-23 Frodsham St	Chester	CH1 3JL	140,000	14/09/2007	14/09/1992	13/09/2027	Trading	Leeds	
Yates	17-18 High St / Hay Lane	Coventry	CV1 5RE	155,000	29/08/2007	29/08/1997	28/08/2032	Trading	Birmingham	
Yates	27 Irongate	Derby	DE1 3GL	105,000	30/07/2007	30/06/1997	29/06/2047	Trading	Leeds	
Yates	7-9 Seagate	Dundee	DD1 2HE	87,500	18/10/2010	18/10/2000	17/10/2025	Trading	Glasgow	
Yates	Unit 5, Imperial House	Grimsby	DN31 1FB	90,000	29/09/2006	29/09/2001	28/09/2036	Closed	Leeds	
Yates	7-11 Bridge St	Guildford	GU1 4RY	158,000	21/04/2008	21/04/1998	20/04/2033	Trading	London	
Yates	3-5 Brockley Sq	Hanley	ST1 5LY	102,500	13/02/2009	13/02/1989	12/02/2024	Trading	Leeds	
Yates	11 Parliament St	Harrogate	HG1 1QU	55,300	25/01/2010	25/01/1990	24/01/2010	Trading	Leeds	
Yates	76 Paragon St	Hull	HU1 2ND	125,664	29/08/2005	29/08/1997	28/08/2032	Trading	Leeds	Davis Coffer Lyons
Yates	5 Oxford St	Kidderminster	DY10 1BB	66,000	25/03/2008	21/03/1998	20/03/2033	Trading	Birmingham	
Yates	67 - 71 Lewisham High Street	Lewisham	SE13 5JX	196,250	29/08/2007			Closed	London	Davis Coffer Lyons
Yates	Cecil Square House, Cecil Sq	Margate	CT9 1BT	57,500	29/09/2005	29/09/2000	28/09/2025	Trading	London	
Yates	Unit H Theatre district	Milton Keynes	MK9 3PY	139,660	25/03/2009	25/03/1999	25/03/2024	Trading	London	
Yates	54 High St	Newport Gwent	NP20 1GA	16,000	15/02/2007	15/02/2002	14/02/2027	Closed	London	
Yates	6-14 Stratford St	Nuneaton	CV11 5BS	80,000	18/04/2011	18/04/1996	17/04/2031	Trading	Birmingham	
Yates	28 Royal Parade	Plymouth	PL1 1DU	117,000	24/06/2007	24/06/1997	23/06/2032	Trading	London	
Yates	89 High St	Poole	BH15 1AH	87,500	13/11/2008	13/11/1998	12/11/2023	Trading	London	
Yates	Unit 1, The Quadrant Buildings	Redditch	B98 8AE	74,165	19/05/2009	19/05/1999	18/05/2034	Trading	Birmingham	
Yates	5 Yorkshire St	Rochdale	OL16 1BH	70,841	29/08/2005	29/08/1997	28/08/2032	Trading	Leeds	Davis Coffer Lyons
Yates	St Nicholas St	Scarborough	YO11 2HF	65,000	12/02/2011	12/02/1996	11/02/2021	Trading	Leeds	
Yates	Carver St	Sheffield	S1 4GE	107,500	29/08/2007	29/08/1997	28/08/2032	Trading	Leeds	
Yates	58-59 The Mardol	Shrewsbury	SY1 1PP	72,500	26/06/2006	26/06/2001	25/06/2026	Trading	Birmingham	
Yates	Chalon Way West	St Helens	WA10 1BF	65,000	25/12/2005	25/12/2000	24/12/2035	Closed	Leeds	
Yates	Unit 6, The Plaza	Stevenage	SG1 1WS	107,000	29/09/2005	29/09/2000	28/09/2025	Trading	London	
Yates	Unit 2, Windsor Place	Stratford U Avon	CV37 6NL	55,000	25/03/2008	25/03/1998	24/03/2033	Closed	Birmingham	
Yates	54-56 High St	Taunton	TA1 3PT	99,000	12/10/2008	12/10/1998	11/10/2033	Closed	London	
Yates	19 Little Westgate	Wakefield	WF1 1JZ	114,000	14/04/2012	14/04/1997	13/04/2047	Trading	Leeds	
Yates	41-43 Buttermarket St	Warrington	WA1 2LY	135,000	14/04/2007	14/04/1997	13/04/2047	Trading	Leeds	Davis Coffer Lyons
Yates	Unit 1, Metroplex Centre	Wood Green	N22 6EN	120,000	25/12/2009	25/12/1999	24/12/2024	Trading	London	Davis Coffer Lyons
Yates	23-25 Chapel Rd	Worthing	B11 1EG	78,500	25/03/2009	25/03/1999	24/03/2034	Trading	London	
Yates	54-56 Parsons Street	Banbury	OX16 5NB	49,000	24/07/2005			Trading	London	
Yates (Sam Finney)	27 Alderley Road	Wilmslow	SK9 1HY	80,000	04/12/2006			Trading	Leeds	

