A serial successful strategic transformer of businesses

An interview with Anthony Habgood, Chairman of Whitbread plc, Reed Elsevier plc and former CEO and Chairman, Bunzl plc

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Abstract

Purpose – The purpose of this paper is to demonstrate how key strategic decisions are made in practice at successful FTSE 100 companies.

Design/methodology/approach – The paper is based on a semi-structured interview with the Chairman of Whitbread plc, Reed Elsevier plc, Mr Anthony Habgood. Mr Habgood has a track record in successfully achieving corporate strategic transformation.

Findings – The paper sheds light on ingredients of successful strategy formulation and implementation, corporate strategic transformation, key elements of successful mergers and acquisitions and leadership as a vital ingredient in corporate performance.

Research limitations/implications – The paper presents views of a successful and highly regarded Chairman of two FTSE 100 companies. Mr Habgood was also the Chief Executive of a third FTSE 100 company. It provides an insight on how strategy is made and executed.

Originality/value – The paper bridges the gap between theory and practice. It provides a practical view and demonstrates how corporate leaders think about key strategic issues.

Keywords Organizational restructuring, Acquisitions and mergers, Strategic leadership

Paper type Viewpoint

In this issue we are privileged to interview Mr Anthony Habgood. He was appointed the Chief Executive of Bunzl in 1991. *The Financial Times* described him as the chief who turned a ragbag into a silk purse (*FT*, 1 March 2005). He is widely credited with transforming Bunzl nicknamed "bungle" by the financial analysts into a successful focused outsourcing services business. "Anthony Habgood had a poor deck of cards to start with, but he has turned Bunzl around. This is a story about great management" (*FT*, 1 March 2005).

The results speak for themselves during his time as chief executive and then as executive chairman, between 1991 and 2005, Bunzl's turnover from continuing operations grew from £500 million to £2.9 billion, and profits improved 34 times. He improved the top and bottom line through developing and implementing a focused strategy yielding both organic and acquisitive growth. Research by both academics and consulting companies suggest that acquisitions more often than not destroy rather than create shareholders' value. The experience of Bunzl under Mr Habgood's leadership suggests that if the broad business and acquisition strategy are aligned,

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targets are selected carefully and based on clear criteria, and the target business is valued properly, then acquired businesses that are integrated well can create value. As the *FT* noted Bunzl have shown that an acquisition path is sustainable (*FT*, 16 August 2008). Mr Habgood is on the record stating that Bunzl's transformation reflects the pattern of the British economy towards services and away from manufacturing products. He also stated that the transformation also reflects a globalisation trend – as the world economy has widened its outlook, Bunzl has focused on a global scale.

As noted by the *FT* "in the 1980s, Bunzl which had been established in 1940 manufacturing cigarette filters along with tissues and crepe papers, made an acquisition a week and had an incoherent mix of businesses and geographies" (*FT*, 29 June 2007). At the time of taking over as the Chief Executive in 1991 Bunzl's hotchpotch of businesses included a Chicago-based building supplies business, a paper distributor in Glasgow, a paper trading business in New York and a frozen chicken distribution business in Los Angles. Interestingly, in 1991 there was not a single business in common between Europe and the USA. Between 1991 and 2005 Mr Habgood sold 60 per cent of the businesses that he inherited (seven divisions). He finally spun-off Fitrona cigarette filter and plastics manufacturing business in 2005 despite the fact that the business was on the up and in the previous year had recorded 13 per cent increase in profit. He also made a large number of bolt on acquisitions over £1 billion over a ten year period (1995 to 2005) in North America, Europe and Australasia.

When he was appointed Non Executive Chairman of Bunzl, Mr Habgood was also appointed Chairman of Whitbread plc a more consumer facing business as opposed to a pure business to business, in 2005. However, Whitbread faced similar strategic challenges as Bunzl. Following a strategic review in 2004 the new management team had set on a course to create shareholder value by implementing a focused strategy. To this end it began a programme of disposals that included Whitbread's Marriot hotels franchise. This was extended to include TGI Friday's restaurant chain, 240 pubs, David Lloyd's fitness club chain, Chiswell Street site where it all started and from 1976 onwards was used as a conference and event venue, and its stakes in Pizza Hut and Britvic. Meanwhile, its main businesses especially Premier Inn and Costa Coffee expanded rapidly. As Simon French, an analyst at Numis Securities, noted, "the disposals means that Whitbread now owns all of the brands that it operates, putting it in almost total control of its cash flow" (*FT*, 18 January 2007). Reinventing a company that *The Financial Times* referred to as the "fat conglomerate" takes more than divesting non-core businesses (*FT*, 8 August 2006). The strategy Whitbread charted helped it to develop a focused core shape and a set of wholly owned core brands with clear growth prospects. Successful implementation of it's strategy involved selecting the right product markets and within each product market offering the winning value proposition as well as getting the right organisational structure.

