

## Whitbread PLC

1. What were the forces that led the management at Whitbread to shift their focus from a beer and pub business to a more restaurant, hotel and leisure business?

### Emergence and Dissipation of Complexity

through the acquisition of other brewers and their pubs. In the 1970's, Thomas' predecessors realized that demographic shifts meant there would be fewer young men in the coming decades while economic trends would reduce the number of blue collar jobs. Such changes would reduce the attractiveness of the beer industry and led Whitbread to explore opportunities in restaurant and hotel businesses. These new opportunities, however, were dwarfed by the brewing and pub businesses and the company's culture and systems were largely developed by and for the brewing business.

trucks that distributed the beer, and owned many of the pubs that sold it. In 1992, anti-monopoly regulations known as the Beer Orders limited the number of pubs integrated brewers could own. Thomas recalled, "From a strategic point of view, what the Beer Orders meant was we lost the scale economies, we lost the expansion opportunity, and we were going to see increased competition. It was two years of management distraction."

2. Why do you suppose, Whitbread continued in its attempts to acquire a large number of pubs from Allied Domecq in spite of the above shift in focus?

## Future Whitbread

In October 2000, Thomas announced the strategy that he had developed during the strategic rethink that followed the collapse of the Allied Domecq deal. Called Future Whitbread, the strategy was to concentrate on lodging, eating out, and active leisure; areas of the business that were profitable and could be grown. Thomas recalled that his confidence in the strategy came from independent forecasts that projected growth rates for each of over of 30% between 2001 and 2006.

Focusing on the Future Whitbread segments meant getting out of businesses that did not fit. That same month Whitbread sold its stake in drinks stores for £225 million and in March 2001 sold its 3,000 pubs for £1.625 billion. (The majority of Whitbread pubs were unbranded – not part of a chain.) Whitbread returned £1.1 billion as a cash dividend to shareholders.

Why did they still make the deal?

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3. What was the shift in organization required to align with the changed strategy from being an operation led company to a brand management company?

Changing the company's portfolio was only a base point. I understood that I also had to change the behavior of the company because the company depended on having the right people with the right attitudes. If we carried on behaving as we had done previously, then we would not have realized the objectives that we set out. The behaviors were firstly, a real understanding that this company was being run for the benefit of shareholders and not for the indulgences of management. Second, that we were a brand management company. We had previously been an operations led company. Thirdly, if the leadership in the businesses was not the best in the industry then we were not going to have best in industry performance.

It is highly recommended that a market led approach is adopted as it would be of immense advantage to the company especially in fulfilling its corporate objectives of maximizing a competitive advantage.

This helped create a sea change in management attitude in the businesses. Previously, presenting results was something that two or three people in corporate did. Corporate got all the heat and for the businesses it was just not that important of an event. Now they and their brands are individually exposed. When something is not doing well, they know they will have to answer because the market does not want to hear about a problem, it wants to hear why there is a problem and what you are going to do about it. The leaders in our businesses began to realize that if they did not get it right then they were not going to be a part of the business.

4. What was the resistance towards this shift and where and why was this resistance coming from primarily?

The big thing that came out was an underlying feeling that Whitbread does not have a clear view of what it is and what it is trying to be – in terms of strategy, financial metrics, structure, values, and culture. There is confusion and there is compromise. There were a lot of comments that we try to get value from being a part of Whitbread and then it does not work. People do not get behind the cross-Whitbread initiatives.

**Brand Management** There was confusion over what Whitbread was trying to do with brand management. Was Whitbread going to invent its own new brands, such as Out & Out, which people thought was a good idea, but without sufficient investment to build it to scale? Or was Whitbread going to acquire other people's brands despite a tendency to over pay for them? Did Whitbread know how to manage its existing brands – which to invest in and which should be divested? Finally, there were concerns that Whitbread was not investing in the people skills needed to be a brand focused company. A task force member recalled that people felt very passionate around this issue:

There is a feeling that we have some great brands and we don't know how to manage them. We have some good ideas, but we do not know how to develop them. I think people look back and ask, is this really the company that built up Travel Inn, the biggest budget hotel chain in the country? Is this really the company that got into coffee shops pretty much before any one else in the UK? Is this the company that bought David Lloyd at a time when active leisure was not a big thing? We used to do it pretty well, but we don't seem to be able to do it now.