Contacts

London Office	Paul Breen - 020 7487 1767 / 07767 873353	paul.breen@collierscre.co.uk
	Ross Kirton - 020 7487 1615 / 07917 899175	ross.kirton@collierscre.co.uk
Birmingham Office	Paul Hands - 0121 265 7517 / 07767 873375	paul.hands@collierscre.co.uk
Leeds Office	Sam Frankland - 0113 200 1808 / 07989 743115	sam.frankland@collierscre.co.uk
Glasgow Office	Paul Shiells - 0141 226 1076 / 07831 640777	paul.shiells@collierscre.co.uk
Davis Coffer Lyons*	Paul Tallentyre - 020 7299 0700	ptallentyre@daviscofferlyons.co.uk

***For sites being sold on a joint agency basis**

Misrepresentation

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APPENDIX 26

PUNCH TAVERNS BUSINESS PLAN

Applicant: ____________________

Date completed: ____________________

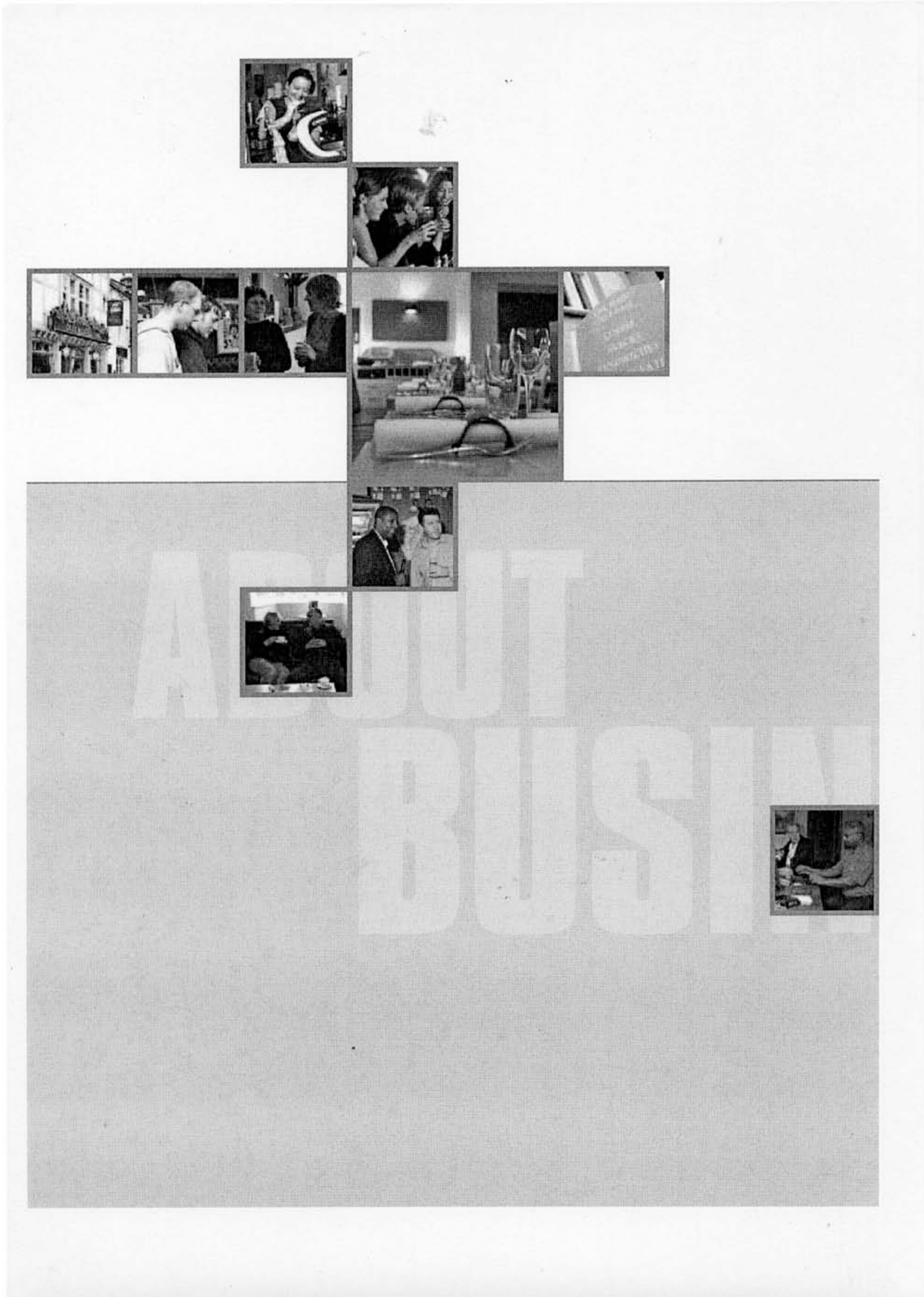
Pub: ____________________

Business Relationship Manager: ____________________

BUSINESS PLAN

PASSIONATE ABOUT OUR PUBS

Punch TAVERNS





Taking on a pub is a serious decision. It is important that you have thought hard about why you want to take such a step and have planned exactly what you will need to do to ensure your venture will be a success. Only then can you judge whether you are likely to be able to achieve the income and rewards that you desire.

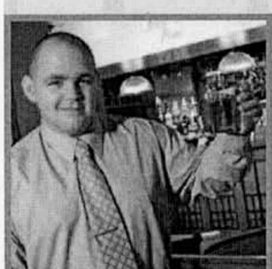
ABOUT BUSINESS PLANNING

Punch also wants to be convinced that you know what to do and why, and that your plans are right for you and the pub in question. For these reasons we ask all applicants to complete a business plan for the pub they are applying for.

A business plan can help you to:

- Consider all aspects of the business
- Decide the best course of action to take things forward
- Have a clear understanding of the pub and how you can make it work

Please complete each section including as much detail as possible. You can either use this template, or alternatively, write your own business plan. Guidance is available should you need it from one of our local Business Relationship Managers.



THE SITE

Provide a description of the pub, its facilities and trading history. Also talk about the immediate area surrounding the pub, focusing on possible sources of customers

- *Are any areas suitable for alternative use or redevelopment?*
- *Describe the existing building - shape, facilities & condition*
- *Include the exterior and outside areas*
- *What is the immediate area like? Residential, businesses, shops, roads, etc.*

