Three-point turns

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An analysis of different change strategies adopted by the incoming CEOs of a trio of major companies

What do the following companies have in common: Marks and Spencer, Boots and Coca-Cola?

Yes, all three of them sell consumer products and are recognised brands, but in recent years they have also appointed new chief executives who have taken the chance to make major changes in strategic direction.

As soon as Steve Russell took over at Boots in February 2001 he ordered a restructuring programme. Store closures and redundancies led the drive to cut costs, improve profitability and win over investors, who had seen the share price underperform the stock market over the previous 18 months.

A key problem for its high-street retail operation was that the product portfolio included many ranges that the big supermarkets had also started to sell in large volumes. This intense competition had been forcing prices and margins down. Russell decided to implement an exit from non-core leisure products such as CDs, cookware and home-brewing kits. In their place he introduced services such as dental care, reflexology, chiropody and, more recently, Botox beauty treatments.

The short-term effect of this policy was a reduction in sales value but an increase in total margin. Although profits were up 10 per cent and the share price in June 2002 was 684p, compared with 601p in February 2001, Russell recently commented that the company still had to "drive health and beauty sales much harder".

Boots had been offering a range of products for which it didn't enjoy a high enough market share to generate significant cash to invest in future sales growth. Combining portfolio analysis and the Boston Consulting Group (BCG) matrix with competitor analysis and Michael Porter's theory of market positioning, we can see that sections of its product range were facing intense competition from supermarkets that had been predominately food retailers, but were increasingly becoming general retailers. In response, Boots rationalised the product range and moved upmarket to reposition itself away from the supermarkets. Following the principles of Igor Ansoff's growth vector matrix, it also introduced new products into its high-street stores to breathe life back into its stagnant sales performance.

In February 2000 the newly appointed chief executive of Coca-Cola, Douglas Daft, took over a company that was losing market share to PepsiCo in the US, had been suffering as a result of the economic crisis in Asia and was facing anti-trust issues in Europe.

He began by axing jobs, but there was also a recognition that Coca-Cola had become a slow-moving bureaucracy that was dangerously out of touch with local market trends. If managers in Europe wanted to launch a new product, for example, they had to seek approval from the head office in Atlanta. This meant that in a market which was becoming saturated by short-cycle "fashion brands" Coca-Cola was losing out to local competitors. The new plan was to create a more responsive, entrepreneurial structure.

Acting as Daft's change agent, Jeremy Schwartz, marketing and innovation director for Europe and Asia, created teams with a mix of skills (from flavour chemists to marketers) to develop new ideas and see them through to their commercial launch. He also tried to develop closer ties with key stakeholders such as bottlers, without whom nothing could happen. Charlie Frenette, head of Coca-Cola's operations in Europe, says that they managed to launch Fanta Exotic in four months, for example, compared with four years under the old system.

Although the Coke brand still accounts for 60 per cent of the company's overall sales, Daft believes that there is scope for growth in other segments.

Coca-Cola was faced with increasing complexity and dynamism in its markets and found a mismatch between its structure and the environment. Tom Burns and George Stalker, the authors of *The Management of Innovation*, argue that a dynamic environment calls for a more organic, flexible organisational structure – which Schwartz was given free rein to implement.

When Luc Vandevelde took over at Marks and Spencer in February 2000, the company had lost market share and had been badly hurt by its overexpansion in both the UK and abroad. It was accused of losing touch with its customers, while overseas it was just another bland, relatively unknown chain. In order to fill the expanded store space it had moved into areas such as mobile phones and jewellery, where it was merely a "me too" player.

In its heyday, M&S's core strengths had been its bestselling underwear, which had commanded 30 per cent of the UK market, and its ready meals, which had accounted for more than 40 per cent of sales, despite strong competition from the supermarkets. Vandevelde took M&S back to its roots, modernised the stores and hired top designers to introduce a new line of women's wear. He has also shaken up the company culture by encouraging a more entrepreneurial management style. He has allowed buying decisions, once dictated at head office, to be made at individual stores and based on local tastes. He has also broken links with established suppliers and transferred much of the clothing production overseas, which has boosted margins.

M&S's rationalisation of its overseas ventures and products has seen a return to core competencies, as propounded by Tom Peters and Bob Waterman. Taking advantage of global production (advocated by Porter), and encouraging a more entrepreneurial, responsive culture has allowed it to get back in touch with its customers. ■

Further reading

The theoretical frameworks mentioned in this article can be found in any good study system or the following texts:

- Gerry Johnson and Kevan Scholes, *Exploring Corporate Strategy*, Prentice Hall, 1997 (for Ansoff, Porter and the BCG matrix).
- Charles Handy, *Understanding Organisations*, Penguin Business, 1993 (for Burns and Stalker, and Peters and Waterman).

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