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A Clash of Cultures: Levene & Co. Ltd.

BY IAN HUNTER

> *People make everything. So if you have the right people, you have the right business; you have the right family. Whatever it might be—people are the thing. (David Levene, 2005)*

Introduction

Paint and decorating entrepreneur, David Levene, sold his family business to public company, Skellerup Group, in 1994. At that stage, the 52-store family firm had been trading for 70 years. Yet within three and a half years, what had once been a flagship of New Zealand retail industry was placed into receivership under its new owners. This case explores both the rise and fall of Levene & Co. It examines the elements of the business culture and strategy that enabled the firm to go from first to second generation family enterprise, including, the successful rejuvenation of the business in the late 1980s, when Levene & Co., moved from discount retailer to up-market decorating store. In the second part of this case, the sale to Skellerup Group and the eventual demise of the firm is examined.

A family paint business begins

Originally from Russia in the latter part of the nineteenth century, Joel Levene, (the grandfather of David Levene) emigrated to England via Sweden in 1886, and settled in Gateshead. Working as a journeyman glazier he extended his trade to painting and wallpapering and soon opened a small paint shop, retailing to the public. As they came of age his seven sons were apprenticed as journeymen painters by their father, progressively joining the family firm. It was the outbreak of the First World War in 1914 that changed the path of the family business. All seven Levene sons enlisted to fight for the British Army on the Western Front, two were killed; several were wounded. The eldest, Harry, upon his return from service at the conclusion of the war in 1918, took over the management of the family business. The third eldest brother, Lewis, not wanting to work

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for his brother, decided to emigrate; he arrived in New Zealand in 1921. For any new immigrant, the timing was not ideal. Immediately after the First World War, returned soldiers, armed with government resettlement grants had purchased farms in large numbers, encouraged by the commandeer system through which the United Kingdom guaranteed high prices and sustained demand for New Zealand primary products. In 1921, as a growing recession mounted in Europe, the commandeer system ceased. Export receipts fell, bankruptcy rates increased, and a number of farmers were forced off their land. Though a short lived economic correction, the stringency was also felt in the retail and mercantile sector. Lewis Levene, like many others, found it difficult to get work.

Travelling to the South Island, he found work for a brief period at the Butler Brothers saw mill on the West Coast. However, he disliked the work and several months later returned to Wellington where he secured a position as a contract painter working for the firm of Tommy Wells & Co. A year later, in 1922, he moved to Auckland and renting a small shed in Victoria Street, commenced work on his own account as a contract painter. Eighteen months later, his brother, Mark Levene, also emigrated and joined Lewis in partnership as Levene & Co. The business was officially incorporated as a limited company in 1929.

Like their father before them, the two brothers moved into paint retailing, initially as a way of obtaining paint supplies for their contracting business at more competitive prices. With their wives running the retail store, the brothers went through several changes of premises before locating in a 1000 sq ft store at 123 Karangahape Rd in 1929, which would become the base of the firm for two decades (See Exhibit 1).

In these early years, the development of the business was not without difficulty. Not long after first commencing trade, the Levene brothers encountered anti-competitive practice from other paint retailers in Auckland city, who put pressure on the sole supplier of wallpaper to Auckland retailers—the English-owned Wallpaper Combine—to cease supplying Levene & Co. Such a practice was not exclusive to the paint industry. William Coutts encountered similar reaction from the Brewing Combine upon starting the Waitemata brewery that same year. Like Coutts, instead of caving to monopolistic pressure, the Levene brothers bypassed the combine and ordered paper direct through their brothers in Newcastle. Ultimately, they would encounter a similar response with paint supply and be forced to take the same action.

Depression

Wall Street crashed in 1929, however the onset of depression was not felt in New Zealand until the latter part of 1930, when primary produce prices fell dramatically. Exports of New Zealand products, which had reached an historic high in 1928 (£56,188,481) fell slightly the following year, then crashed 20 percent to £44,940,692 in 1930. With falling incomes and prices retailers were not removed from effects of the rapidly constricting economy. Lewis Levene, faced with decreasing sales and a fixed-mortgage on his own home, found himself unable to keep monthly mortgage payments and as a result abandoned his family home in favour of the bank, on 19 August 1930. Determined not to lose their livelihood, the two brothers redoubled their efforts in the business. They ceased contract painting altogether and commenced retailing exclusively as they sought to weather the economic storm. While not a significant enterprise, by the end of the 1930s the business had developed to the point which it employed five staff with a turnover of approximately £7000 per annum.

A third generation enters the firm

David Levene, the only son of Lewis and Sybil Levene, ended his formal schooling in 1946. Undecided as to what his career might be, he entered the pharmacy trade as an apprentice chemist, before deciding to join his father in the paint business in 1947. Part of the attraction of the paint trade—convinced his father, Lewis—was the opportunity to own multiple branches, not a possibility in the more regulated pharmaceutical industry. However, it was not a smooth transition. Energetic and progressive, David Levene clashed with his more conservative and risk-adverse uncle, Mark Levene, who resisted any proposed changes in store layout, design, or merchandising. The discord between the two eventually resulted in David Levene relocating to Wellington, where he completed a cadetship at Berger Paints Wellington paint factory, before taking a sales position at Wellington paint merchant, R. & E. Tingey and Co. His father and uncle continued the management of the Auckland store. Eighteen months later, David Levene returned home to take a more active role in the family business. The untimely death of Mark Levene in 1952, saw David Levene enter as co-owner of the firm with his father, Lewis. At this point, the day to day management of the firm, including its future direction, was assigned to him.

Selling to Contractors

Previously, the Levene brothers had shied away from selling paint to painting contractors on account. Having worked as painters themselves, they knew how slow contractors could be paying accounts, and an early attempt by them to service this part of the industry had resulted in bad debts. Despite this, David Levene was determined to extend their business to contractors, convinced that the rapid growth of other paint retailing firms compared to their own was due to this aspect of their trade. Finally his father Lewis, acquiesced. Contractor sales commenced not long after his sons appointment as managing director:

> *I used to say to my father and my uncle: "You guys have been in business as long as Phillips and Impey and Smith and Smith and they're big companies. You're still just a little retailer, with a little retail shop. That's because you don't supply the contractors." Dad and my uncle would always say, "We know all about contractors. They don't pay. It's a hard life, so we don't want to supply contractors." Eventually, I talked him into it. Dad threw his arms up in the air and said, "You do it, and if we lose everything, it's on your shoulders." Well, we didn't lose everything, so I guess it wasn't so bad. (David Levene, 2005)*

Further initiatives followed: in 1955 Levene and Co., began distributing weekly mailers to Auckland homes advertising store promotions and merchandise.[1] With sizeable sales to painting contractors, and in the middle of a state housing boom in Auckland, annual sales from the small paint shop increased rapidly to around £150,000; the majority of this coming from the contracting trade.