DEMOGRAPHICS

Describe what sort of people live, work, or visit the area. Mention things such as age, occupation, wealth, housing, etc. This is your chance to show that the people that you intend to attract are around.

- *Have you driven or walked around the area and talked to future customers, competitors and local businesses?*
- *The people who live nearby - how wealthy or poor are they? Are they old or young? Do they have families - old or young? What sort of houses do they live in? What condition is the housing in? How many people own a car? What do they do as jobs - work in an office, have a skilled trade, manual workers, unemployed? Do students live in the area?*
- *Who comes into the area WHY AND WHEN? Shoppers during the day? Office workers? Young people at night?*
- *Think about which people will be your 'target market'*

DEVELOPMENTS

Indicate whether there are developments in the area that may influence trade.

- *Ask around, speak to the council, find out what is happening in the area. Look in the local paper for licensing or planning applications*
- *Is the area doing well or is it in decline? Are shops opening or closing? Are houses selling? Is new housing being built?*
- *What specific future events might impact on trade - good or bad? e.g. the building of a shopping centre or the closure of a factory*

LOCAL MARKET

Show an understanding of where people drink, eat and also take part in other leisure activities (cinemas, retail parks). Talk specifically about the competition and why people chose to go to these places. If there is a "circuit" describe it - both for day and night trade. Attach any relevant maps to the Business Plan.

- *Have you visited and talked to local competitors?*
- *Where are these venues in relation to your pub? Could/does it fit into the circuit?*
- *How successful is the competition? Why are they successful - what do they offer customers? Describe the major competitors.*
- *Is there anything missing from the circuit that people might look for?*

LOCAL MARKET continued

Main Competitors	Who are their customers?	What do they offer to attract customers?	Could/should we attract their customers and if so, how?
Venue			
Brand			
Venue			
Brand			
Venue			
Brand			
Venue			
Brand			
Venue			
Brand			
Venue			
Brand			
Venue			
Brand			

CUSTOMER PROFILE

Existing	am	pm	pm/late
Who are your existing customers? Why do they use your pub?			

