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THE INTERNET OF EVERYTHING

Fridges connected to the web may be yet to catch on, but the smart home is already here, and more huge changes are around the corner, especially in healthcare and urban living, says ANDREW SAUNDERS

SAUNDERS, A (2014)

THE INTERNET OF
EVERYTHING.

MANAGEMENT TODAY,

MAY 2014.

Illustration by
Mega Pont

In the beginning there was the internet, and the internet was good. For all that it can sometimes appear trivial (how many cat videos does the world really need?), the net must surely rank as one of the greatest disruptive innovations ever to emerge from the human mind.

But scarcely has the dust settled over that first tidal wave of digital endeavour, which washed away the foundations of industrial-era giants while carrying the feather-light seeds of a new virtual generation far inland, than another, potentially even greater, virtual tsunami approaches in its wake. Head for the high ground, because here comes the internet of everything, aka the internet of things.

'The internet of things is a secular change, it's absolutely fundamental,' says Dr John Cornish, head of the internet of things business unit at Cambridge-based chip designer ARM. The company's power-efficient processors are already found in many new wearable devices, such as smart watches and fitness trackers, which are important indicators of much greater changes yet to come.

The projected speed of growth of the internet of things has the potential to make the achievements of the first couple of online decades look distinctly pedestrian. It's estimated that there are now around six billion conventional devices online, including computers, tablets and smartphones. By 2020, that number is set to quadruple to somewhere between 20 and 30 billion, the vast majority of growth coming from connecting unconventional 'dumb' objects to the internet. That will translate into \$19bn of economic value, according to Gartner Research. 'It's a very real opportunity, although it will probably take 20 years or so to play out,' says Cornish.

So what exactly is the internet of things? The basic idea is that connectivity is not

limited only to the usual suspects, such as those six billion computers, tablets and smartphones. In theory, anything can be online. From domestic appliances to street lighting, from cars to cat flaps, furniture to footwear, in a year or two even the shirt on your back could have an IP address.

'Imagine answering the door to an ambulance crew who tell you that you need treatment for the heart attack you're about to have,' says digital strategist Ade McCormack. They've been tipped off by the smart vest you're wearing, monitoring your vital signs and communicating any irregularities directly to the emergency services. 'It's not tech hype. We started off with the internet of people, now we're moving to the internet of things and eventually it will become the internet of things in people,' he claims.

Like many new ideas in tech, this one has been bubbling under for quite a while. The phrase was coined by a Brit – Kevin Ashton of MIT – working in the less-than-glamorous field of supply-chain management for Procter & Gamble in the early 1990s. But it has taken quite a while for the concept to escape the back office and achieve a wider currency.

One of the first well-touted examples was the infamous internet fridge. With a hotline straight to Ocado, this 21st-century domestic marvel was going to relieve us all of the prehistoric chore of food shopping by noting our consumption and automatically restocking – a kind of chilled-down version of the magic porridge pot.

It has yet to take off, not least because of consumer resistance: people don't like being faced with the disparity between the healthy diet they think they enjoy and evidence of the TV-dinner reality, as provided by the fridge's shopping list. And when it emerged earlier this year that hackers had co-opted one, using it to

"ASSETS SUCH AS HOSPITAL BEDS WILL BECOME HUGE SOURCES OF VALUABLE CUSTOMER DATA"



send thousands of spam emails, confidence cooled even further.

But despite such high-profile cock-ups, the internet of things is here to stay. When Google spent £2bn in January buying Nest, a US start-up that makes internet-enabled central heating thermostats, it wasn't just indulging a whim. Nor is British Gas, whose Connected Homes division has been around for two years, and whose smartphone-based Hive remote heating control (see box) has pulled in over 50,000 customers in six months.

So why is it happening now? Given the ubiquity of Wi-Fi and mobile networks, it's all about cost and data-handling capacity, says ARM's Cornish. 'The microprocessor was invented in the 1970s and since the 1980s we've been putting them into more and more things.'

Many everyday items already have microchips in them, from kettles and dishwashers to traffic lights and industrial machinery. In such cases, most of the hard work has already been done. Adding a Wi-Fi or mobile network connection is a no-brainer, he says, provided the cost to the manufacturers of doing so is low enough.

Thanks to the huge economies of scale in the component business unleashed by the smartphone revolution, it is. 'The marginal cost of connecting to the internet has already decreased considerably, and will continue to do so. Cost is trending towards zero.'

The other required piece of infrastructure is the huge number-crunching power of cloud computing – all those connected objects will create yet more data to be processed. 'The cloud provides low-cost access to the kind of computing power that can take the data from billions of devices, aggregate it, draw

inferences and connections and add value,' he says.

More consumer 'goods' will become 'services', an upfront payment for ownership being replaced by a pay-as-you-go model in just the same way that, in corporate IT, IBM no longer makes its money from selling hardware. 'Imagine a car as a pay-as-you-go service,' says McCormack. 'The manufacturer gives you the car for free, but you have to pay it for the apps you need to actually use it.'

If much of the cheerleading for the internet of things is coming from the consumer market, with its glittering gadgets and big advertising bucks, some of the most significant changes will come at a business level.

'It's easy to add marketing sizzle with a Bluetooth connection and an app to let people control something via their smartphone. But it's going to be the hidden value that is more important,' says Cornish. 'It boils down to money: there are real financial gains to be made. The companies that don't do this will be at a commercial disadvantage.'

If everything from domestic appliances to industrial equipment is online, it can be monitored and repaired remotely, boosting employee productivity and slashing overheads and carbon emissions.

Manufacturers can analyse the way customers actually use their products in real time, leading to the kind of insights that even the best-run focus groups fail to get anywhere near. 'Dumb assets such as shopping trolleys and hospital beds will become huge sources of valuable customer data,' says McCormack.

This will bring a host of its own problems, not least the potential to make contemporary, Snowden-inspired worries over data security look positively trifling. 'Everything will have an IP address, which will lead to a huge increase in the number of access points for security breaches. Your security could be compromised by your toaster,' he adds.

