

OnLine Case 16.1

Hanson

This case tracks the strategic development of a once very successful company that no longer exists. Hanson was a leading acquisitive UK diversified conglomerates. At different times in the 1980s and early 1990s, it was very successful, typically using a 'hit squad' approach by a small team of turnaround specialists who were expert in evaluating potential acquisitions, acquiring the businesses, setting demanding (financial) targets, rewarding success and dismissing managers who could not perform. There was a willingness to split businesses into parts and resell ones that would be better off under fresh ownership. In the second half of the 1990s Hanson was broken up. For this particular strategy to be effective two major challenges were:

- *the ability to find and fund a suitable acquisition at the appropriate time and stage of corporate development, and then*
- *finding opportunities to add value.*

Here there is evidence of a concentration on mature industries where the right competitive strategy could bring high rewards but where there was only limited growth potential.

Hanson was essentially a company which pursued a restructuring strategy. It was based in the UK and USA and led by partners Lord (James) Hanson and Lord (Gordon) White. Over a period of some 20 years Hanson was involved in 35 agreed acquisitions, six hostile take-overs and 15 unsuccessful bids. Following the 41 acquisitions there were 40 business disposals. Hanson also bought sizeable stakes in 22 other companies. On a number of occasions (in particular the acquisitions of SCM and Imperial Group) Hanson raised substantial revenues from business disposals, and in each case it was left with a valuable core business – SCM Chemicals and Imperial Tobacco, respectively.

Hanson paid £2.8 billion to acquire Imperial Group in 1986. Imperial had started as a tobacco company but diversified and was regarded as under-performing. Within two years Hanson had recouped over £2 billion by selling several businesses, including Ross, Golden Wonder, HP and Lea & Perrin (foods), Courage Breweries (John Smiths and Harp Lager), Anchor Hotels, Welcome Break Motorway Services and Finlays Newsagent shops. It retained the original Imperial Tobacco interests.

This 'Hansonizing' strategy was based on three essential principles:

- The key objective is to maximize shareholder value.
- Many companies do not do this and are therefore run badly.
- Such companies are good buys because their assets can be made to create more value for shareholders.

James Hanson always argued the strategy could be applied successfully in any industry, and consequently Hanson diversified into a number of unrelated areas including construction, bricks, textiles, animal foods and meat processing, pulp, coal, gold, tobacco and chemicals. Hanson did not always stay in an industry, and instead divested companies and business units when appropriate for its basic strategy.

Typically, businesses in competitive industries, and which required investment, were sold, and mature, slow-growth companies retained. Cyclical businesses were also attractive targets for Hanson. In the early 1990s some 90% of Hanson's profits were from mature industries.

Despite the lack of growth potential in these businesses the Hanson restructuring strategies generated a high and consistent growth in group profits. Hanson believed that earnings per share were maximized when business units achieved the highest possible sustainable return on capital employed. Earnings per share could be improved by increasing returns from existing capital or by reducing capital and maintaining earnings. The latter theme encapsulates divestments.

Although it does not always happen, it could be argued that in an organization such as this, which is not primarily concerned with staying in particular industries, business units should be sold when their earnings cannot be increased further and should be replaced by others with greater potential. Shareholders who support such organizations expect the increased returns to be generated quickly, and consequently Hanson was not thought to be interested in companies that could not be improved within three to four years. Although earnings per share could be improved by investing and using debt financing, rather than equity, Hanson was basically risk averse and sought to constrain its gearing. The companies in the group also benefited from low-cost finance and astute tax management, which helped to lower their total costs.

Business units were decentralized and given strict targets to achieve, but all capital investments were carefully scrutinized at board level. Profits from the businesses were returned to the parent, who decided how they would be used and spent. General managers in charge of businesses could not spend over £500 without the approval of James Hanson (in the UK) or Gordon White (in the USA). Within these financial constraints businesses could adapt their competitive and functional strategies as they wished.

For many years Hanson was acknowledged to be a very successful company from which many other organizations could learn some important lessons. Up to the mid-1980s Hanson consistently outperformed the stock market. However, once the acquisition trail became more difficult, with a series of well-publicized hostile bids failing to result in take-overs, the strategy was questioned. Investors started to prefer companies that were focused on single sectors to the big and diversified conglomerates. When Lord Hanson's partner, Lord White, died in January 1996, Hanson himself was over 70 years old - succession had already become a real issue of concern for shareholders.