Potential	am	pm	pm/late
Are there customers you could move from your competitors, or aren't catered for in the area?			

Target	am	pm	pm/late
What should your target market be to increase and maximise your trade and profit?			

THE OFFER

Describe what you intend to offer in order to attract custom. Make specific mention of drink, food, music, entertainment, promotions, games, etc. Show reasons why the people that you want to attract would want to come to your pub. What is the unique selling point of the pub?

Also how you intend to market the offer.

General

- *What sort of pub is it going to be? How will it differ during the course of the day?*

Drink

- *Is business going to be driven by cask ales, cream flow, standard draught lagers, premium draught lagers, bottled beers, spirits, wine?*
- *What will make your wet offer stand out from your competitors?*

Food

- *What sort of food is going to be on offer? How big will the menu be? Give some sample menu items. What will the price of the meals be? How will the food offer change during the day?*
- *What will make your food offer stand out from your competitors?*
- *Attach any draft menus*

Music

- *How will music be provided? What sort of music will it be? How will it change throughout the day?*

Entertainment/promotions/games/etc

- *Will entertainment play a part in your offer? What sort of entertainment? What else - pub games, quizzes, charity nights, promotions, etc?*
- *How much additional income would you expect to generate from entertainment activities?*

Other

- *Describe any other key parts of the offer*

Marketing

- *How will you tell people about what is on offer? Adverts, flyers, radio, A-boards, direct mail, etc?*

THE OFFER

Responsible Retailing

- *As a Punch licensee you will need to adhere to Government legislation covering areas such as licensing, smoking, disability discrimination, health and safety and gambling. How will you ensure that your customers are served responsibly?*

CONCLUSIONS

Briefly summarise what you are trying to achieve. Constantly ask yourself "Why am I doing this?" to make sure there is a measurable cash benefit to any action or investment decision.

- *In a few words ..*
- *Who the customers are now and whether you intend to change them, attract different people as well, or build on this existing base*
- *How this fits into the opportunity in the area*
- *How you will attract these people by changing the look of the pub, the food you offer, etc.*

THE OFFER

Responsible Retailing

- *As a Punch licensee you will need to adhere to Government legislation covering areas such as licensing, smoking, disability discrimination, health and safety and gambling. How will you ensure that your customers are served responsibly?*

CONCLUSIONS

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- *Who the customers are now and whether you intend to change them, attract different people as well, or build on this existing base*
- *How this fits into the opportunity in the area*
- *How you will attract these people by changing the look of the pub, the food you offer, etc.*

FINANCES

It is essential that you forecast how much money you are likely to make. This should be the major factor in deciding whether you want to proceed with your business plan.

If you are unsure how to do this yourself, seek the assistance of an accountant or another independent professional advisor.

In this section please complete the following forecasts:

- **A twelve month profit and loss forecast**

  This predicts how profitable the business is likely to be.

- **A twelve month cash flow forecast**

  This will provide you with information on the actual flow of money into and out of the business. It will highlight the capital needs of the business, especially the working capital required.

- **The money you will require**

  This will ensure you have a full view of the costs associated with starting your business.

- **Source of Funds**

  This will provide a detailed account of where you will obtain the finance needed.

Your decision to take a Punch Agreement should be influenced by these forecasts. Therefore every effort should be made to ensure the greatest accuracy possible.

Note - templates for all forms in the next four pages can be downloaded from www.punchtaverns.com

12 MONTHS PROFIT AND LOSS FORECAST

SALES	
Drink Sales	
Food Sales	
Machine Takings	
Accommodation	
Other (specify)	
Total Sales	

PURCHASES	
Drinks Purchases	
Food Purchases	
Other (specify)	
Total Purchases	

GROSS PROFIT		
Drinks		WET GP%
Food		DRY GP%
Machine Takings		
Accommodation		
Other (specify)		
Total Gross Profit		OVERALL GP%(2)

Net Profit (before drawings)	
Drawings	
Net Profit after Drawings	

OPERATING COSTS	
Rent	
Business Rates	
Wages Inc. NI	
Insurance	
Utilities, Gas, Electric, Water	
Bank Charges	
Accountancy Fees	
Machine Rental	
Entertainment	
Promotions	
Staff Uniforms	
Travel and Transport	
Telephone and Postage	
Cleaning Materials	
Glassware and Crockery	
Stocktaking Fees	
Legal Fees	
Licenses	
Repairs and Decoration	
Training Courses	
Sundries	
Other	
Loan Repayments	
Total Costs (1)	

