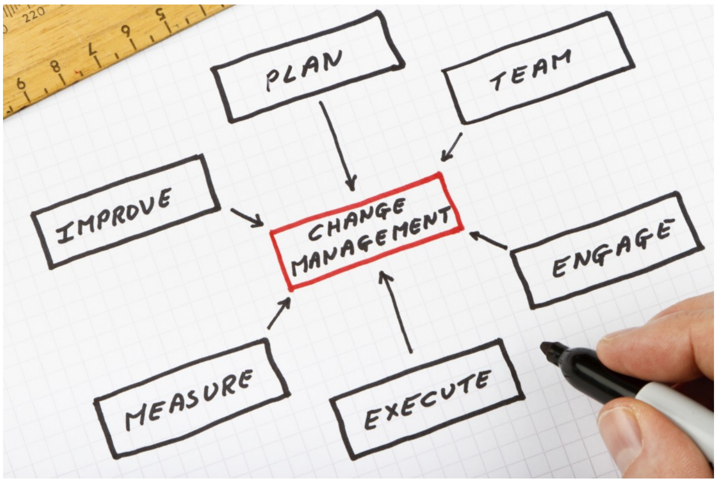
Why Management Change Matters

News Article



It is often difficult for an entrenched management team to objectively assess the prospects for a business, especially when things start going wrong. A change of strategy by existing management is often seen as an admission of failure. It is far easier just to carry on doing what's proved successful in the past, blame poor performance on external factors and hope business improves. But this is only delaying the inevitable. A change of management can bring a fresh perspective, allow tough decisions to be made and act as a strong impetus for growth.

In need of a complete overhaul

Turning around a struggling business is rarely easy. As Warren Buffett famously remarked: "When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact".

In the UK supermarket sector Tesco, Morrison and Sainsbury are all under new management and busily overhauling their strategies. In days gone by, life running a supermarket was relatively straightforward. Build a new store and watch sales roll in. The recent shift to online, convenience and discount channels has seen sales in larger stores come under pressure. This will not be a quick fix because as well as right-sizing their estates, they all need to lower pricing in order to fend off the attack of the German discounters, Aldi and Lidl. But at least the introduction of new management signals an acceptance that wholesale change is needed.

New CEOs at G4S and Serco also have a major job on their hands. In each case a complete change of culture is necessary, which is one of the hardest things to alter in any organisation. If successful, the rewards for shareholders could be substantial, but it's risky. Mr Buffett's message is that for every CEO that succeeds in a turn-around, there will be many more that fail.

A more reliable way to benefit from management change

A more reliable way to benefit from management change, in our view, is to seek companies which are already doing quite well, but in need of a bit of TLC or an injection of fresh ideas. After all it is much easier to improve a business that is already performing reasonably well than one in decline.

Consider the example of Essentra (previously Filtrona), the international plastic and packaging distributor, which historically was seen as a solid enough business, but with muted growth prospects. In April 2011 Mark Harper, who had been CEO for 8 years, stepped down and was replaced by Colin Day. Mr Day has one of the best reputations in the City, having been Chief Financial Officer at Reckitt Benckiser from 2000 to March 2011. Alongside CEO Bart Bechthe, he was instrumental in transforming the group's growth prospects, delivering double-digit revenue growth and a significant increase in profit margins.

At Essentra, Mr Day has continued where he left off. A combination of shrewd acquisitions (something for which he was renowned at Reckitt Benckiser) and increased investment has seen operating profits almost double from 2011 to 2014, while the share price has risen from £3 in April 2011 to over £8 today.

Another company with a good track record that could benefit from a slight change of approach is credit-checking behemoth, Experian. The group has always generated lots of cash but in the past has tended to prioritise acquisitions and expansion into new geographic areas. Brian Cassin took over from Don Robert (now Chairman) as CEO in July last year. Mr Cassin is refocusing the business on areas

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where it enjoys scale, barriers to entry, critical mass and the highest margins; with acquisitions now less of a priority. This is freeing up more cash to return to shareholders and the group is currently undertaking a $600m share repurchase programme.

Kingfisher's new CEO Véronique Laury arguably has a bigger job on her hands. Her master plan involves reducing excess capacity by closing or shrinking B&Q stores, and shedding around half of the product range. Currently, 98% of the products sold across the group are only found in one format, in one country. Clearly, Kingfisher could improve its buying clout if it bought as much as possible on a group-wide basis.

Others have tried this strategy in the past but have failed to make much of an impression. If Mrs Laury can succeed, Kingfisher's profitability could be significantly enhanced; although it won't be easy, especially given the challenging economic backdrop in France.

Source: www.hl.co.uk

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