Shopping centres

It was on a business trip to the United States in 1959, that David Levene was exposed to trends that were to influence the future direction of the firm profoundly. Invited to attend a business seminar hosted by National Cash Register in Dayton, Ohio, he joined an audience of overseas companies including Tesco and Galleries Lafayette that were being

briefed on changes to the United States retail market. The most important of these changes was the rise of the shopping centre. From its own research, NCR believed that a number of factors were contributing to this phenomenon: the increasing congestion in downtown districts; the deterioration of downtown districts; increasing real estate prices in CBD locations; the increasing rates of car ownership; increasing suburban populations outside metropolis areas; and customers not wanting to travel to downtown locations to shop.

Similar forces were clearly at work in the Auckland retail market which David Levene was familiar with. By 1956, New Zealand retail trade magazines were discussing the drift to the suburbs; the response of larger city stores, such as Keenans, Woolworths, and Milne & Choyce, was to establish branch networks in suburban shopping centres. What had not yet eventuated in the New Zealand retail environment was the integrated shopping mall. Figures provided at the seminar suggested that 1000 were already in operation in the United States with another 1000 either in the planning or construction stages. Should they wish to establish their own such mall, NCR provided the seminar attendees detailed information on walking distances to shopping centres, preferable tenants, lease structures, financing arrangements, and parking needs. As David Levene later expressed, 'it was like having tomorrow's newspaper.'

Eager to capitalise on what he perceived was a first-mover opportunity in the New Zealand market, David Levene visited major retail chains looking for partners on his return. The result—to his dismay—was a lack of enthusiasm to pursue any adaptation or change to the existing retail offering:

> *Each and every one of those people said to me, "Oh no, it will never happen in New Zealand, New Zealanders are different." I got nowhere with the group so I eventually managed to build our first store down behind George Courts in Karangahape Road, which was the first drive in store in New Zealand really. That was highly successful and worked. (David Levene, 2005)*

Going it alone

Despite this indifference, David Levene realised capital from a range of sources to pursue a scaled down initiative on his own. Convincing his ageing father to mortgage his house, David Levene also sold his paint and paper warehouse in Day Street to realise cash and in addition sold shares he had in a wallpaper manufacturing company in Wellington, channelling all his funds into the construction of a drive in store, just off the main Auckland shopping district.

Six times the size of his K'Rd shop, the ground floor of the 12,000 sq ft building was modelled as a paint and paper outlet, with counters for trade custom and warehouse storage; the second floor was laid out as a wall paper showroom, displaying patterns from leading German manufacturers, Rasch Brothers, whom David Levene had secured as suppliers on a buying trip to Europe. The store, opened in France Street Newton in 1960, doubled the turnover of the Levene & Co., business from £150,000 to £300,000 in its first 12 months of operation (See Exhibit 1).

Capitalising on this increase in trade and reinvesting profits into the business, David Levene commenced a programme of branch expansion that was to characterise the development of the firm over the next twenty years. In 1965, a branch was opened at

Kelston, followed by Northcote and Pakuranga (1966); Otara, Manurewa, and Royal Oak (1967).

Discount Retailing

In 1964, Chicago-born retailer, Dave Saks, visited New Zealand. Saks and his nephew Alan owned and operated a large chain of stores on Chicago's West side called Saxon. Known for his aggressive approach to marketing, Saks was introduced to David Levene and the pair quickly established a firm friendship. Saks, however, was unimpressed by sales results at Levene & Co.'s new France Street store and he encouraged Levene to pursue discount-driven retail strategies aimed at increasing foot traffic and store exposure. The first result of this was the Easter sale promotion in 1964 (See exhibit 2). The strategy was the same as that employed at other discount houses in the United States, and the recently opened Shoppers Fair in Sydney.[2] Loss leaders—goods sold at cost or below cost—were used to attract custom and ultimately increase sales as customers made additional purchases while in store.

With the prompting of Saks, a confectionary manufacturer in Parnell, Auburn Heard, was contacted and a promotion planned around offering sweets, packaged in one and a quarter gallon biscuit jars, with each gallon of paint purchased. In addition, ladders were sold at half price and electric heaters 30 percent off. Still hesitant about the discount strategy, David Levene only ordered 200 barrels of sweets for the first day of the sale, consistent with a normal days trading from the France Street store which characteristically sold 200 gallons of paint per day. The response from the market, however, exceeded expectations dramatically. Over 1300 gallons of paint were sold in the first day of the sale alone. It was enough to convince David Levene of the soundness of Dave Saks advice—discounting became common practice at Levene & Co. In addition to paint and wallpaper, high turnover products were added to the store inventories across a wide range: toothpastes, soap, women's cosmetics, toilet paper, agpost manure, pink batts, plastic containers, and plastic buckets.

Branch Expansion

Catering to the increasing suburbanisation of the Auckland metropolitan area, Levene & Co., opened another eight stores between 1964 and 1968. But the chain was beginning to be constricted by its own success. As the France Street store could not cope with the warehousing demands of a 10-store chain, in 1970, Levene opened a 20,000 sq ft warehouse and retail store at Kolmar Rd, Papatoetoe and the head office functions of the business were relocated to this site. Underpinning his approach to doing business, David Levene issued his company philosophy later that year, suggesting the determined customer focus and price-driven retailing strategy of the firm (See exhibit 7). In 1978, the byline, 'No one undersells Levenes' was introduced to company advertising hoarding and print media. Progressively, Levene retail stores assumed a consistent formula. From the late 1970s onwards, a 10,000 sq ft layout, usually on an arterial route, became the norm as the Levene chain expanded to locations outside Auckland: Hamilton opened in 1979; Whangarei, Te Awamutu, and Tauranga in 1984. In 1986, the first franchise operation commenced in Taupo.

Management Procedures

Inside the firm, staff management practices were loose but pragmatic. As new staff joined the firm they were given an introductory tour of duty around several of the stores ranging in size from the smaller outlets like Balmoral and Manukau City Centre, to the bigger supermarket style stores at Kolmar Rd and Papakura. All staff—regardless of qualification or experience—started serving customers behind the counter. This included head office managers who were rostered to work Saturdays in a branch store serving the public. There were no formal organisational charts or staff policy manuals. David Levene and his general manager, Bob Redmond, acted as joint CEO's, sharing an office together in the main warehouse/retail building at Papatoetoe. The management style of the two complemented each other with Redmond providing a more measured approach to David Levene's do-it-now style. Inside Head Office, a limited functional structure was used: the finance manager and operations manager headed their respective departments, while David Levene insisted there be no personnel manager—something he felt every manager should be doing instinctively. Branch managers reported directly to the Redmond/Levene combination.