But, on the other hand, it is quite possible that the advantages of being part of the

internet of things will actually make people more, rather than less, willing to share their data. The history of technology does suggest that, if something is sufficiently convenient, we are prepared to overlook many failings.

Either way, you might as well embrace it and enjoy the ride, because in a world where even the pavements and lampposts are online, it will be increasingly hard to opt out.

THE SMART HOME

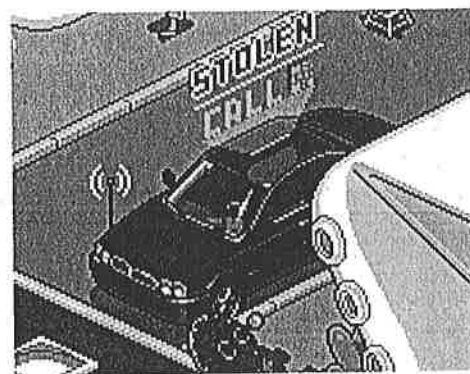
British Gas may not be a name usually associated with cutting-edge innovation, but it is the first large utility company to embrace the internet of things. Its Hive remote heating control allows customers to control their domestic heating and hot water systems wherever they are, via a slick smartphone app and web interface. It costs £199 to install, and more than 50,000 customers have signed on the dotted line since its launch in October last year.

'The world is changing around us. Customer expectations are rising exponentially. There are apps to help people park their car or hail a cab and they expect to be able to have the same kind of control in their homes,' says Nina Bhatia, MD of British Gas Connected Homes, the division of parent company Centrica, which is behind the new Hive brand.

A module is fixed to the boiler by a British Gas engineer, which communicates with a hub attached to the householder's existing Wi-Fi router. Download the app to your Android or Apple phone and away you go: turn the heat on when you're heading home, or switch it off if you're going to be late. Monitor your consumption, compare it with other similar properties and save money on those ever-rising gas bills.

It's the ability to transform energy from a grudge purchase into a service that customers really want that is exciting the Hive team, though. 'Thirty per cent of households that have an ordinary wall thermostat simply don't use it. But 40% of our remote heating control customers use it at least once a day. With my





energy-business hat on, that's a transformational level of engagement,' says Bhatia.

Of course, there is plenty of competition, not least the aforementioned Nest and its deep-pocketed owner. German outfit Tado is also hot on its heels. To leverage British Gas's advantages – it has 11 million customers and services 2,000 boilers every day – without being squashed by its size, Connected Homes is an independent skunk-works operation, run like a start-up. 'This unit would not have been as successful if we had grown it in the corporate core. We would never have survived the perfectly legitimate processes of a mature business.'

So its 100 staff are not in Windsor but in Soho, and neither Bhatia nor her technical director, Kass Hussein, are from utilities backgrounds. Expect more smart-home products, some of which will be provided by third-party partners, operating over the low-power domestic wireless network provided by British Gas. A utility for the connected home, you might say.

regulator is already working on draft legislation covering the connectivity of medical devices, aimed squarely at the internet of things. Other nations will follow suit.

Care will increasingly be delivered at a distance, too, perhaps via video link, but also in the case of chronic conditions through automatic drug-delivery devices. One of the greatest problems with long-term illnesses such as diabetes being that patients simply forget to take their meds.

A trip to hospital and the attentions of a real, human doctor may only be required in exceptional cases. 'If low-cost airlines can turn a plane around in 15 minutes, why can't we do that with a hospital bed?' asks Gupta. The productivity of expensive and highly trained medical staff could skyrocket.

Employers and the insurance business will get in on the act, too, monitoring lifestyles and nudging those who don't take enough exercise or eat healthily. What if we don't want to be nudged? A big enough discount on your health insurance would be hard to ignore, says Gupta.

And while there will be opportunities for existing heavyweights in the sector, such as Cisco, GE Healthcare and Philips, many of the biggest advances will be made by small companies. 'What Amazon has done to retail will happen in healthcare too, but there is inertia in medicine. People resist change because they are taught to be risk-averse at medical school. Half the new ideas will come from start-ups,' says Gupta.

HEALTHCARE

As the population of the developed world continues to age, chronic diseases such as heart conditions and cancer consume ever greater chunks of national and personal income. Politicians, businesses and punters are left scratching their heads as to how we are going to be able to afford decent healthcare in future.

One man's problem is another's opportunity, of course. By 2020, healthcare applications will account for 15% of the global internet-of-things market, according to Anurag Gupta, a former medic who is now research director at Gartner. That's nearly \$3bn, 80% of which will be from services rather than products.

Remote patient monitoring via sensors embedded in clothing or worn on the arm or wrist will become the norm, with diagnostics carried out by machine intelligence in the cloud. 'Things will be able to talk to other things, not just to people.'

The US Food and Drug Administration

SMART CARS AND CITIES

The world is urbanising at an unprecedented rate. In 2009, the number of people living in cities surpassed the number living in the country for the first time in human history. The 20 largest cities all have populations of 15 million or above. Traffic congestion and pollution are now major limiting factors in urban life.

Connecting cars to the internet can help turn them from the number-one cause of the problem to at least part of the solution. 'Five years ago, we were having conversations with

auto manufacturers to convince them that connectivity was a good thing. We're not having those conversations any more. When they see what they can do, their eyes light up,' say Chris Penrose, senior vice president at giant US telco AT&T.

When enough cars are connected, their speed and location data can form the basis of a cheap, dynamic and efficient traffic management system. 'With all these mobile probes [cars], you don't need expensive infrastructure for mobile traffic monitoring,' says Penrose.

Most modern premium cars come with a SIM card and IP address (some, such as the new Audi A3, even have a choice of mobile data plans), and could theoretically contribute to city-wide traffic and parking management if commercial and data privacy issues can be overcome. Quicker journeys and less pollution are powerful incentives to make it happen.