In 1995 it was announced that many of Hanson's American businesses were to be floated off as US Industries, and the remaining activities split into four separate businesses. Existing shareholders would receive stock in each of the new, more focused, companies. The four were:

- Millennium Chemicals (based around SCM and Quantum in America)
- The Energy Group (Peabody Coal and Suburban Propane (US) and Eastern Electricity (UK))
- Imperial Tobacco
- Hanson (based on bricks and aggregates in the UK and USA).

These businesses have all survived but not without further changes.

The American businesses included coal (Peabody), forestry, cranes, shoes and garden tools. Peabody has become the largest private sector coal business in the world. It was bought by Lehman Brothers (the bank that went bankrupt in September 2008) in 2001 but quickly floated as an independent business.

Millennium Chemicals continues to thrive as a subsidiary of a new owner, the Cristal Chemical Company. Cristal is the trading name of a Saudi-based business specialising in the

production of titanium dioxide – which is used for coatings in the paper and paints industries. Cristal has operations in various countries.

The Energy Group was bought by Texas Utilities in 1998 after a takeover battle with Pacificorp. The UK interests were then sold to Powergen in 2002.

Imperial Tobacco had really started life in 1786 in Bristol with the formation of WD and HO Wills. John Player started as a business with the acquisition of an existing tobacco business in Nottingham in 1877. Imperial would eventually acquire and merge these businesses but it was Hanson that turned it into the most efficient and lowest cost producer in Europe.

In 1997 Imperial acquired Rizla, the world's leading supplier of rolling papers for cigarettes and followed this in 1998 with Douwe Egberts Van Nelle of Holland, which markets leading brands of roll-your-own and pipe tobacco. Related businesses in Australia and New Zealand as well as Europe were added in the next few years. In 2001 Imperial bought Tobaccor, the second largest supplier of tobacco products in sub-Saharan Africa. Tobaccor also had interests in Asia which Imperial was determined to build. Also in 2001 Imperial agreed to distribute Philip Morris brands, including Marlboro (America's number one cigarette brand) in the UK. 2002 saw Germany's Reemtsma added to the group. Acquisitions continued in 2007 with Commonwealth Brands (fourth largest US manufacturer) and in 2008 with Altadis (the world's fifth largest tobacco business and world leader in cigars).

With a strategy of focused and related acquisitions, Imperial has thus been consolidated as one of the world's leading suppliers of tobacco products – the world leader being China National Tobacco. Of course this is an industry and a product where there are serious health and ethical issues and these will not go away.

Internationally Imperial's main cigarette brands are Davidoff, West and Gauloises, but they also manufacture Lambert & Butler, Richmond, John Player Special and Sonoma, the most popular cigarette with the US military. Golden Virginia is the best-known pipe tobacco.

The residual **Hanson** business has followed a similar strategy of related acquisition, but here there have also been divestments in a search for a clear 'heartland' in heavy building materials. In 1999, for example, there were 30 acquisitions worldwide – including quarries in Malaysia, and brick, aggregates and concrete pipes businesses in America. The 2000 acquisition of Pioneer International (for £1.6 billion) added aggregates in Australia. Hanson became the world's leading aggregate supplier and the second largest supplier of ready-mix concrete. Two thirds of its sales were in the US and the UK with the rest in Australia, Europe and Asia. In 2003 the business interests were separated into geographical regions in a restructuring. There are now 400 manufacturing sites in the UK, 800 in America and 300 in Australia.

The business was sold in August 2007 to the Heidelberg Cement Group, meaning Imperial is the only ex-Hanson business not to have changed hands again since the four companies were floated separately in 1996. Heidelberg put up the 'For Sale' sign at Hanson in May 2009. Heidelberg was heavily in debt after the acquisition and, faced with the problems in building and construction during the economic recession, was willing to sell the business for less than it had paid.

Questions: Does the Hanson case reinforce the argument that different strategic approaches make greater or lesser sense at different times? In the long run do you agree with the view

that related acquisitions are more defensible than unrelated acquisitions? Why do you think shareholders lost faith in the diversified conglomerates of the 1980s and early 1990s.

Optional Task: Other diversified conglomerates of this era included BTR, Tomkins, Williams and Tyco. All four have been split; in the case of Tyco the CEO was convicted of financial wrongdoing. Track their stories and consider whether there might be a time when conglomerate diversification gain becomes 'flavour of the month'.