



Picking winners at Reckitt Benckiser

Innovation is crucial to high performance in the household care industry. But a company's ability to innovate is about much more than R&D, says CEO Bart Becht.

Bart Becht knows a thing or two about cleaning up. His company, Reckitt Benckiser, is not only one of the biggest manufacturers of household cleaning products in the world, it's also one of the most successful. In fact, Reckitt Benckiser is one of a mere handful of companies that meet Accenture's definition of a high-performance business in an industry struggling to sustain margins (see "Cleaning up," page 20).

The company is the result of one of the industry's savvier mergers. Reckitt & Colman was a British concern with some notable brands, including Dettol and Lysol disinfectants, Woolite, Harpic, Air Wick and Mortein. Its performance, however, was lackluster, its marketing budget anemic, and it had few new product innovations forthcoming. Holland's Benckiser N.V., on the other hand, had fewer big-name brands—Electrasol dishwasher detergent, the first such product ever launched, as well as Finish, Calgonit, Calgon and Vanish—but it boasted a highly rated chief executive in the person

of Becht, who became CEO of the new company after the 1999 merger.

A former Procter & Gamble marketing executive with an M.B.A. from the University of Chicago (which may account for his occasional use of baseball metaphors to illustrate a point), the rangy Dutchman set about turning Reckitt Benckiser into a global leader in its industry and a stock market star. The transformation has been impressive indeed.

By unloading noncore brands, reducing headcount and launching a supply chain efficiency drive,

Becht and his management team achieved annual cost savings of more than \$150 million over a period of two years and wiped \$1.3 billion of debt off the balance sheet. From corporate headquarters in Slough, England, they also conceived a strategy—dubbed "innovation marketing"—that has produced consistently impressive earnings growth. In fact, since the company's formation, Reckitt Benckiser has more than doubled its net profit, substantially outperforming its industry peer group. The company's operating margin has soared, too, from just shy of 12 percent in 1999 to 19.3 percent in 2004.

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Bart Becht

CEO, Reckitt Benckiser

Born: 1956, in Holland

Education:

B.A., University of Groningen, 1977

Masters degrees, Erasmus

University, Rotterdam; University of Chicago

Professional highlights:

1982–1988: Joined Procter & Gamble

1988: Joined Benckiser as vice president of marketing, Benckiser Consumer Products USA; successively, general manager of Benckiser Canada; Benckiser UK; Benckiser St Marc, France; Benckiser Mira Lanza, Italy

1995: Appointed president of Benckiser's household-cleaning division

1997: Following IPO of the household division, appointed CEO of Benckiser N.V.

1999: Appointed CEO of Reckitt Benckiser

By the end of next year, that figure is forecast to be at least 20 percent. Innovation marketing, as its name suggests, is a combination of product innovation and increased outlays for marketing (at 12.5 percent of sales, Reckitt Benckiser's media budget is probably the highest in the industry). But what really distinguishes the strategy is its focus on global, rather than regional or local, product categories as well as a large and efficient innovation pipeline that depends on identifying consumer needs.

Today, 15 "power brands"—Air Wick air freshener, Finish and Calgonit automatic dishwashing detergent, and Lysol disinfectant among them—account for more than half of the company's net revenues. What's more, 40 percent of total sales are from products launched within the past three years—products like Vanish Oxi Action stain-removing gel, Cillit Bang lime and grime cleaner, and Air Wick Freshmatic automatic air freshener.

Affluent consumers in a hurry will pay a premium for product innovations like these, and Reckitt Benckiser churns them out at a rate of more than 100 a year, despite a significantly smaller R&D budget than its peers (about 1.5 percent of net revenues, or £60 million). Plainly, the company's success in picking winning products hinges on its knack for developing consumer insights. In June, Becht told *Outlook* Industry Editor Wendy Cooper how he and his team go about it and how he intends to sustain the high performance that results.

Outlook: You initiated a major restructuring program after the 1999 merger.

What did you want to achieve?

Becht: Objective No. 1 was to make sure that we were a global leader overall in household cleaning

outside of detergents, in products with attractive growth potential. Objective No. 2 was to realize the cost synergies from the merger. You can't do one without the other, and you have to consider both from the very beginning. If we had just focused on costs, we would not have had a successful merger. And frankly, the cost synergies are the easier part. To focus the business for profitable growth is a different story.

What was involved?

A good strategy should be very simple. We have focused on our leading brands and high-growth categories. We nurture these brands with innovation and roll them out globally.

Sounds deceptively simple.

The hard part is following through—making day-to-day operational choices that are in line with the strategy. But we've reorganized our management structure to help facilitate those choices. We have split the world into three areas: Europe, which includes Eastern Europe and Turkey; the Americas—North America plus Australia and New Zealand, which are very similar markets; and what are called the "developing markets," the rest of Asia (excluding Australia and New Zealand), Africa and Latin America.

How does it work on the ground?

Each area has a head of business, and below them are regional directors who run the specific regions. They, in turn, work alongside a category development organization, which is responsible for making sure that brand strategies are developed and implemented, as well as for developing a pipeline of new products for these brands. They work with our marketing and R&D people to make sure we have the right communications strategies in place

and that best practice is generated in each of the categories. It's a kind of brand board, if you like. They are, in essence, there to manage our key equities and make recommendations to a group within our executive committee that meets every month to review their recommendations.

By key equities, you presumably mean your "power brands." How do you select them?

We are nurturing brands that are No. 1 or No. 2 in markets where we see good growth potential. In automatic dishwashing detergents, for example, there are very few markets where we are not No. 1. This is a high-growth category, because dishwasher penetration is still increasing. We are No. 2 in shoe polish globally, and if we were to focus on doing some acquisitions, we could probably become No. 1.