For the driver, there are other fringe benefits. Streaming music means no more cheesy local radio and its awful ads. And, of course, connectivity is vital for that ultimate 1950s vision of the future: the self-driving car. The technology exists, but the law would have to change before you could drive one.

But smart cities are about more than cars. Smart street lighting that senses when it's not required can save city burghers big money on their electricity bill. Smart bins that know when they need to be emptied keep trucks off the road and council spending down.

Songdo, a new city being built on 1,500 hectares of reclaimed land 35 miles east of Seoul in South Korea, will be the first place to have city-wide Wi-Fi connectivity built into its apartments, office blocks and street furniture. And as ARM's John Cornish points out, it works even for older metropolises that don't have the luxury of such a fresh start. 'The good thing about smart cities is that a lot of the elements are out there already: traffic-detector loops under the road, cameras and so on,' he says. 'There are lots of opportunities to tie these things together to improve efficiency and save money. It's a virtuous circle.' **MT**

LYNN (2015)

MANAGEMENT TODAY.

WHAT NEXT FOR THE TOXIC GROCER?

Tesco's troubles are deep-rooted and multiplying. Does new boss Dave Lewis have the beans to turn the retail giant around, asks MATTHEW LYNN

Dave Lewis is a big man, with the square granite jaw of a natural rugby player. He speaks fluently and with a natural good humour, but there is a hint of steel threaded through every sentence. On the morning of 8 January, he addressed journalists to unveil the first steps in his turnaround strategy for Tesco. Five months after being parachuted into a supermarket chain that appeared to be in chaos amid falling sales and a Serious Fraud Office investigation, he was about to impose his own stamp on the business.

During the long and torrid Tesco autumn, the ex-Unilever executive could be forgiven for wondering what he'd let himself in for. On 22 September, the grocer admitted to overstating its profits by around £250m on payments from suppliers. Four senior executives including the UK supermarkets boss, Chris Bush, were suspended and the matter was referred to the Financial Conduct Authority. A day later, Alan Stewart, a former Marks & Spencer director, was hustled into the office two months early as Tesco's new finance director to help with the accounting investigation. Before the end of the month, Tesco's second biggest shareholder, BlackRock, had dumped its shares.

October wasn't any better. The month opened with Warren Buffett saying buying shares in Tesco was 'a huge mistake' and news that the firm had recently taken delivery of a \$50m (£32m) Gulfstream G550 jet bought by former CEO Phil Clarke in 2013 – and which Lewis promptly put up for sale. On 23 October, its interim results showed not only that the black hole was bigger than expected, at £263m, but that the accounting errors went back at least two years. The chairman, Sir Richard Broadbent, quit.



Undercut by Aldi and Lidl, Tesco's USP is no longer clear

November was slightly quieter, with only an unhelpful intervention from ex-boss Sir Terry Leahy (who retired in 2011), saying Tesco had lost contact with its customers. But December got off to a bad start with Lewis taking over running the UK supermarkets after a disastrous Black Friday sales event, in which police were called to disturbances in at least 16 stores. Then on 9 December, the company issued another profits warning, admitting profits for the year would be more like £1.4bn rather than the £2bn forecast. The shares dived again and had lost half their value by year end. Tesco's credit was down-rated to junk status. To say schadenfreude was in the air would be an understatement: all manner of folk seemed to be enjoying kicking Tesco when it was on the canvas.

So Lewis needed to offer a radical vision for a floundering business which for 30 years had done nothing but



expand relentlessly. Across the country, 43 stores would be closed, while plans for 49 new megastores were scrapped. Overheads would be cut by 30%, involving hundreds if not thousands of job losses. Tesco Broadband and the Blinkbox streaming service would be sold to TalkTalk, while Goldman Sachs would look at selling the highly covetable data unit Dunnhumby. The final dividend would be scrapped. Thirteen stores in Hungary would be closed. Matt Davies was poached from Halfords to run the UK operation. Perhaps most symbolically of all, at least for the internal culture of the business, Lewis planned to move the headquarters from Cheshunt, the Hertfordshire Lubyanka, to Welwyn Garden City. It was a decisive break with the past, and a signal that he was determined to create a fresh and very different sort of Tesco.

Jeffrey Robinson/Rex Features

“
It was an
autocratic
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where bad
news started
to be ignored
”

The questions came thick and fast. Which stores would close? Where and when would the axe fall? But there was only one that really struck home; Where did it all go wrong? ‘I’m not a company historian,’ snapped Lewis in response. ‘I’m here to make changes and to turn Tesco around. Investors want to know what I’m doing in the future.’

Well, up to a point that is true. But only up to a point. To have a chance of restoring the chain’s fortunes, Lewis might well need to delve more deeply into its past. A company of Tesco’s size does not get into this much trouble overnight. It takes time. And the roots of the crisis were very deep indeed.

THE LEAHY SUCCESSION

On 8 June, 2010, Sir Terry Leahy announced his departure from Tesco in a typically low-key fashion. In a statement that

FIVE TESCO FACTS

£1.2bn

Fresh'n'Easy, launched in California in 2007 by ex-marketing director Tim Mason, filed for bankruptcy in 2013 after losing Tesco an estimated £1.2bn.

1995

A breakthrough year for the grocer, it became the UK's biggest retailer and launched the legendary Clubcard.

YCDBSOYA

Jack Cohen's famous mantra – you can't do business sitting on your arse – was turned by the company founder into badges and tiepins and distributed to employees who needed reminding of the fact.

5.2%

Tesco's industry-leading margin during the glory days will almost certainly have to go by the board. When Justin King arrived at Sainsbury's he cut its margin in half – from 3% to 1.5%. Pressure from discounters to get into a price war will increase the pressure still further.

2013

In February it was revealed that Tesco's Everyday Value spaghetti bolognese contained 60% horsemeat.

was slipped out quietly through the Stock Exchange, he said he planned to depart the following March after 14 years at the helm, which he modestly described as a 'good innings'. Leahy had never been a flashy chief executive, and he had not built up much of a cult of personality, at least in public. There were no Rolls-Royces or trophy wives and no epic takeover battles. He talked Tesco but little else. To the extent that he was well known, it was because the company he ran was so enormous, an unavoidable fixture in British life.