Mr. Habgood was appointed Chairman of Reed Elsevier in 2009 when he retired from Bunzl. He retains the Chairmanship of Whitbreds. Reed Elsevier is also being transformed although arguably it is in a better shape than most publishers to weather the economic downturn. Reed's exhibition in business is likely to be affected adversely by the current slowdown and the business information division – a stable of trade publications that are overly reliant on business advertising is also struggling and was recently for sale.

Mr Habgood spent the first 17 years of his career as a management consultant with the Boston Consulting Group living and working in Boston, Tokyo, Munich and London. He was the chief executive of Tootal prior to taking over as the chief executive of Bunzl. He has successfully transformed two FTSE 100 companies and Chaired three. An analyst had this to say about Mr. Habgood "he is truly one of the great managers of the past 20 years and originally a management consultant. He is focused and is a tough taskmaster but was always charming to the outside world" (*FT*, 21 April 2009).

***Journal of Strategy and Management*. You have an unrivalled experience of strategy… how do you define strategy?**

Anthony Habgood: I was in the strategy consulting business for a long time, and fundamentally I believe that strategy is about "beating" the competition. It means getting yourself into a position where you are fundementally ahead. You know that you are winning if you are gaining market share from your competitors whilst achieving better returns. If you can succeed in doing that you truly have some kind of competitive advantage. Strategy is also about getting into the right market segments – there are no long term benefits in beating a competitor in a dying market!.

I think of strategy in two distinct strands: one is business strategy and the second is corporate strategy. Most companies are not single market, single product businesses and have various businesses both related and unrelated. They therefore need to have a competitive business strategy in each market. It is vital to position oneself in the right markets as this detremines where resources are allocated. Fundementally the corporate strategy determines which business you back and which you do not.

***JSMA*. Is there some type of ideal process that you have for determining business strategy?**

No, I don't think there is an ideal process but it is about understanding your markets, competitors and your position in the market. Competitor performance and market trends are one aspect. The other looks at the reources available – financial and non financial. Pragmatically, you can look at things by exception but it boils down to understanding markets and understanding your competition.

***JSMA*. How do you go about gaining that understanding as an organsiation?**

There is a lot of public available information particularly in consumer markets. In addition, firms will have access to daily data on their own performance. The position becomes somewhat blurred whe one gets into the business to business markets. But here one's organisation has a great deal more knowledge about its markets and it's position in them and how its competitors are doing. It requires getting a feel for the business and for what the organisation knows.

***JSMA*. How do you deal with too much information?**

There's a difference between data and information and I don't think I suffer from an overload of information. We all press the delete button when required – it's important to eliminate the noise. I think there is a relatively small number of things that one needs to keep under control.

***JSMA*. To what extent does cognition and intuition impact on the strategy process?**
I'm all for intuition but I prefer when it is supported by information.

***JSMA*. You have been involved in strategic transformations in a number of companies. What are the signs that you would see as important for a deep transformation exercise?**
You have to look at both the corporate and the business levels. There are a lot of companies around that you might call failing congolmerates – they tend to compete in lots of different areas, not really very successfully in most of them but perhaps there are one or two areas that they do well. These companies are not in control of their own destiny and information to the board is filtered by the top management.

In this type of organisations it is fairly clear that a different corporate strategy is needed. You need to reallocate resources to the parts of the buisness that are doing well and/or have potential. But that is so particular from business to business, it is hard to generalise.

It is difficult to sit in a company and see where that company will be 15 years later. For me it doesn't work like that, it is a far more pragmatic and gradual process. There may be some parts of the company you are quite sure you don't want to continue with as they may be losing money, losing cash, stagnating, competitively disadvantaged and perhaps all of these. It is important to get out of these businesses quickly as they are just a drain on the organisation.

There are some parts of the business where there are clearly competitive advantages and growing well and to my mind it is important to back those immediately, not to mess about and say I've got to sort out something else before you do that. The business that Bunzl is now was small in 1991 and doing well but not doing as well as it could have. It was making 5.0 per cent margin translating into a good return on capital, growing decently and clearly had a competitive advantage. So that was something it was natural to back. Do you know then what you will be able to achieve in 15 years by doing that? Of course you don't.

***JSMA*. Do you see transformation as an overly risky business?**
During a corporate transformation, where you are backing winners and culling losers, it is actually not that risky. Of course any organisation that you put through radical change has some element of risk but you are still backing what you think of as a winning model.

***JSMA*. In implementating your strategy to achieve the end result, how do you deal with any resistance?**
I have nearly always found that people love success and being part of a winning team. However, there will always be some people who feel directly threatened and you have to take that into account. But the majority of people will instinctively know that what is propsoed is the right thing to do and will be supportive. The more you get people involved that understand the positive side of what you are doing, the more supportive they will be.

Some leaders may be hesitant in getting rid of a business that is costing the company a lot of time, money and energy. While this is not high risk may well be right, many do not take this step because of organisational impetus that says that the business can be turned around in a year or two and may be worth more then. In my view you are still probably better off letting it go to someone else who is better equipped to achieve competitive advanatge in that particular market. Being decisive, in a way that has a low probability of being wrong is usually popular in an organisation.