Vertical Integration

In 1967, David Levene had a private label paint brand, Viking, manufactured under licence. It was an attempt to extract cost advantages through own supply. However, the product was released on the market with insufficient quality testing. It did not withstand weathering, and despite Levene & Co., attempts to satisfy disgruntled customers, the episode coloured market perceptions of the quality of Levene paint products for over a decade.

> *Well after we sold some of this paint, I remember getting a call one day from a lady who lived in Remuera. There had been a heavy shower of rain and she said, "My house has just been painted with your paint and it's all on the ground like milk." I got in my car, rushed out, and sure enough, it was just as she said.*
>
> *I then had painters going around Auckland repainting the houses from the debacle of that. It did teach me the importance of quality. It took a long while to live that down. In fact, it probably took many, many years before everybody really accepted that our paint was the best on the market. (David Levene, 2005)*

Despite this costly entry, David Levene remained convinced about the advantages of own-manufacture. In 1967, using a nominee company, he purchased an existing paint manufacturing company in Penrose, establishing what appeared to the industry at large an independent brand paint supplier. By giving the plant manager wide autonomy, and keeping his own visits to the plant to a minimum, Levene's involvement in the paint company, Oregon Paints, remained secret from the industry. As a result, the factory was able to produce paint and sell to both Levene & Co., as well as competitor stores—something that the company would not have been able to do had David Levene's involvement in the firm been publicly known. The paint company developed successfully, expanded in scale, and became a successful enterprise in its own right. By 1982, turnover was approximately $1.2m a year, operating out of a 50,000 sq ft building in the Auckland suburb of Otara.[3]

A similar strategy was undertaken with wallpaper manufacture. By the 1970s, with import controls increasingly restricting the range of imported wallpaper, coupled with the cost of imported product rising, David Levene entered into an agreement with Australian firm, AWM Proprietary Ltd, and an Auckland businessman, Philip Davis, to manufacture wallpaper in New Zealand. An Auckland factory, Vision Wallcoverings, was opened in 1976. David and Davis took a full shareholding of the venture following the merger in Australia of AWM and Ashley, a competitor. By the mid-1980, staff numbers in the factory had increased to 70 and wallpaper production was around one million rolls per year. Ironically, the biggest customer of Vision Wallcoverings was not Levene & Co., but industry competitor, Smith and Smith.

Turning Point

By the mid-1980s, despite Levene & Co.'s aggressive stance in the market as a discounter, the retailing offering was beginning to stale. In the face of competition from other retail chains, such as Smith and Smith, Placemakers, Guthrie Bowron, and Mitre 10, sales at Levene & Co., levelled off.

Momentum for change gained pace when David Levene and his general manager, Bob Redmond, visited the newly constructed Browns Bay Foodtown supermarket run by Tom Ah Chee and Brian Picot. Foodtown had commenced in 1958, opening New Zealand's first supermarket in Otahuhu. Businessman, Brian Picot, joined the fledgling chain in 1961 as managing director and in 1973 the company had listed on the stock exchange, purchasing the competitor discounting supermarket chain, Three Guys, in 1985. The purchase coincided with an expansion in branch locations, and the Brown's Bay store, was one of Progressive's new-look supermarkets. Checkouts had been remodelled with the latest materials from overseas; specialty racking installed to display products; dedicated areas created to market gourmet foods, while throughout the store a stylish décor was offset by subtle lighting. David Levene and Bob Redmond realised the obvious. They were trying to sell decorating products out of stores marketing manure and wheelbarrows—a food supermarket was making a stronger fashion statement than they were (See Exhibit 4).

Within the next few weeks, an approach was made to advertising agency, Park Avenue, who handled the Bendon account, one of the more innovative campaigns at that time, to assist with transforming the firm. Reston Griffiths, the director of the agency, came up with a concept which moved Levene away from the discount warehouse image to a stronger designer presentation. A television and print media campaign was constructed which portrayed young people having fun with boldly-coloured designer items and paint. When it was aired to Levene executives they were enthusiastic about the campaign, but also realised the gap between the vibrant image on screen and the more tired business model in stores. Staff were enlisted to help manufacture the change, and over three months personally redecorated the stores in the new livery. In addition, new display stands were fitted, store layout altered, price tags updated to reflect a fashion image, and the merchandise in the stores changed. Plastic buckets, pink batts, hygiene items, and plant manure were discontinued. The thrust of the new campaign was simple: affordable fashion and good design for middle New Zealand.

The result

In the first few months of the campaign, heavily supported by television advertising, customer counts dropped but unit sales went up. The heavy advertising spend continued

along with the merchandise changes. By 1987, the Levene advertising spend was nearing $3m annually (See Exhibit 5). But sales in the business had doubled from that achieved prior to 1985. In addition, a mail order catalogue, the *Style Book,* was added to the business mix; furniture items were added to the retail mix creating a new department in the Levene business: lifestyle casual contemporary furniture. By now, with the assistance of marketing agency Park Avenue, Levene buyers were regularly hunting the globe for product, visiting trade fairs and manufacturers in Europe, United States, and the Far East, as well as conducting regular tours of stores such as Habitat, Crate and Barrel, and Ikea to remain at the front of merchandising trends and shop layouts. Inside the business, these initiatives were supported by a strong store design team lead by head merchandiser, Bill Edwards. At Head Office, a mock Levene store was constructed in the design studio to test merchandising variations.

The move toward more innovative store presentations advanced a step further with the opening of the Levene Extreme store in Auckland's North Shore at Wairau Park in 1988 (See Exhibit 6). Designed with a high stud, the store was two and a half times the size of the other Levene stores. Levene products were clearly delineated into separate departments: bed and bath, paint and wallpaper, housewares, fabrics, and furniture. Room sets were constructed to enhance the merchandising appeal of products and the lofty walls were boldly filled with product from floor to ceiling. David Levene described the retail effect as the 'wow' factor.

> *That's the impression that you create as you walk in the store. For instance we would have perhaps 50 dinner sets in stock. There would only be half a dozen that would really sell and there would be some real dogs amongst them. But when somebody walked in and saw that display of 50 dinner sets they'd say, "Wow, I've got to be able to find what I want here!" (David Levene, 2005)*

The Wairau park store had been constructed to double as a warehouse, should the venture fail, but early fears soon appeared to have been misplaced. The store became the flagship of the company retail chain and overseas designers and retail chains began visiting the new Levene Extreme store for inspiration. Two further Extreme stores were added in 1991, as David opened the company up to staff share ownership.