The manner of his departure was in keeping with that. Phil Clarke, a trusted and reliable long-serving Tesco executive, would take over, and the City expected the Tesco juggernaut to roll relentlessly onwards. 'Leahy is an outstanding executive who has intellect and vision that are second to none,' said Shore Capital analyst Darren Shirley when the news was announced. 'He must surely be written up as one of Britain's greatest businessmen.'

Indeed, to the outsider, it looked like a masterclass in orderly succession planning.

Behind the scenes, however, it was a different story. If anyone had looked closely enough, there were already signs that Tesco was a fraying organisation and that Leahy had increasingly lost his focus and grip in his last few years at the helm. The board was weak, it had over-reached itself, and the company was draining hundreds of millions from its core business to fund hubristic ventures abroad. The chalice that was handed across to Clarke at that point turned out to be poisoned.

'It was an autocratic company, where no one was able to challenge Leahy, and where bad news started to be ignored,' said one former board member. 'And that is always a signal that a company is going to run into trouble.'

For a long time, Tesco could do no wrong, either for its customers or its shareholders. The business had been founded by Jack Cohen, a Polish immigrant, who took the name from the first three initials of a tea supplier (TE Stockwell) and the beginning of his own name. The first two shops opened in Beacontree and Burnt Oak in 1931 and by 1939 there were a hundred of them. Post-war, Tesco expanded into the newly built shopping centres and, by the

start of the 1970s, it was the UK's fourth-largest grocery chain. And yet it was not Tesco that really pioneered the supermarket in the UK. That was Sainsbury's and to a lesser extent companies such as the now largely forgotten Safeway. It was a player, but a lesser one among many, and placed in the shade by the classier Sainsbury's. Under Ian MacLaurin, however, as Tesco's managing director and then chairman through the 1980s and 1990s, that started to change. Its formula of relentlessly low prices, lots of new stores and its ability to squeeze suppliers (plus its skilful use of new technologies to streamline logistics and its introduction of new marketing schemes such as the formidable Clubcard) enabled it to gradually overtake Sainsbury's and become the dominant force in the British market.

'The thing you have to understand about Tesco is that MacLaurin was the real creator of the business,' says a former board member. 'He set the template and he really

was a visionary retailer. Leahy took over a very successful ship and kept it going, but he was never really an innovator.'

“Phil Clarke was not up to the job, but there was no one there who could challenge Leahy”

There is much truth in that. After starting work at Tesco soon after he graduated, Leahy worked his way up the company, joining the board in 1992 and taking over as CEO in 1997. At that point Tesco was already the UK's largest retailer, having overtaken Sainsbury's in 1995. Leahy's task was to extend its dominance in the UK and lead its expansion overseas. He appeared to be brilliantly successful. During Leahy's reign the company built substantial businesses in South Korea, Thailand and Turkey, in Poland, Hungary and the Czech Republic and in the US with the Fresh'n'Easy chain. It pushed into new markets in the UK, launching a bank, a telecoms business and the Blinkbox entertainment site, and it started buying up new chains such as Dobbies Garden Centres and Giraffe restaurants.

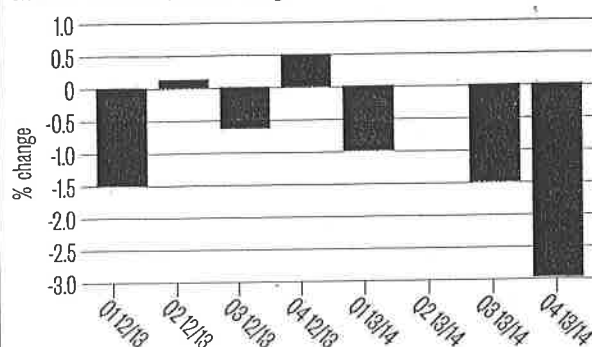
In 2010, it even said it planned to move into making films and records to sell exclusively in its stores. By then, it was making record profits of close on £3.5bn, and was raking in one pound in every eight spent with a British retailer. So powerful had the company become that the 'Tesco-pol' campaign was launched to try to resist its growing power. Across the country, there were protests against Tesco opening new stores, but the company easily brushed them aside and its dominance seemed unstoppable.

THE ORIGINS OF THE CRISIS

And yet, behind the scenes, the picture was slightly different. Tesco's senior management team was increasingly incestuous. Leahy's most trusted lieutenant was Tim Mason, the chain's head of marketing. While Leahy was the business brains behind Tesco's expansion through the late 1990s and early 2000s, Mason was the flashier marketing wizard, creating a vast gap between Tesco and its struggling competitors. Mason had also married Lord MacLaurin's daughter, making him virtually Tesco royalty, and he was widely seen as the most likely successor as CEO. When the US venture was launched in 2006, Mason was the man chosen to run it and, as he departed for the US, he

TESCO'S SLUMPING SALES

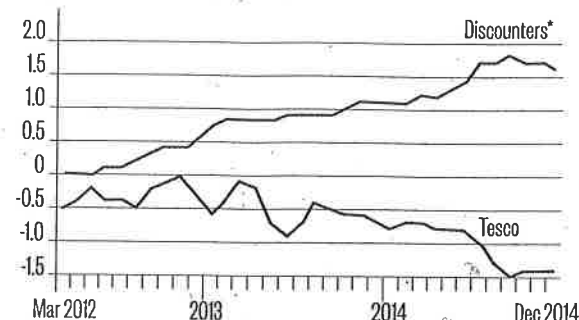
UK like-for-like sales* (annual % change)



*Excluding petrol and VAT
Source: Tesco

TESCO VS THE DISCOUNTERS

Change in UK market share (percentage points)



*Aldi, Lidl, Netto
Source: Kantar Worldpanel

took with him the able head of UK marketing, Simon Uwins. While they tried to establish a business in California, the UK chain went through a series of marketing bosses without ever settling on anyone with the same kind of ability. The British supermarket started to lose some of its focus. 'We started to notice that it lost some of its image with the consumer,' says a former CEO of one of Tesco's main rivals. 'Tesco had always been cheaper than the competition, but it wasn't that any more. Yet it wasn't about quality either. It was quite hard to work out what it stood for exactly. It was usually nearby, which is a bigger deal than you might think, but that by itself wasn't enough to sustain the biggest retailer in the UK.'