***JSMA*. When I think of transformation I think of two dimensions, one is depth, how you compete in the market, the scope of the business. The other is the speed of change. How do you decide on the extent and the speed?**
The extent evolves because in every business the things you can do that will help performance evolve over time. These changes mean that you are to an extent feeling your way, while you may think you know where you are going,where you are really going will evolve.

Speed is determined by the proportion of the organisation that requires substantial change. Obviously, the larger the parts that are loss making, the more important it is to change them. Very often there are quite a lot of parts of the business which are when evaluated, are neither adding value nor detracting value. You can choose your timing on those but it is very important that the ones that are detracting value are dealt with quickly. Again, as time goes on, the dynamics will change.

***JSMA*. In the case of Bunzl, you have achieved a high percentage of success in mergers and acquisitions. What is your secret?**
I certainly don't believe there is a single secret to success. Each acquisition is different and there is no common pattern. It is important to have a professional process that is controlled centrally by a small number of people. I think one knows how an acquisition will proceed if one knows the company, the industry and competitors. The further away you are from your core competencies, the more important due diligence is. The views of suppliers and customers about the products and services of that company, are terribly important. Of course there are also cultural and management issues. If you have an internationalist management team you can minimise risks by taking on board cultural differences. For all acquisitions, you need a central discipline, local buy-in and corporate sponsorship. This also means the organisation having a real understanding of the aquisition strategy and how it is being implemented.

***JSMA*. You talk about culture and the importance of cultural fit in the acquisition process. You also mentioned the importance of broad ranging due diligence that focuses on customers, suppliers in addition to financial considerations** . . .
There are some companies that you buy that have been competitors. In this case, you know the company and their operations. But if you are moving overseas for example, you need to get some understanding from outside. Dangers arise when companies enter mergers and aquisitions when the core company is not doing well, attempting to mask the performance of the core business.

***JSMA*. To what extent is it important not to be hungry for mergers and aquisitions?**

If you are pursuing acquisitions to try and buy yourself out of a problem you are increasing the probability of failure. If you are trying to prop up a collapsing business by acquiring another business, then failure is likely. I believe that companies should produce viable plans that focus on organic growth and that acquisitions should only be pursued for added value. It is great to want acquisitions and potentially dangerous to need them.

***JSMA*. At Bunzl many of your acquisitions were small in corporate terms and were not really game changing acquisitions. To what extent was the pursuit of smaller acquisitions a factor in your M&A success rate?**

The degree of risk in smaller acquisitions is by defintion smaller. Yes a lot of the acquisitons that we pursued at Bunzl were not transformational in themselves but may in the end have transformed the company. We bought two small companies in UK and the Netherlands in 1993 and 1994. Bunzl now has over £1 billion sales in UK and €1 billion sales in mainland Europe – these acquisitions transformed the company. They did not suddenly add to the company but they gave the opportunity to do so.

More generally, I often think that companies which find themselves being the highest bidder in an unrelated industry to their own – should ask the question 'Why'?. This is particularly the case when the company has no involment in that industry segment and no potential synergies can be foreseen. In that scenario, there may be a reason that the people who knew the industry better and had more synergies bid less.

***JSMA*. What are the main challenges in international buisness apart from the cultural challenge?**

The further that you go away from the market and competitors set that you really know, the more dangerous it becomes as the dynamics are more complex. This in turn needs better due diligence and a receptive, culturally adaptable management team.

***JSMA*. You have been the chairman of a number of companies – what essentially is the difference between chairman and CEO?**

They have different roles, the chairman is responsible for running the board and determining the policy/strategic development of the company. He is involved with board members and board evaluation as well as the reputation of the company.

The chief executive is the person, who without question is running the company with planning, budgetary and operational responsibilities.

While there is some overlap, fundamentally the roles are different. In most cases, the role of chairman is not full time –otherwise it might impinge on the work of the chief executive. Of course the chairman and chief executive need to be in regular communication.

***JSMA*. What does leadership mean to you?**

Leadership in a corporate context is getting the best out of people. Strategy is a competitive game dependant on the deployment of a limited amount of resources – human capital and other, in a huge arena to good effect. Leadership is about directing people into situations by moving people into situations where they will be most likely to be successful. Success then builds on itself as people feel proud of what the organisation does.

Leadership involves taking a complex issue and communicating that issue is a simple and clear way. It involves determining simple and clear incentive systems. It also involves reacting in real time.

I do not believe that leadership in business is about the cult of a personality. It is about getting the best out of an organisation.

JSMA. Your life journey had been varied and broad ranging – what reflections do you have on the journey so far?

I have been very lucky in my career. I was put in positions of responsibility at an early stage and have had some great opportunities. Perhaps most of all I have been fortunate in that I have always enjoyed the various roles that I have had. I have no regrets and continue to enjoy the challenges of the international business world.