Not all the innovations launched under the Levene group were so successful. In 1989, an initiative by the wallpaper company into fabric printing proved costly. Attempting to construct a purpose-built fabric printing plant and develop an entirely new market, management and resources were diverted from the wallpaper factory. With a combination of prolonged production difficulties, poor cost controls, and a series of one-off specialty wallpaper runs in the factory, produced unacceptable down times and existing orders were not met. Cost overruns escalated at the fabric printing plant. To stop the flow of money, a hasty restructuring followed: management was replaced at the wallpaper factory, the fabric plant shut down, and staff laid off—the loss was $6m. The wallpaper factory narrowly averted being closed. In an effort to bolster sales a special advertising campaign was produced by Park Avenue. Penning a story-line around a factory romance, an innovative ad-campaign was launched in the summer of 1990. Sales responded, while the song specially written for the campaign, "A summer full of colour" went on the pop charts.

The next generation of stores

In a frenzied three months between September and December 1993, David Levene spent $10m purchasing and refitting the old Dominion motors car assembly plant in Newmarket, Auckland. At 7000 square metres it was twice the size of the largest Levene store to date. Moreover, the concept was a further evolution in the retailing mix offered by Levene. Designed as one of the Levene Extreme stores, the company announced that it was to be the first in a series of stores in what the company labelled 'lifestyle retailing.' The exterior of the building was reworked by architects, the in-store design was exclusively done by Levene store designers and merchandisers. Gantry cranes in the old factory were retained to use for aerial displays, as was old-style lighting and exposed beams. The room-set displays that had been successfully utilised in other Extreme stores were done on a larger scale, and speciality retailers were combined within the building to complement the Levene Extreme concept, including a movie studio merchandising store, an appliance store, a flooring retailer, and café. A children's playground in the form of an oversize paint can, brush, and plastic balls was also constructed. The new concept store was billed as shopping entertainment for the whole family.

Skellerup

By 1994, aged 64 and with no heir apparent for his integrated manufacturing and retail business, David Levene entertained the idea of selling the business. Several buyers approached the firm and local company, Skellerup Group, seemed to have the most potential. A publicly listed company, Skellerup had been formed by Brierley Investments in 1993 from a loose-cluster of 16 of its subsidiary companies including Lanes Industries (incorporating Palmers Gardenworld and Watkins Products), Masport Limited, Morrison-P.I.M., CPD Engineering Ltd (incorporating A&G Price and R.H. Freeman), New Zealand Insulators Ltd., Skellerup Engineering, Skellerup Industries Ltd., CablePrice Ltd., Projex Ltd., Dominion Salt Ltd, DML Resources, and Viking Footwear Ltd (see Exhibit 9). The architect of the scheme was Murray Bolton. As chief executive at Brierley's New Zealand office between 1991 and 1993, and with 14 years experience in the finance industry (two years as managing director of The Rural Bank), Bolton had considerable experience putting together deals such as this. Conversely, he had no experience running a retail business.

The namesake of the group, Skellerup Industries, dated back to the Para Rubber Company formed in 1910 by George Skjellerup in Christchurch. Para rubber, and more visibly, Skellerup gumboots, had since developed to become iconic brands in New Zealand and the Skellerup family had established a vertically integrated rubber products manufacturing and retailing business. An ancillary business was a saltworks at Lake Grassmere, Marlborough. In 1987, Brierley Investments paid $20.8m for the Skellerup family shareholding, whereupon the company became a Brierley subsidiary. The family association ended with the retirement of Peter and George Skellerup from the company.

The business philosophy of the newly floated Skellerup Group, recorded in its 1993 prospectus stated, '[the Group's] unequivocal objective is to maximise shareholder returns, subject to maintaining an acceptable level of risk.' To achieve this, Bolton reorganised its companies into 35 business units grouped into four divisions: manufacturing, distribution, garden supplies, and contracting and resources. Theoretically, the arrangement appeared sound. The process aimed to generate greater management accountability and autonomy, identifying those businesses which were

adding value and those which were not. The divisional structure would replicate many management functions, with each company providing its own accounting, personnel, marketing, and IT functions, but it would establish cost-centres. These could then be used either as a management tool to monitor performance, or enable the firm to sell off individual units to prospective purchasers.

Using a measure of pre-tax operating profit (EBIT)/capital employed (debt and equity) as a guide, Bolton set a group benchmark for the subsidiaries to achieve a return of 20 percent. Thirty percent of the float had been offered to the public (45 million shares) at $1.50 per share, while Bolton received 4.5m shares and took another 4.5m options. Originally, Brierley Investments took a 70 percent stake in the Skellerup Group; by 1994, it had reduced this to 30 percent, as holdings were on-sold to institutional investors.

Signing some lucrative export contracts, the combination of light engineering and mining businesses, especially DML resources with two profitable Auckland quarries as well as national and international mining contracts, initially performed well on the market, despite analysts misgivings about the 'eclectic' grouping of companies.

The company promoted itself aggressively as an industrial with an emphasis on operating earnings and cash flow rather than assets. Consequently, it stated from the outset that it intended to sell and leaseback property that its businesses presently owned. Releasing cash by splitting up older asset-rich companies was a textbook Brierley approach. The first company to go was Morrison-PIM acquired by Manders PLc, a UK-based printing inks specialist in early September 1994. Sold for around $35m, it produced a gain on sale of $12.4m for Skellerup. Assets of the Skellerup Group then consisted of $55m worth of freehold land and buildings and $224m worth of plant, fittings, equipment, and motor vehicles. However, the spectre that hung over the company was its substantial short-term debts, most of which were unsecured. Total borrowings were $140m: all of which was payable within the next five years ($40m was payable within two years). Despite returning promising net earnings of $25.4m to the year ended 30 June 1994 on sales revenue of $645m, it was clear profits alone would not sustain the level of debt repayment without either further asset sales, or increasing the cashflow of the business.