WEEKLY BREAK EVEN SALES CALCULATION:
1) Total cost figure from above
2) Overall GP% from above
3) Divide (1) by (2) and multiply by 100
4) Multiply by 1.175 to add VAT
5) Divide by 52 to give weekly break even point

CASH FLOW

The cash flow projection is a support for your ideas for the pub and an aid to help you take an objective look at the financial aspects of the business. It will ensure that you have enough working capital or banking facilities to enable you to operate effectively throughout the first and most difficult year of trading.

Most of the items covered in this projection will match your profit and loss projection. However, it is worth mentioning that the profit and loss does not include VAT and the cash flow does include VAT.

You must try and project each month in turn thinking about how much money you intend to take and what

	Month	Month	Month	Month	Month
Capital Introduced					
Drink Sales					
Food Sales					
Machines					
Other Income					
Total Income					
Drinks Purchases					
Food Purchases					
Rent					
Business Rates					
Licenses					
Insurance					
Utilities, Gas, Electric, Water					
Cash Repayments					
Entertainment					
Stocktaking					
Wages Inc. NI					
Travel and Transport					
Telephone					
Cleaning Materials					
Accountancy Fees					
Stocktaking Fees					
Legal Fees					
Surveyors' / Valuers' Fees					
Repairs and Decoration					
Training Courses					
Fixtures Purchased					
Rent Deposit					
Drawings					
VAT Payments					
Other					
Other					
Other					
Total Expenses					
Incomeless Expenditure					
Balance Brought Forward					
Closing Bank Balance					

expenses you may have in each particular month. For instance you will probably project taking more money in December than January. You can do this by thinking about your likely drinks sales for each day of the week, adding this together for a weekly total and multiplying for the month. The same can be done for food, by working out how many meals you intend to serve and how much cash you intend to generate from each customer.

NB: Closing bank balance is carried forward each month to balance brought forward. Therefore the calculation in the second month will be total income less expenditure plus balance brought forward equals closing bank balance. This figure may on occasions be a minus figure. This would therefore tell you when it would be necessary to arrange an overdraft facility or that you will need extra working capital.

Month	Month	Month	Month	Month	Month	Month	Totals

THE MONEY REQUIRED

Outline the overall cost of starting the business and if you have not already done so state the intended investment including VAT.

COSTS

Fixtures and Fittings	
Deposit	
Solicitors	
Training	
Stock on Valuation	
Survey	
Working Capital	
Investment Capital Inc. VAT	
TOTAL	

SOURCE OF FUNDS

Cash	
Secured Loan	
Unsecured Loan	
Overdraft	
Other please state	
TOTAL	

THE MONEY REQUIRED

ADDITIONAL INFORMATION

SWOT ANALYSIS - SUMMARISE YOUR THOUGHTS:

Strengths	Weaknesses
Opportunities	**Threats**

ADDITIONAL INFORMATION

The following area allows you to include any further information you feel may be appropriate to include in your business plan.

By completing this Business Plan Punch Taverns does not commit itself to accept your application and, for the avoidance of doubt, it does not constitute any offer, expressed or implied, of any appointment, lease, tenancy or business opportunity.

JUBILEE HOUSE, SECOND AVENUE, BURTON UPON TRENT DE14 2WF
TEL 01283 501600 • FAX 01283 501601 • WWW.PUNCHTAVERNS.COM

PASSIONATE ABOUT OUR PUBS

Punch
TAVERNS

APPENDIX 27

PUNCH TAVERNS FINANCIAL GLOSSARY

Beta model
A model for pricing share options which applies the same principles as the binomial model but takes into account the relationship of the share price to a portfolio of a comparator group companies' shares.

Binomial model
A model for pricing share options which applies the same principles as decision tree analysis by considering the possibilities that prices may increase or decrease by a certain percentage.

Black-Scholes model
A model for pricing share options using the share price, the time to expiration of the option, the risk free interest rate and the expected standard deviation of the share return.

Cash flow hedges
A hedge of the exposure to variability in cash flows.

Collateralised cash
Cash pledged as security.

Combined Code
The Combined Code on corporate governance sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audit, and relations with shareholders.