So why not focus on shoe polish?

Because globally it is a declining category, even though it has a good margin. Most kids don't wear leather shoes anymore; they prefer trainers and sports shoes. And women would rather buy new shoes than polish them—at least my wife would!

Does that mean that the innovation possibilities in shoe polish have been exhausted?

Absolutely not—we are just launching an innovation. It's a special cream that you don't have to brush on and polish. You just apply the product, let it dry and it's self-shining. That's a substantial benefit. But the point is that we don't focus on innovations in shoe care, because they will not generate growth. We focus on automatic dishwashing because there our innovations drive even more growth in a category that is already growing. It's a portfolio strategy: Invest in and focus on the

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categories where our efforts will give us even more growth.

You're famous for coming up with just the right sort of products for your busy consumers. How do you do it?

Not all markets are the same. Our category people, here at headquarters, work together with people from the lead markets—the areas in our organization. The team will discuss the strategy for the brand overall—communication strategy, ideas for key new products. They'll discuss how to get the new ideas, where they will get them from and how they will screen them once they have them. The best ideas will be developed into new products and pre-market-tested in the areas before being recommended for launch to the executive committee.

So innovation is very much from the ground up?

We measure innovation by the percentage of net revenue coming from new products launched in the past three years. That's a measure of output, not input. There is no correlation between the percentage of net revenue spent on R&D and the innovative capabilities of an organization—none. That's not to say that R&D capacity isn't important, but at the end of the day, innovation is generated by new ideas, not by messing around in the lab.

So how are they generated?

From consumers, from suppliers, from creative shops. In fact, everybody in this organization is there to generate ideas as well and to bring them to the table. The more ideas



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I have, the better my chances of finding a winner.

I like to compare innovation to baseball. People think that it's about hitting home runs—it's not. Innovation is about getting many base hits and occasionally hitting the home run. You very rarely win a baseball game just by hitting home runs. And the objective is to win the game.

That suggests it may not be so important to be first to market with a product.

There clearly is a major advantage to being first to market in this industry. We are not like pharmaceuticals, where innovations are patent-protected. Our products are incremental innovations that can be copied relatively quickly. Being first to market allows you more time to exploit the innovation.

That doesn't mean that every new product has to be a totally new

category—but it does have to be an improvement on its predecessor.

How important to your growth are strategic relationships and alliances? We have been doing strategic alliances for years. We work very closely, for example, with the leading dishwasher manufacturers in order to get a better result for the consumer in terms of dish cleaning. We've also done co-branding—for example with Hoover to develop new machines that incorporate our cleaning products.

We don't really do these things to save on development costs—the savings are minimal. At the end of the day, our vision for the total company is very straightforward. We want to provide consistently better consumer solutions. That's also why we are working so hard on innovation.

Sustaining your current position and maintaining high performance won't be easy. You confront many challenges—private-label competition from the big retailers among them. How will you cope?

The biggest challenge is to come up with new ideas. Our strategy against private-label products and discounters is very straightforward—to continue to innovate and to properly support that innovation. The point is not to try and match them on price. We want to come up with better products and to communicate to consumers that we actually have better products. Our biggest challenge is to continue to make sure we have a continuous stream of new ideas and innovations to bring to market.

What about Procter & Gamble's proposed merger with Gillette? It creates an industry behemoth, with hundreds of products, that surely threatens to overwhelm you. I think the impact of the merger

is very marginal, because success in this business is not a question of scale. At the end of the day, you have to realize that who sits on the other side of the table is a buyer, and that buyer is only concerned about one thing. He is not interested in 50 different product categories. He is interested in very few categories, sometimes only one. All he is interested in is whether or not you have leading brands and if you are bringing in new business ideas that can grow his business.

Where scale can potentially help P&G/Gillette is in emerging markets where they don't have enough. That's why we've made acquisitions in South Korea and Indonesia—to achieve scale in certain markets where we were not present.

Aren't consumers in these markets very different from the cash-rich, time-poor Europeans and North Americans you've been so successful selling to? How do acquisitions in emerging markets fit into your strategy?

For us, developing markets tend to be markets where we, not they, are underdeveloped. The key thing is disposable income per capita. Clearly Japan, although it falls into our developing markets area, is not underdeveloped. There are also what we probably would call semi-established markets, where disposable income is up-and-coming—markets like Korea and Mexico. And there are the truly emerging markets, some large, some small.

Our product portfolio is certainly geared toward high-disposable-income markets—but not exclusively so. Products like Dettol are particularly suited to hot, humid, tropical climates.

But isn't your capacity for innovation limited in these markets?

Innovation is possible—it's just got to

be different. Take mosquito coils, a huge seller in emerging markets. They are usually round, but we've developed a hexagonal coil, thicker at each corner so performance is boosted when the coil burns at the corners, every 20 or 30 minutes. Someone in the company came up with the idea—it's simple but very effective.

Are there any other markets where you think you should be building up scale?

It would be nice to have more scale in the US, provided it doesn't come with huge complexity, because we already have a very large portfolio there. I would say I would much rather have more critical mass in certain emerging markets, in Asia and Latin America, where there are still a number of countries where we either are not present or we have little presence.

The M&A market in these areas is not very buoyant at this point in time, but that might change.

Your balance sheet is remarkably unleveraged—I believe you're sitting on about \$1.4 billion in cash. When are you going to spend it?

Our primary focus is on growing the business organically. That does not mean we do not like to do acquisitions, but we are only doing them if they make sense for us because they fit strategically, [because] we believe we can really add something to those businesses and [because] they come at a sensible price. We are not going to do an acquisition just to get a tick in the box and increase the amount of debt on the balance sheet—that we are not going to do.

So we might wake up one morning soon and find that you've made a major strategic acquisition?

It's always possible.