Levene Purchase

Over July and August 1994, a deal was brokered between David Levene and Skellerup by merchant bankers, Grant Samuel. The sale included the operating business of Levenes including all stock, chattels, customer base, and credit-card operations; the warehouse and head office at East Tamaki, the paint factory; the wallpaper factory; the wallpaper distributing company; a furniture manufacturing company, and Brentex, a distribution company set up to market linen. David Levene retained ownership of all the buildings. At the time of sale, the annual turnover of Levene's was around $150m, consisting of Brentex ($7.7m), Creative Design ($1.9m), Levene Paint ($23.4m), Vision Wallcoverings (approx $27m) and Levene retail (approx $84.9m). From this the operating profits were established on different parts of the business—some were priced at three times earnings before interest and tax, others at four and five times. The average P/E ratio across the business before tax and interest charges was seven; Skellerup itself had a price earnings ratio of 11; the retail industry average was approximately 10.6. On Levene's profit of $10.5m the agreed sale price was $74m, including $35m of goodwill. Despite some media misgivings that Bolton overpaid for Levenes, industry figures suggested the opposite.

For Skellerup, the purchase of Levenes added a fifth division to its diversified operation, the company believing strong synergies existed between its Garden Supplies Group, consisting of Palmers Gardenworld and Watkins, with Levenes: one provided exterior lifestyle products; the other provided interior lifestyle products. Said David Levene at the time: '. . . I believe strongly in Levenes and in Skellerup.' The buyer, Skellerup CEO Murray Bolton, was equally enthusiastic: Levenes is a perfect match,' he said, 'for Skellerup's garden supplies group Palmers Garden World. Both are in similar stages of development and both are in the lifestyle retailing category, one in interior and the other exterior. The large diversified stores like the Levene Extreme in Newmarket is a concept that could be developed throughout New Zealand and possibly into Australia.' The sale came as a surprise to Levene staff. It was not announced until the process was completed; some cried when they received the news.

New owners

After the sale was formalised, Skellerup Group brought in their own management team to Levene, retaining Bob Redmond, David Levene's previous general manager, as CEO of Levene retail. David Levene, now a shareholder in Skellerup, remained as chairman of the Levene Group of Companies, and continued to go to work each day at the Levene Head Office. Though some analysts expressed nervousness about the $35m paid in goodwill, the share price of Skellerup, rose 10c to $2.40 as news of the sale filtered through. Levene was a well-known and robust brand in the New Zealand retail environment.

Initially, it appeared business as usual at Levene & Co., except for the surprise replacement of advertising agency Park Avenue. New Skellerup executives at Levene considered that Park Avenue, while it had the creative talent, was not able to keep pace with production demands from Levenes. What this meant was not qualified, but within two weeks, the account worth between $4.6m and $5.8m was moved to Saatchi and Saatchi. Strategically, it would prove a poor choice. The advertising thrust moved away from the vibrancy and pizzazz that had come to be the Levene signature, to price and sale-orientated campaigns.

The sale of Levenes coincided with the introduction of the Australian retailer, Freedom Furniture, into the New Zealand market. Initially, the market and the new Levene management perceived this as a threat, and prepared to take the new entrants on to retain market share as media reports spoke of six large-format Freedom stores. Combined with a stated-strategy to close down smaller marginal Levene branches, plans were put in place to establish more Levene Extreme Stores as a means to increase cashflow through larger-format stores. The moves were regarded as part of an overall strategy towards refining Levenes retail 'offer' as lifestyle products while enhancing customer service and improving business systems. Chief executive of Levene & Co., Bob Redmond, announced that the new category Levenes would focus on was the well-educated 35-year-old woman with a household income of $40,000 per year who wanted to smarten up her home. As a profile, it represented 100,000 New Zealand households.

Across the Skellerup companies, Economic Value Added (EVA) was implemented in a bid to, 'link management performance measurement and incentives to the goals of capital providers.'[4] In short, to achieve targets under EVA, management had to show a high return on capital invested. Reducing the amount of fixed capital invested in land, buildings, plant, and machinery would achieve this as higher returns could be shown in relation to the amount of 'dead money.' The direction was in line with the Group strategy

to be a cash-rich, high-performing industrial. Generous executive share options were offered as the incentive for management to meet EVA targets.

Structure

The Skellerup Group acted as a holding company for its portfolio of businesses. Head Office provided a central treasury function, taxation advice, and high level management and strategic direction. Companies in the Group paid a management fee to Head Office (totalling approx $7-8m annually) and on monies invested in their operations by Skellerup Corporate, paid 18 percent interest (market rate was 8-9 percent). Aiding the drive to reduce working capital requirements and improve earnings, Levene Head Office instituted an eight by eight policy whereby wages were to be eight percent of sales and retail units were to achieve eight stock turns a year.

To meet the EVA targets, managers responded by selling off company cars and replacing them with lease vehicles. In addition, the shop fitting workshop was closed and contracted out. Levene trucks were sold and the transportation division outsourced. In the stores themselves with store wages set at eight percent of turnover, more expensive longer serving staff were replaced by juniors to meet the wages targets, and where possible, temporary staff were brought in to replace full-time staff. Soon David Levene's phone was ringing constantly; his old staff were anxious at what was going on in the firm.

In February 1995, six months after the sale, Skellerup posted a record result, lifting its tax-paid profit 60 percent to $18.2m. Sales in the consolidated group were up 33 percent, largely through the addition of Levenes. Yet, the share price, which at listing in 1993 had been $2, hovered around $2.18, having dropped since the post-purchase high.

Inside the company, the planned expansion of the Levene stores into the South Island continued. In March, following a $6m revamp of an existing building, a Levene Extreme store was opened in Christchurch, further sites under consideration included Dunedin, Invercargill and Nelson. At the same time, six smaller stores, unable to show a sufficient return under the new accounting system, were closed down.

The rapid changes in the firm did not go unnoticed by the Chairman of the Levene Group of Companies, David Levene. In particular, he was uneasy about an increasing rate of turnover among his previous staff and the new managerial culture taking hold of the firm. He had always run the business for the long term security of his family and his staff; now, it seemed to him the only goal was return on investment and meeting budgets. Without any executive responsibility and frustrated at a looming decision by Skellerup to merge the wallpaper factory with his arch-competitor Ashley Wallpaper (which he believed would result in more job losses), David Levene stepped down as Chairman after only eight months in July 1995. He declined an offer to go on to the Skellerup board.

> *People who work with you must have faith and trust in management. They must believe that management will look after their interests, and in turn management should support them and offer them long term security. I can't go along with the type of management that seems to think it is acceptable to make long-serving, committed people redundant. The only times I had real problems in business were when I made poor judgements about people who were not right for the position they were in, or who did not understand the culture we had in Levenes. (David Levene, 2005)*

Skellerup Performance

By July 1995, the performance of the Skellerup Group was a mixed bag. The jewel in the group was still the manufacturing division. On sales of $339m it produced an EBIT of $36.1m: 56 percent of the Group's total EBIT (Levene Paint and Vision Wallcoverings had been placed in the manufacturing division). Results at DML Resources were less than successful: earnings had been up $51m, but the EBIT had only increased by $3m as operating leases and high maintenance costs cut into revenue. Meanwhile, Levenes, the fifth division of the Skellerup Group, was combined with Palmers Gardenworld to form a new retail division. Palmers had 34 stores but the change brought no synergies between the two companies. Both operated as distinct companies—if anything, the change only masked Palmer's losses. Operating costs at the garden centre had spiralled, and already, the chain's liabilities exceeded its current assets. A turnaround plan included constructing further large stores and remodelling existing ones.

