

OnLine Case 9.1

Boots

Boots is another leading high street chain that has 'lost its gloss'. Boots grew out of its origins in pharmacies to become a department store chain – but it has always been recognised as a chemist and optician. It also diversified into unrelated products, such as Halford's (car spares, bicycles etc) and Do It All (a joint venture with WHSmith) which competed with Sainsbury's Homebase and the market leader, B&Q. These businesses have largely gone.

Competition was already beginning to affect Boots when Lord Blyth, who had been in charge for thirteen years, retired in 2000. Superdrug was continuing to grow. Blyth left an 'insular, change-resistant culture', having focused his efforts on maintaining the share price. After all, he was one of Boots' leading private shareholders! A significant setback for his successor would occur a year later when resale price maintenance on branded pharmaceuticals was abandoned – retailers could now charge whatever price they liked. Tesco saw this as a wonderful opportunity and led the way, discounting and seizing market share – they also opened their own in-store pharmacies for dispensing prescriptions.

Steve Russell, who took over in 2000, had built his career at Boots. One key plank of Russell's strategy had been the creation of centres of expertise in health and well-being. Manicure, dental and laser eye treatment services had been introduced in some large stores – but later abandoned. Boots had acquired the US company, Clearasil, which many readers will recall fondly from the days when they had acne! To many observers though, from 2000-2003 the company simply lurched from crisis to crisis. Russell opted to retire early and was succeeded by Richard Baker. Could he restore the business?

At 40 years old Baker was marginally younger than Justin King, who took over at Sainsbury's at roughly the same time. They had worked together at Asda. During the time Baker led Boots there would be strategic changes at all levels – corporate, competitive and operational.

Baker quickly decided the supply chain was inadequate, customer service was not good enough and the stores were not open late enough. All store tills were replaced with new ones that gave better sales data – which would be used to drive supply chain efficiencies. One third of head office jobs were to go, and more responsibilities devolved to store managers. An all new top-management team would tackle the corporate culture. Prices were to be cut to deal with competition from Tesco, reducing margins and profits. By mid 2005 Tesco had 20% of the toiletries market, equal to Boots, which had been clear market leader a few years earlier. The critical Number 7 cosmetics range would be relaunched.

When Baker announced some 60 new edge-of-town stores were to be opened, there was speculation that some high stores would be shut. He also concluded that many larger stores had surplus trading space – more than was required for the new product ranges. Concessions were offered; Travelex (foreign exchange) and Vodafone (mobile telecommunications) both expressed interest.

In October 2005 Baker announced Boots was merging with Alliance Unichem to enable a renewed focus on ‘Boots the Chemist’. Again this was a response to the growing power of the leading supermarket pharmacies. The following table shows the relative market shares of the two businesses at the time of the merger:

UK DRUGS		Wholesale %	Retail %
	Boots	13	10
	Alliance Unichem	27	7

Alliance was the smaller business, more focused and more entrepreneurial. It was run by its original founder and largest shareholder, Stefano Pessina, who would stay on as Deputy Chairman of the new business.

At roughly the same time Boots sold its Healthcare business, which manufactures over-the-counter drugs such as Nurofen (painkillers) and Strepsils (throat lozenges). In 2006 the money raised from this sale was used to fund a further store

replenishment programme. There were fresh job losses and more money was invested in the supply chain with new, large, automated warehouses.

Trading difficulties persisted in the face of continuing strong competition, and in 2007 Pessina, collaborating with Venture Capital business Kohlberg Kravis Roberts (KKR) made a bid for the whole business. The Boots Board rejected it but this seemed to tease out an alternative bid and a renewed (higher) bid from Pessina and KKR. This higher bid was accepted and three months later Baker left Boots. Pessina is now Executive Chairman.

Question Would you perceive Richard Baker to be unfortunate, given what happened? Would you expect him to reappear as a strategic leader somewhere else or is there a real risk his career could be finished?