Convertible bond
A corporate bond that can be exchanged for a specific number of ordinary shares. Convertible bonds generally have lower interest rates than non-convertible bonds because they accrue value as the price of the underlying shares rise. Convertible bonds therefore reflect a combination of the benefits of shares and corporate bonds.

Corporate governance
Corporate governance describes the system by which an organisation is directed and controlled.

Curtailment gains / losses
Curtailment gains / losses arise on the curtailment or settlement of a defined benefit pension plan. A curtailment occurs when a company is demonstrably committed to make a material reduction in the number of employees covered by the plan or amends the terms of the plan such that a material element of future service by current employees will no longer qualify for benefits.

Debenture notes
A form of bond taken out by a company, which it agrees to repay at a specified future date and which bears interest (either fixed or variable) until maturity.

Derivative financial instruments
Financial instruments whose value changes in response to changes in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable, and are settled at a future date.

Diluted earnings per share
Diluted earnings per share is earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period and shares from the assumed conversion of convertible bonds.

Dividend cover
A performance measure which shows the number of times that profit for the year covers dividends paid and proposed.

Earnings per share (EPS)
Earnings per share is a performance measure that expresses the earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period.

EBITDA
EBITDA represents earnings before finance income, finance costs, movement in fair value of interest rate swaps, UK income tax, depreciation, amortisation and profit on sale of non-current assets.

EBITDAR
EBITDAR represents earnings before finance income, finance costs, movement in fair value of interest rate swaps, UK income tax, depreciation, amortisation, rental costs and profit on sale of non-current assets.

Effective interest rate method
A method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period.

Experience gains / losses
Changes in the valuation of defined benefit pension scheme which arise when events have not coincided with the actuarial assumptions made for the previous valuation.

Fair value
The amount at which assets can be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction.

Finance lease
A method of purchasing an asset by making rental payments throughout the expected lifetime of the asset. The lessee shows an asset and a corresponding liability in the balance sheet. Finance lease payments are accounted for as a reduction in the liability.

Goodwill
Goodwill is the excess of the amount paid for a company over the fair value of the net assets acquired at the date of acquisition.

IAS
International Accounting Standards.

IASB
International Accounting Standards Board.

IFRS
International Financial Reporting Standards.

IFRIC
International Financial Reporting Interpretations Committee.

Indexation allowance
Indexation allowance is tax relief given when calculating capital gains which takes into account inflation based on the Retail Prices Index (RPI). Indexation allowance can only reduce an unindexed gain to nil and cannot create or increase a capital loss.

Interest cover
A performance measure which shows the number of times EBITDA covers the net finance income and finance cost.

Interest rate cap
A derivative financial instrument which sets the buyer a maximum rate of interest on a given principal over a designated period.

Interest rate floor
A derivative financial instrument which gives the buyer a minimum rate of interest on a given principal over a designated period.

Interest rate swap
A derivative financial instrument used to minimise exposure to changes in interest rates by payment to receive a fixed interest rate in exchange for a floating rate interest rate, or payment to receive a floating rate interest rate in exchange for a fixed interest rate.

LIBOR
London Inter Bank Offered Rate. Interest rate quoted between banks which is a recognised basis for calculating a floating interest rate.

Operating lease
A method of renting assets over a period which is less than the expected life of the asset. The lessee does not show an asset or liability on their balance sheet and periodic payments are accounted for by the lessee as operating expenses in the period.

Operating result
Profit after deducting all operating expenses including depreciation and amortisation.

Over-hedge
An over-hedge occurs when the notional principal amount of the hedging instrument is greater than that of the hedged item.

Net debt
Loans, convertible bonds and finance leases net of other interest bearing deposits and cash and cash equivalents.

Non-recurring and exceptional items
Items which management consider will distort comparability, either due to their significant non-recurring nature or as a result of specific accounting treatments. These are separately identified in order to provide a trend measure of underlying performance.

PBT
Profit before tax.

Projected unit credit method
The accounting method used to calculate provisions for pensions. It includes not only the pensions and vested interests accrued at the date of calculation, but also anticipated increases in salaries and pensions.

Securitisation
The process of raising finance by issuing bonds secured on future cash flows and the asset values of the pubs that generate them.

Segmental reporting
Information regarding the financial position and results of operations in different business areas.

Total Shareholder Return (TSR)
The growth in value of a shareholding over a specific period, assuming that dividends are reinvested to purchase additional shares.

UK GAAP
UK Generally Accepted Accounting Principles.

Working capital
Short term disposable capital used to finance day-to-day operations. It is calculated as current assets less current liabilities.