Meanwhile, sales from Levene retail stores had increased by $10.4m to $95.3m, with the EBIT increasing from $3.5m to $4.2m. But the concerning figure in Levenes accounts was the current assets of $34.8m. With no investment in land and buildings, and with vehicles switched to lease arrangements, most of the amount was in stock. It was surprising, especially since management had progressively deleted the overseas suppliers to Levenes, in favour of New Zealand suppliers. It had been a move to decrease the amount of capital tied up in stock in shipment, but it had other consequences: the range of product on display had reduced and had become more predictable. The change in buying patterns had been contested by Levene stock buyers. They were replaced by new hires.

> *After I sold the business to Skellerup in 1994, relationships with suppliers deteriorated and the coherence of the product range was lost. We used to have very good relationships with suppliers and worked with them for everybody's benefit. Eventually, product was only stocked if it was able to achieve a specified stock return. I don't believe that is the right way to approach successful retailing. You need a full range of products to allow the customer choice.*
>
> *I maintain that if you have got two or three million dollars more of inventory than you should have, at 10% interest that's a cost of $200,000-300,000 a year. Given the way a similar amount of money can be wasted on bad print and television advertising, that is a small price to pay to demonstrate the company's product range, to create a positive image, and to give the feeling the company is committed to providing real depth of product. (David Levene, 2005)*

In the Skellerup Group itself, sales revenues had increased from $645.8m to $827.9m, posting a $44m profit. Meanwhile, a year on, encouraged by the switch to EVA, non-cancellable lease commitments had increased from $67m to $108m; Group finished goods inventories had also increased from $84m to $100m; borrowings had increased to $170m.

Maine Investments

Surprisingly, in December 1995, Murray Bolton announced an MBO takeover offer for the Skellerup Group at $2.45 per share. It was the largest leveraged buyout in New Zealand corporate history at that time, taking the public company off the share market and into private hands. Supported by GS Capital Partners, an investment fund affiliated to New York investment bank Goldman Sachs, Bolton offered a premium of 33 cents per

share on the prevailing market price of $2.12. Brierley, which owned 30 percent of the Skellerup, viewed the offer positively. As Bolton was effectively an 'insider' New Zealand Stock Exchange Listing rules required an independent appraisal report on the offer be made available to shareholders. Merchant bankers, Grant Samuel, undertook the investigation. Due to the time constraints, their report was offered as an overall opinion rather than an audit or detailed investigation. They were appointed on the 21 December; the report was mailed out to shareholders on the 22 January.

After assessing the value of the various Skellerup subsidiary companies, Grant Samuel came to the following conclusions: It valued Skellerup in the range of $2.21-$2.56 per share (between $358m-$418m) and viewed that Skellerup, largely due to its collection of small companies in terms of sales, assets, and earnings, was not a strategic acquisition target (See Exhibit 10). In addition, Grant Samuel believed an alternative offer was unlikely; that Skellerup shares were likely to trade at less than $2.45 if the Maine offer was unsuccessful; and that Skellerup had a portfolio of 30 well managed businesses, most of which were mature.

Stated Grant Samuel: 'The valuation of $2.21-$2.56 per share represents multiples of 1.9-2.2 times net tangible assets and implies total goodwill of $169.5-$229.6 million. This is a substantial amount of goodwill, particularly as many of the Skellerup companies are small businesses. In the absence of special circumstances, small businesses do not generally justify high levels of goodwill.'[5]

With positive support in the market, on 21 February 1995, the offer for Skellerup Group by Bolton's new company, Maine Investments, became unconditional (See Exhibit 11). Maine Investments paid $520m for the Skellerup Group. Eighty three percent of the new firm was owned by GS Capital Partners II, ten percent by Murray Bolton, and seven percent by Skellerup senior managers.

Debt Repayment

Media analysts reported that given the significant debt in the deal, Maine Investments would likely force an aggressive sale programme over the next 12 months. They were correct. However, as a British retail expert was brought in to revitalise Levenes and Palmers Gardenworld, the first of these deals, the sale for $90m of mining company DML Resources, fell through the week after the Maine's purchase of Skellerup. Under the terms of funds supplied by Goldman Sachs, Skellerup had to meet a stringent debt repayment programme so continued with its asset sale programme. In June 1996, Cable Price, a 70-person importing company that serviced and distributed heavy equipment including Hitachi construction equipment and Scania trucks, was sold to Hitachi Construction for a reported $12m. Skellerup Group's 50 percent holding in Dominion Salt, was sold for $36m (it had been valued at $38.6m by Grant Samuel), and DML Quarries (part of the DML Resources Group) was sold for $10m.

That same month, in the midst of further branch closures in the retail division, it was announced that Levenes had made a loss of between $11-15m. The company cited adverse trading conditions as the reason behind the poor performance, but retail sales figures had not fallen markedly, and five months earlier, Grant Samuel had projected an EBIT of $5.6m on total earnings for the year to June 1996 of 117.3m. Two planned Levene Extreme stores had not eventuated, indeed, there had been four more branch closures over the past five months, taking the total closed to 12.

Core paint and paper was the lifeblood of Levene business—as were the small stores. They were convenient places for trade customers and the public to pick up paint and wallpaper. As long as paint and wallpaper are advertised and promoted properly, and the role of the small stores as convenient pick-up places for people to shop for paint and wallpaper is understood, the business should survive and prosper.

If the small stores are closed down and the emphasis is put on glamour lines, they will lose out on the 'meat and potatoes.' New Zealand is too small to just target an up-market niche; companies that ignore the 'meat and potatoes' base products do so at their peril. It is more expensive to run the small stores; usually the wage percentages are a bit higher, but the margins on paint and wallpaper are sufficient to compensate for that. (David Levene, 2005)

At complementary retail chain, Palmers Gardenworld, a similar play was being acted out. Though Palmers Gardenworld had been purchased with 34 trading locations, 10 had since been closed. During the previous 12 months, the former CEO of Palmers and other top executives had offered to purchase the garden centre chain. Merchant bankers had been engaged to work out a deal, but it had not come to fruition despite an offer being made.