In 2008, Leahy had a bad skiing accident that left him with some broken ribs and vision difficulties. Tesco said little about it but, according to company insiders, it took a far greater toll on him than anyone, and perhaps Leahy himself, realised at the time. 'When he came back from the injury, he wasn't the same man,' said one former senior executive. 'His energy seemed to have gone.'

Leahy was famous for his ruthless attention to detail, making a point of visiting a Tesco store at least once a week, and never hesitating to point out any flaws. But with Mason departing for America – going on to lose £1.2bn in the process – and with Leahy less attentive to detail than he had been, the core UK business started to drift.

Indeed, the perma-tanned MacLaurin himself has since been fiercely critical of Leahy's reign. 'I'm disappointed that it turned out the way it did,' he told the *Guardian* in 2013. 'I think for the first five or six years he did a very good job, but then he lost his way. I think he lost the plot. He was very aware of my own views on America when I said we would never go there, and I've been proved right because it has been disastrous. We felt we couldn't add value there when we looked at it in the past, so I don't know why Terry decided to go there. It was a bit stupid to go to California. It's also unforgivable that he took money out of the UK business and allowed it to flounder when our rivals were catching up and expanding.'

With hindsight, many in the City can see the same flaws. 'To some degree, Tesco became a victim of its own success,' says Clive Black, head of research at Shore Capital. 'It stopped listening to its customers and became very

complacent. The irony was that it had massive amounts of data about them through the Clubcard but it didn't listen to any of it. The business became supply driven.'

Despite the recession of 2008/2009, Tesco kept expanding at a ferocious rate. It was land-grabbing, opening new megastores, and clogging up high streets with Metro and Express convenience stores. The number of new outlets it opened was breath-taking. It took the company 84 years to reach its first 20 million square feet of space, a landmark it arrived at in 2003. It took only another five years to hit 30 million, and planned on 40 million square feet by 2013.

Its new out-of-town hypermarkets were built on a vast scale. The biggest, in Walkden in Manchester, was 185,000 square feet, the size of more than three football pitches.

For a time, it seemed a great way of driving the business forward. More shops meant more customers, and more space meant bigger ranges. That translated into greater bargaining power with suppliers, lower prices and greater profits. At its peak, Tesco was making profit margins of more than 5%, significantly above rivals such as France's Carrefour or America's Wal-Mart. It seemed as if nothing could stop it.

Below the surface two things were happening: the company was changing and so was the market.

Take the company first. Where it had once been a pioneer of value and convenience, it became more interested in dominating space. 'It became impossible to compete with it on store openings,' says a rival supermarket boss. 'It would bid whatever it had to, not because it wanted the site, but just to keep someone else out.'

Tesco became notorious within the industry for bullying suppliers (see page 37) and extracting generous co-payments for promotions. It was no longer about getting a better deal for its customers. The firm almost ended up in court after demanding a £1m kickback from the mighty L'Oréal. 'Tesco became more and more like a landlord,' says Professor Andre Spicer of the Cass Business School. 'It was not really aiming to sell to its customers. It was basically renting out space to suppliers. All retailers have become a bit like that but Tesco was one of the most aggressive.'

Companies change over time, and Tesco had matured from a scrappy underdog to the market leader. Along the way, it was always likely to become more aggressive and to concentrate as much on fending off competition as developing new lines of business. It might have been able to get away with that if it were not for the way the market changed as well. 'The big four guys have been very cost driven,' says Shore's Black. 'Customers understand that if it is about giving them a better deal, but if it is just about the company, they don't. All of them allowed the shopping experience to become subordinate.'

After the recession, the grocery market started to change. 'You have to remember that the supermarket model is only 50 years old,' says Spicer. 'For most of that time, the middle was a pretty good place to be. There was an expanding middle class and with falling food prices due to industrialisation, they had more and more to spend on groceries. But that has ended. There are now a few very affluent people at the top and the rest are increasingly getting poorer.'

TESCO ROYALTY



LORD MACLAURIN OF KNEBWORTH

Chairman 1985-97.
Joined as management trainee in 1959.
Anointed Leahy but now highly critical of him.



SIR TERRY LEAHY

CEO 1997-2011. Retail God and MT Most Admired leader eight times. Not the most charismatic of bosses. 'The only personality I believe in is Tesco.'



PHIL CLARKE

CEO 2011-2014. The son of a Wirral Tesco store chief, he felt 'enormous relief' when he was let go after 40 years.



DAVE LEWIS

CEO since September 2014 and now fighting for the company's life. A tougher gig than selling Dove and Lynx at Unilever.

The total spend on groceries has not changed significantly. But three important things have happened in the past five years. The first is that food has started to fall in price—indeed for most of 2014, food was falling at an annual rate of almost 1%. When prices are rising, a lot of mistakes get covered up. When they begin to come down, they get horribly exposed. The second was the rise of internet sales. No one wanted to buy a TV or a lawnmower in one of Tesco's vast sheds any more. On the web they could get more choice and better prices. The third was the arrival of the hard discounters, Aldi and Lidl, which got rid of the bewildering displays of buy-one-get-one-free offers; vouchers and Clubcard boosts that made shopping in Tesco about as easy as studying quantum mechanics and replaced it with low prices on a simple range of stuff.

It turned out that Tesco had expanded most aggressively at precisely the worst time. And it had taken its eye off the ball at exactly the moment it was spinning towards its own goal. It was about to pay a price for that, and the person who would pay it was the hapless Phil Clarke.