APPENDIX 28

IHG BALANCED SCORECARD CORRESPONDENCE

Windows Live™

RE: InterContinental Hotels Group - balanced scorecards

From: **Gordon, Catherine (IHG - Windsor)** (Catherine.Gordon@ihg.com)
Sent: 26 March 2008 09:55:59
To: Aidan James (aidanjames49@hotmail.com)

Aidan

We use several scorecards. I work for the EMEA division and can talk about two specific scorecards that I am involved with.

A Brand scorecard tracks the performance and health of our brands. As such we exclude new and discontinued properties from the analysis so we can concentrate on the actual performance of the core properties that can represent the the health and performance of the brands overall. The measures that we use are consolidated on a global, regional, and key market basis so we can identify performance issues and diagnose causes. We look at YOY performance and trended data - the scorecard is very visual and easy to understand at a glance, however, essential is the commentary that accompanies the visual. This scorecard is used by the Brand Management and Marketing functions primarily, but it is still useful to operators as at a key market basis it can reveal interesting trends and performances.

We also have a more Operational/Finance scorecard which is Regional in its focus (EMEA) and concentrates on key countries. Key Operators use the scorecard to keep divisional performance on target - focusing largely on Financial metrics and using a combination of comparable and total business. Again there is a detailed commentary, and a traffic light system summary to show where we are ahead and behind budget and draw attention to key variances.
The main body of the scorecard uses graphs and tables. We track performance against last year, against budget, and probably most importantly where data exists against our key competitors. This is essential. If a market is buoyant, we may be beating our budget and last year's performance, but if we are not performing as well as our competitors then we can diagnose any issues to improve performance.

I hope that you find this useful

Best regards,
Catherine

Catherine Gordon
Director of Performance & Business Intelligence
EMEA

Direct line +44 (0)1753 410317
Fax +44 (0)870 191 7464
http://www.ihg.com

IHG
InterContinental Hotels Group EMEA
67 Alma Road, Windsor, Berkshire
SL4 3HD, United Kingdom

From: Aidan James [mailto:aidanjames49@hotmail.com]
Sent: 25 March 2008 20:12
To: Gordon, Catherine (IHG - Windsor)
Subject: RE: InterContinental Hotels Group - balanced scorecards

Dear Catherine,

I would be extremely grateful for any information you can supply and your offer of information on how the balanced scorecard is used and by which internal customers would be gratefully received.

Yours sincerely,

Aidan James

Subject: InterContinental Hotels Group - balanced scorecards
Date: Tue, 25 Mar 2008 17:08:08 +0000
From: Catherine.Gordon@ihg.com
To: aidanjames49@hotmail.com

Dear Aidan
IHG is a hotel company and as such has not operated a public house estate for a number of years.
I would, unfortunately, be unable to help with any specifics as to what we measure on our scorecard as we would consider this to be very sensitive information. If you want however very broad information on how it is used and by which internal customers I would be happy to expand.
Yours sincerely
Catherine.

Catherine Gordon
Director of Performance & Business Intelligence
EMEA
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Fax +44 (0)870 191 7464
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APPENDIX 29