In December, the size of the Levene business was further reduced with the sale of the Levene paint factory. With an annual turnover of $20m, it was sold to ICI for a reported $23m, who promptly announced plans to close down the Auckland plant with the loss of 68 jobs. Selling the paint factory, also lost the company rights to the Levene paint range of 3000 colours. One had to be purchased elsewhere. The news came as reports filtered through to the market that for the second year in a row Levene retail was having difficulties with old stock, the result of ongoing difficulties with information systems in the firm. Meanwhile, annual advertising expenditure had fallen from $5.7m in 1995 to $3.3m.[6]

Not surprisingly, turnover among senior Levene staff increased markedly. Between June 1995 and June 1997, top management at Levenes turned over 125 percent as market pressure on Maine Investments intensified. Concerns also focused around the declining value of the $77m worth of bonds issued by Skellerup Finance to replace a $75m interim loan as part of the MBO. The yield, originally at 10 percent, had gone over 20 percent—a higher yield indicating that the bonds were considered a higher risk. As suppliers who dealt with Levenes were put on extended payment basis, the business press began to speculate about the financial stability of Maine Investments. In May, the Stock Exchange launched its third price inquiry into the diminishing value of the Skellerup Bonds.

Inside Maine Investments, the pressure of debt repayment continued, sucking cashflow and capital assets out of the firm. Despite paying off $80 million of its first ranked bank debt, reducing it from $315 million to $235 million, bond yields rose as high as 35 percent.[7] In August 1997, dramatic restructuring plans were announced. New York investment bank Goldman Sachs injected an additional $40m rescue package into Maine Investments, but with strong undertakings from Maine. Goldman Sach's executives flew in to oversee the changes and the company's name changed from Maine Investments to Vermont Investments.

The Manufacturing and Distribution divisions of Skellerup were combined as one division, while retailing (Levenes and Palmers Gardenworld) as well as DML contracting were left outside the restructured company, with Goldman Sachs taking an option on their

purchase at reduced values. In Levenes itself, $17m was injected into the company to pay outstanding supplies and counter attack the flagging performance. A new advertising campaign was launched aimed at marketing the classic everyday items that the company was known for. It was an unabashed attempt to shake off an image that the company had become too expensive and out of touch with its market.

The restructuring coincided with the Securities Commission launching an investigation into the bond prospectus on which Skellerup Finance had originally raised the $77m in bonds at the start of 1996. On 24 October, Skellerup bond trustee, Guardian Trust, amidst the strenuous disagreement of Vermont Investments and Skellerup Finance, informed the companies registrar that Skellerup Finance was in serious financial difficulty.

Seven days later, on the 31 October 1997, after several months of speculation, Levenes was placed under receivership. The doors were closed, and receivers, KPMG, organised a series of sales to clear out stock and realise what cash they could. Four days later, DML Resources was also placed into receivership owing $10m. Palmers Gardenworld would soon follow. As the New York Investment Bank, Goldman Sachs, sent over additional personnel to salvage what it could from its investment, Steven Shafran, a partner in the bank commented: "We have invested $170m into the company and frankly I am not sure if it is worth anything.'

The week following the receivership, the receivers, KPMG, sought potential buyers for the 28 leased stores, four trade outlets, warehouse, and stock of Levene and Co. The Warehouse group expressed interest along with Hellaby Holdings and the Farmers Trading Company. Some completed due diligence and at least two offers were made, but not accepted. Unable to find a buyer for the chain, the receivers sold of some of the individual stores, including three to Taupo-based franchise holder, Paul Trewavas who continued to trade. The Levene commercial division along with the Wairau Park store were sold to ICI. In February 1998, when the receiver's report came out on Levenes, secured creditors faced a loss of $21.4 million. Unsecured creditors, including suppliers, lost $17.4 million. A chapter in New Zealand retailing history was over.

> *Great retailers like Sam Walton, have as I do, a genuine concern for the customer which seems all too rare among the financiers who control most of the major retail operations today. You need a commitment to running stores properly and to displaying the merchandise attractively; you need a commitment to discipline and you need to work with people, talk with them, and get to know and understand them.*
>
> *I listened to our people. I used to visit the stores, visit the warehouse, and visit the factories—always listening to the people to learn what the problems might be and what good things were happening. From this I would learn what lines were selling and what lines weren't.*
>
> *I would also serve the customer to find out about the customer's feelings and opinions. I believe it is absolutely impossible, to run a business of our type by sitting in an office. You must be with the people all the time. You must be out there. You must lead them. And the only way to lead them is to know them, to be with them and listen to them. To work with them, so they can see you understand their problems and their part in the business. You cannot do that from an office, or by looking at results, or by analysing the numbers. It's impossible. (David Levene, 2005)*

Epilogue

Since the closure of the Levene chain, Taupo franchise holder, Paul Trewavas continued trading, opening additional stores in the North Island. In 2004, he sold his chain to Australian based Freedom Furniture. Meantime, David Levene has redirected his energies into further new business activities. Alongside his own interests in the property business, he has been actively partnering and supporting a further generation of young entrepreneurs with ventures in the produce industry, television production, and brand marketing.

Exhibit 1: The Levene store at 123 Karangahape Rd, Auckland City (Top). The France Street store, Newton (bottom).

Source: Levene & Co., Company Archives, Private Collection.

Exhibit 2: David Levene's Full-page Advertisement, Run at Easter 1964

LEVENE'S DROP A BOMBSHELL

JUMBO 1¼ GALLON BISCUIT JAR FILLED WITH 5LBS. HEARD'S CANDY WORTH £1·11·6 THE JAR ALONE IS WORTH 9'11 (ONLY ONE PER FAMILY)

Heards Californian Selection

SAVE £1·10·0 WORTH £1·11·6

ONLY 1'6 WHEN YOU PURCHASE ONE OR MORE GALLONS OF WORLD-FAMOUS . . . DULUX PAINT

Available for three days only—Tuesday, Wednesday and Thursday at no increase in regular prices. It's the bargain of the year, this magnificent re-usable jar of delicious Heard's candies—a rainbow range of colours and flavours, to delight the whole family.

OTHER LEVENE'S SPECIALS:

ELECTRIC INFRA-RED HEATERS · 5 FT. HOUSEHOLD STEPLADDER · FIRST GRADE MOHAIR ROLLER BRUSH AND HANDLE · CAR WASH BRUSH · WALLPAPER

AMPLE FREE PARKING

while stocks last . . .