CLARKE OUSTED

On Tuesday 22 July, Tesco had been planning a party to celebrate Phil Clarke's four decades with the company. A day before, it had to be hastily cancelled. On the Monday, the company warned that sales and profits would come in lower than expected. It was the latest in a series of disappointments that had included the share price collapsing and Tesco's market share falling from more than 30% of UK grocery retailing to less than 28%.

Tesco had no choice but to make the deeply unpopular Clarke walk the plank, and soon afterwards the chairman, Richard Broadbent, followed him out the door. 'It was a classic example of weak corporate governance,' says a former board member. 'Clarke was not up to the job, but there was no one there who could challenge Leahy.'

Clarke, according to insiders, had shown little grasp of how to turn the business around. He neither understood the challenges it faced, nor came up with any strategies to meet them. Instead he allowed promotional payments to be overbooked, leading to the £263 restatement of the accounts that prompted his early departure. Subsequently, Leahy has accused him of 'a failure of leadership'. He was followed out by a series of senior execs. A whole generation of managers—Leahy's boys—were swiftly



In January, new CEO Dave Lewis announced the closure of the HQ in Cheshunt—known to some as the Lubyanka

“
The business
will have turned
the corner
when the
market share
in the UK has
stabilised
”

ejected from the company, their reputations in tatters.

But would that be enough? After all, getting rid of people is easy. The question now is whether Tesco can be turned around, and if so how. 'Dave Lewis has started to grasp the nettle,' says Spicer. 'He publicly named and shamed illegal behaviour. He has started to restructure where the company makes money. Instead of charging suppliers, the focus is now on consumers.'

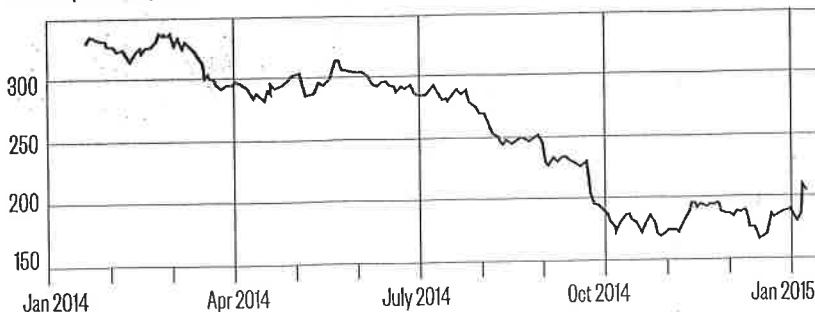
It is likely to be a long journey back, however. Tesco gets a lot of criticism for its overseas adventures. But they were not the real problem, except in the sense that they drained cash and expertise from its core business. The only one to lose significant money—the US chain Fresh'n'Easy—has already been closed. Sales are declining fast in Ireland and the central European business does not look much healthier, but they are peripheral. It is in the UK that Lewis needs to restore Tesco's fortunes and that is not going to be easy. 'He needs to do two things,' says the former boss of a rival. 'He needs to start closing stores that are too big and won't ever make money. And he needs to get competitive on price. And both of these involve a lot of financial pain.'

No one thinks that Tesco is going to disappear, or that it will go bust, even if it might require a financial reconstruction. It remains enormous, the market leader, and there are still benefits in bulk. The problem is strategic rather than terminally existential. 'The business will have turned the corner when the market share in the UK has stabilised,' says Black. 'At the end of the day, without sales you don't have a business.' Where will that be? Black reckons it will stabilise at around 25%, but admits that it could be lower.

To get there, Lewis will have to refashion the business, and decide what it stands for. He will need to take on the discounters and then reconnect with a shopping public that is no longer very interested in doing a big weekly shop in a massive, rather dull supermarket. 'These factors are beyond the control of the CEO. They will require some careful navigation skills in the future,' says Spicer. 'They also mean Tesco is likely to be a very different business in 10 years.' Indeed so. Jack Cohen and Ian MacLaurin built Tesco into the largest retailer in the UK by being on the side of the customer, and by pioneering new forms of retailing. Perhaps Lewis needs to spend a bit more time on the company's history and discover how to recreate some of that spirit. **WR**

TESCO'S TANKING SHARE PRICE

From 335p in January 2014 to under 200p last month, however, Lewis's restructure announcement prompted a rally



★ GOODWILL HUNTING ★ THE VALUE OF CORPORATE REPUTATION

Reputational value is a vital contributor to market capitalisation, and it can be measured,
say SIMON COLE and SANDRA MACLEOD of Reputation Dividend

What's a reputation worth? It's a question that every board in the country would love to have an answer to, and it's one that a closer look at the cumulative results of Britain's Most Admired Companies can help shed some much-needed light on.

Take the corporate morality tale that is Tesco. Not so long ago, it was a major force in the Britain's Most Admired rankings, on its way to being a permanent glittering fixture. It has won the overall title a record six times, and achieved first or second place in three out of the four years up to 2010, when chief executive Sir Terry Leahy announced his retirement.

But since then, things have gone badly wrong: the horse-meat scandal, profit warnings, that £263m black hole and now an SFO investigation. This year, it's at 181 in the table.

How much reputational damage has been done? By our calculations, the firm has lost no less than £13.5bn of reputational value since the peak at the end of 2011 (see graph).

By applying regression analysis techniques to the kind of metrics consumed by institutional investors – financial results, consensus forecasts and the results of surveys including Most Admired – Reputation Dividend calculates the contributions of a company's reputation to its total market capitalisation, and the component parts of that reputation. Lessons can be drawn not only as to the overall financial value of a reputation, but also on the capacity of reputation to create and secure market capitalisation.

At its peak in late 2011, Tesco's market cap was around £32.2bn, half of which – £16.6bn – was the value of its reputation. By September 2014, its cap had dropped to £18.6bn, only £2.6bn of which was the value of its reputation.