DEUTSCHE BANK'S KEY VALUATION METRICS

Peer Group comparisons - key valuation metrics

Deutsche Bank

5-Feb-2008	PubCos		Retailers				Regionals		Caterers	
	Enterprise Inns	Punch Taverns	Mitchells & Butlers	JD Wetherspoon	Whitbread	Restaurant Group	Greene King	Marston's	Compass Group	Sodexho Alliance
									£m	€m
Period end (2008E)	September	August	September	July	February	December	April	September	September	August
Share price (p)	450	703	458	345	1,371	158	759	272	320	36.8
Movement on the day (%)	1.2%	1.0%	2.7%	0.8%	0.8%	4.5%	1.9%	-1.1%	0.9%	1.5%
Movement on the day (€/p)	+5	+7	+12	+3	+11	+7	+15	-3	+3	+1
Market Capitalisation (£m) (current shares)	2,277	1,864	1,843	487	2,423	309	1,034	740	6,035	5,846
Net Debt	3,748	4,588	2,750	446	776	72	1,624	1,203	1,274	1,096
Capitalised leases	30	515	445	540	547	550	90	95	1,603	2,593
Gross EV	6,055	6,967	5,039	1,473	3,745	931	2,748	2,038	8,912	9,535
Recommendation	BUY	BUY	Hold	Hold	BUY	n/a	BUY	Hold	Hold	BUY
Target price (p)	860	1,285	690	640	2,050		1,235	400	361	55.3
Upside / Downside vs. Target price	91%	83%	51%	86%	50%		63%	47%	13%	50%
Compound annual growth rates - 3 yr										
Sales	3%	2%	6%	4%	9%	13%	6%	6%	3%	6%
EBITDAR	3%	3%	5%	4%	13%	15%	7%	5%	5%	8%
EBITDA	3%	3%	5%	5%	13%	14%	6%	5%	5%	9%
EBITA	3%	3%	5%	6%	14%	17%	7%	5%	5%	10%
EPS	8%	8%	5%	10%	15%	21%	15%	4%	9%	13%
DIV	15%	15%	12%	10%	11%	19%	14%	10%	5%	13%
Multiples (Calendarised to Dec 2008E) (live)										
EV / EBITDA (x)	11.1	9.8	9.7	6.6	8.9	5.2	9.1	9.1	9.5	7.2
EV / EBITA (x)	11.3	10.7	13.5	9.8	11.9	7.4	10.8	11.6	12.5	9.2
P / E (x)	10.4	8.1	15.0	11.5	15.8	9.9	9.4	10.3	16.9	13.6
EBITA margin	57.1%	36.9%	17.3%	10.3%	18.0%	12.4%	23.8%	23.8%	5.3%	5.3%
PBTA margin	31.2%	17.9%	8.8%	6.7%	16.5%	11.4%	14.2%	13.6%	4.7%	4.9%
P&L tax rate	29%	23%	30%	32%	32%	30%	29%	25%	30%	37%
Current fiscal year forecast										
Dividend cover (x)	2.4	4.6	1.9	2.1	2.4	2.0	2.7	1.8	1.6	1.9
Dividend yield	4.1%	2.7%	3.6%	4.0%	2.7%	5.1%	3.7%	5.3%	3.7%	3.9%
EV / Adj. Capital Employed (x)	110%	103%	99%	145%	188%		129%	130%	238%	237%
Gross EV / Gr. Cap. Employed (x)	140%	95%	131%	124%	168%		128%	128%	189%	174%
FCF yield - maint. capex (to Dec. 2008E) (live)	9.4%	15.1%	7.8%	14.6%	3.2%		10.7%	9.8%	5.9%	9.7%
FCF yield - all capex (to Dec. 2008E) (live)	6.8%	5.1%	6.8%	3.6%	-8.1%		5.6%	-1.0%	5.3%	9.2%
Return on equity	14.2%	15.0%	7.9%	23.1%	32.2%		13.9%	9.2%	17.0%	15.7%
Freehold / leasehold (% ratio)	98 / 2	85/15	90/10	42 / 58	65/35		96 / 4	98 / 2	n/a	n/a
Fixed charge cover (x)	2.25	1.78	1.87	1.97	3.27		2.35	2.16	3.13	2.90
Debt / EBITDA 2008E (x)	7.0	7.1	5.9	3.2	3.1		6.0	5.7	1.7	1.2
NOPAT / IC	8.9%	9.0%	7.7%	8.9%	15.3%		8.4%	8.4%	13.6%	15.2%
WACC	6.3%	0.0%	6.1%	7.9%	7.5%		6.0%	6.2%	8.2%	8.0%
ROCI / WACC	42%	51%	28%	13%	103%		40%	36%	65%	90%
Debt including capitalised leases as % of Gross EV	62%	73%	63%	67%	35%		62%	64%	32%	39%
Off balance sheet debt as % of total debt	1%	10%	14%	55%	41%		5%	7%	56%	70%

Source: Deutsche Bank estimates. Note: Restaurant Group is not a stock that we formally research, so we have used Reuters consensus estimates.
Sum-of-the-parts basis applies M&B rating to group's managed pubs and ETI rating to tenancies and leases, and deducts central costs at group EBITDA (x) and Brewing EBITDA on 13x.
Also, managed pub investment levels at GNK, MARS adjusted to M&B basis; and Spirit (PUB) to a blend of M&B and JDW to reflect higher leasehold component.

Next reporting	20-Nov	8-Nov	29-Nov	6-Nov	11-Dec		4-Dec	30-Nov	28-Nov	15-Nov
Reporting what?	finals	finals	finals	Q1 sales	Q3 sales		interims	finals	finals	finals

Deutsche Bank 05/02/2008 Geof Collyer