LEVENE'S

PERSONAL SHOPPERS CASH SALES ONLY SORRY . . . NO 'PHONE ORDERS

Auckland's largest Drive-in Paint and Wallpaper Shop, France St. (BEHIND GEO. COURTS)

OPEN 'TIL 5·30p.m. TUESDAY AND WEDNESDAY. 9·00p.m. THURSDAY NIGHT.

Source: Levene & Co., Company Archives, Private Collection.

Exhibit 3: Paint and wallpaper entrepreneur, David Levene, (late 1980s)

Source: Levene & Co., Company Archives, Private Collection.

Exhibit 4: Levene stores before and after the change of direction in 1985

Source: Levene & Co., Company Archives, Private Collection.

Exhibit 5: Company advertising from the late 1980s

Exhibit 6: Levene Extreme store, Wairau Park, 1988.

Source: Levene & Co., Company Archives, Private Collection.

Exhibit 7: Levene & Co., Company Philosophy (Circa. 1970)

A customer is the most important person ever to come into the store, in person, by mail, or phone.

A customer is not dependant on us—we are dependent on him.

A customer is not an interruption of our work—he is the purpose of it. We are not doing him a favour by serving him, he is doing us a favour by giving us the opportunity to do so.

A customer is not an outsider to our business—he is part of it.

A customer is not a cold statistic: a customer is a person who wants to know all the facts about our merchandise. It is our job to provide all possible information to assure him that we have his interest uppermost in our consideration.

We give our customers an unconditional money back guarantee.

Source: Levene & Co., Company Archives, Private Collection.

Exhibit 8: Levene & Co., Money Back Guarantee

If you are not satisfied with your purchase of any product from Levene's just return your goods with your sales receipt, and we will cheerfully refund your money or replace your purchase. For any reason.

Source: Levene & Co., Company Archives, Private Collection.

Exhibit 9: Skellerup Group Companies as of December 1993

1. CPD Engineering Ltd (incorporating A&G Price and R.H Freeman
2. Federal Springs/National Springs (50% owned)
3. Harding Electronic Systems Ltd
4. Masport Ltd.
5. Morrison PIM Holdings Ltd
6. NZ Insulators Ltd
7. Skellerup Industries Ltd
8. Skellerup Engineering Ltd
9. CablePrice Ltd
10. Paykel Ltd
11. Projex Ltd
12. Skellerup Flooring Ltd
13. Viking Footwear Ltd
14. Lanes Industries Ltd (incorporating Palmers Gardenworld and Watkins Products)
15. DML Resources
16. Dominion Salt Ltd (50% owned)

Total staff numbers: approx 2847

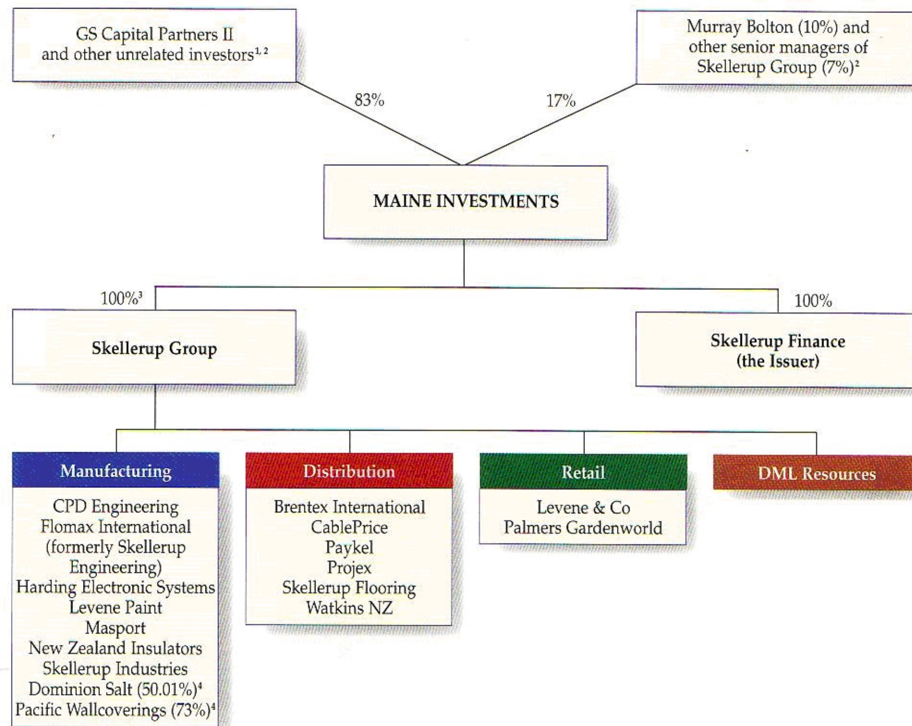
Source: Compiled from Skellerup Group Annual Report, 1994.

Exhibit 10: Grant Samuel Valuation of Skellerup, 1996.

Valuation of Skellerup ($ millions)		
	Low	High
Value of ungeared business		
Distribution	136.6	156.2
Manufacturing	233.4	267.3
Retail	64.6	71.6
DML Resources	116.4	120.2
Head Office and other assets	-14.7	-18.9
Total Value of ungeared business	536.3	596.4
Net debt at 30 November 1995	-167.4	-167.4
Net other liabilities of Skellerup	-10.9	-10.9
Value of Skellerup	358	418.1
Cash on exercise of options	16.3	16.3
Value of Skellerup for valuation purpose	374.3	434.4
Shares on issue (millions)	169.4	169.4
Value per share	$2.21	$2.56

Source: Grant Samuel & Associates Ltd., *Report on Maine Investments Ltd./Skellerup Group Ltd.,* 1996, p.2.

Exhibit 11: Skellerup Corporate Structure, February 1996



Source: Skellerup Finance, *Prospectus for Skellerup Bonds,* February 1996, p.7.

Endnotes

[1] By the mid-1970s, distribution of the advertising circulars was over 270,000.

[2] John W. Ewing, 'Discount Houses in Australia and Mexico', *Journal of Marketing*, July 1962, p.38, 37-41.

[3] Capitalising on the increasing strength of the Levene paint brand in the market, in the Levene retail stores, all other competitors brands were removed from the shelves that same year in Levene & Co., and the Levene branded paints, Architect Series and Goldline, were merchandised exclusively, though the ownership of the paint factory—Oregon Paints—was held covertly.

[4] Skellerup Group Annual Report, 1994, p.8.

[5] Grant Samuel & Associates Ltd., Report on Maine Investments Ltd./Skellerup Group Ltd., 1996, p.3.

[6] In 1997, it would be $2.7m.

[7] Maine had been required to pay $50 million by June 1997.