That's quite a fall in less than three years, and goes to show how reputational slides, once begun, can be hard to arrest. But Leahy's departure challenged the previously unquestioning enthusiasm of company watchers, and other problems – concerns about the company's market dominance and trading practices, for example – became too big to ignore in the wider investor community.

The tipping point came in January 2012 when the decline in confidence led to a collapse in the value attributable to the company's reputation – its reputation contribution – that even the seemingly healthier forward-looking financial indicators in 2013 could not stop. The share price fell much further than it might have done.

It may well help to rationalise why other companies that once occupied the leader board of Britain's Most Admired, such as Serco and BP – let alone much of the banking industry, currently languish closer to the bottom.



Once it has begun, a damaging slide in reputational value can be hard to reverse

COLE, S +
MACLEOD, S
(2015)



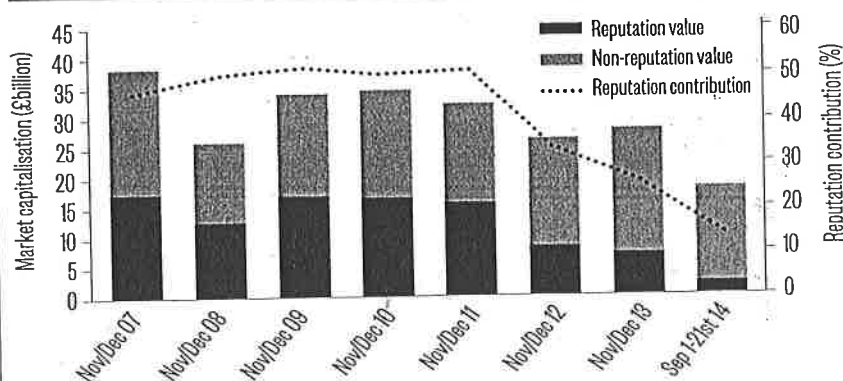
The signs of impending reputational calamity are there for those with eyes to see them. Looking for and attending to those signs may have helped stem the tide of shareholder value losses for Tesco, BP et al. But years of success often leaves organisations deaf to such signals. The lessons for reputation stewards lie in how reputations are structured. Reputation-value analysis of the companies in this year's Most Admired report indicates that it's not just how well a company is known but what it is known for that matters.

Unilever, for example, consistently generates great reputational value – 49.7% of its market cap is due to reputation – by delivering a sound financial performance and advertising its ability to attract talent, its marketing prowess and commitment to its community and environmental credentials. All of which have been of interest to investors in 2014 as they appreciate not only the risk protection, but also the focus on creators of growth and goodwill.

And as with any investment, the value of a company's reputation can go up as well as down. Take AstraZeneca, Most Admired's highest climber this year, up 158 places to 54. Having seen off the attentions of Pfizer, its 'national gem' status was acknowledged with its contribution up more than a quarter to 40.3% of market cap, around £23bn.

So the evidence is clear. Corporate reputations are not just nice to have: they make the intangible tangible in the shape of higher share price and increased market capitalisation – nearly £575bn in total across the FTSE100 alone, as of October 2014. More importantly, understanding 'how' and 'why' provides boards with the critical edge they need to manage the asset to the greatest benefit of the company. Reputation Dividend is a specialist reputational valuation consultancy. www.reputationdividend.com

TESCO: THE TRUE COST OF LOSING A GOOD NAME



KISS FROM A ROSE

PHOTOGRAPHED BY PAT TAYLOR

X

SIR STUART ROSE IS NEVER
SATISFIED. THAT'S WHY HE'S
SO GOOD, SAYS **REBECCA
BURN-CALLANDER**

X

BURN-CALLANDER, R
(2014) KISS FROM A
ROSE - PROFESSIONAL
MANAGER. WINTER 2014

Sir Stuart Rose is looking dapper. Not a pewter hair out of place. His piercing blue eyes miss nothing as he jokes with *Professional Manager's* photographer and fires questions at me: "Is that an M&S dress you're wearing?" he drawls, his accent a confection of broad Yorkshire vowels with a smattering of other, a product of a childhood spent in Tanzania.

Rose's own beautifully cut blue suit is certainly no Marks & Spencer creation. "It's a Richard James," he says. "I haven't worked at M&S for three years. Why would I wear the suits?"

Despite that slightly disparaging remark, Rose's fondness for his former employer is resolute. "It's a great business," he says. "Ask anyone what they think of M&S and they'll have an opinion: 'I love the chicken jalfrezi' or 'my wife likes those front-fastening bras'."

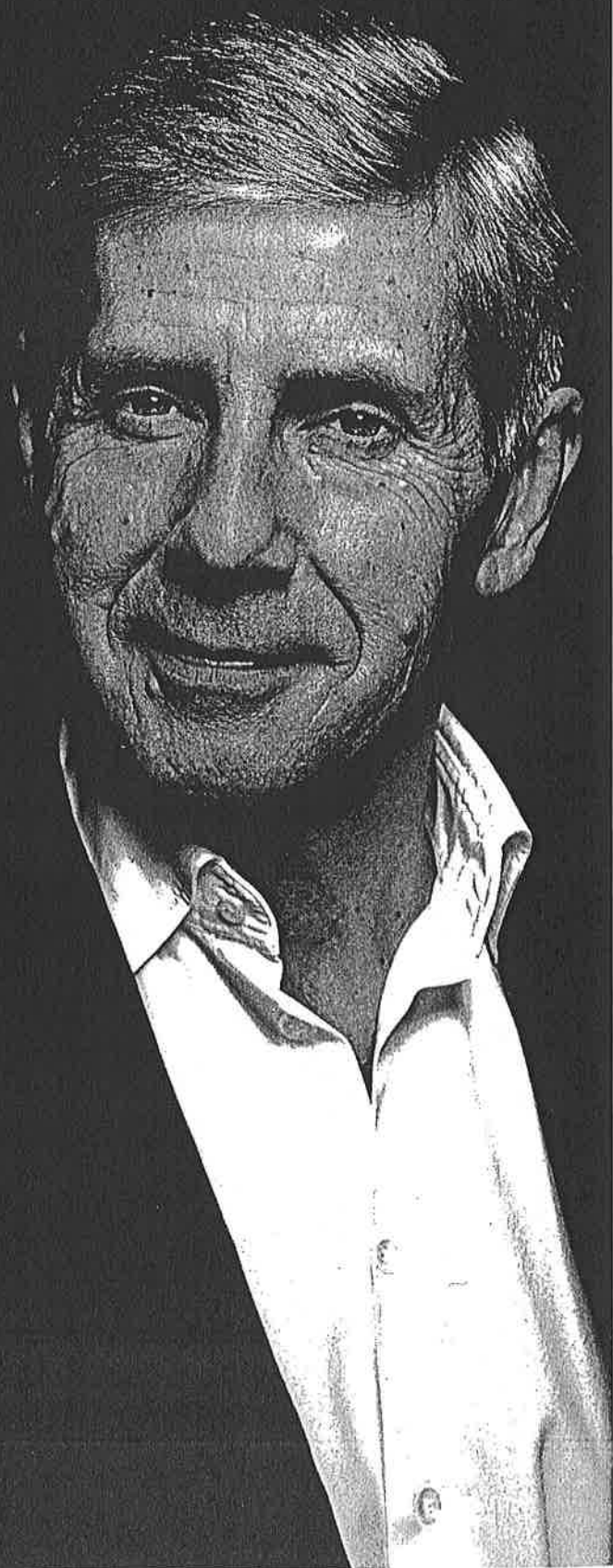
It's not surprising that ready meals and lingerie come quickly to his mind. He may be at grocery delivery service Ocado now (he's chairman), but Marks & Sparks is in his DNA – he worked there for a generation-defining 21 years. But he did it in two shifts, 16 years the first time around and five the second.

It's easy to forget what M&S was like before Roco arrived – younger women, a crucial demographic for clothes retailers because they buy so many clothes, rarely popped in, unless they happened to be hungry. The shop was pandering to its old-guard shopper – the elasticated-trousers punter, a stereotype born of reality. Rose's sexing up of a moth-eaten institution is undoubtedly the highlight of his career.

At the turn of the millennium the off-trend M&S was suffering from stiffer, sharper competition on the high street. Quality was no longer enough to bring in the business. Musty traditions – it didn't accept credit cards, incredibly, until 2000 – were holding it back.

When he rejoined M&S in 2004 as chief executive, it was as a free radical in a business that had barely changed for a decade. He took on the long-standing consumers, pushing the fabled laggy-band treads to the darkest corners of its regional stores. In their place came the sharper styles and glamorous undies of his Per Una brand, luring

'I like a challenge.
I like to roll my sleeves
up, get into the engine
and clean the plugs.
Once the engine's
running, I don't find
it so satisfying'



those all-important younger women over the thin green line. And when he splashed out on Antonio Banderas and Twiggy for modelling campaigns, Rose not only brought M&S back into vogue, he also brought profit up to the dizzy levels of its nineties heyday – hitting a starry £1 billion in 2008.

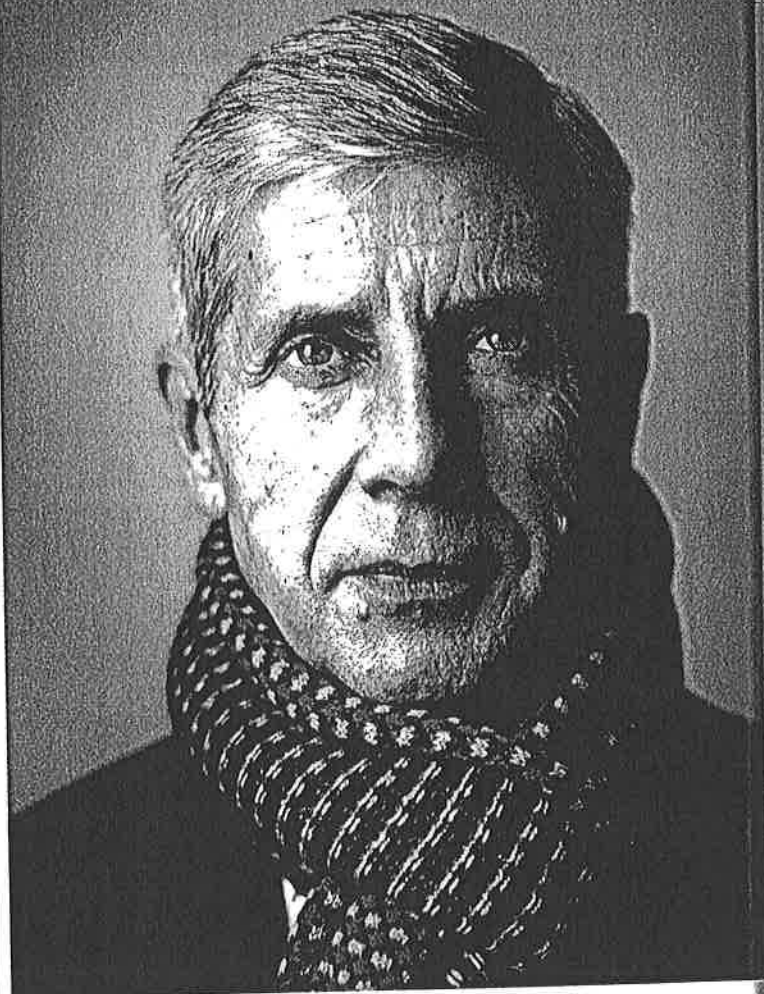
Crucially, though, he made sure M&S stuck to its responsible capitalism roots, pulling the rest of the industry through in a tailcoat effect. His Plan A environmental initiative saw M&S lead the vanguard. “Walmart couldn’t spell sustainability five or ten years ago,” he says. “They now get it.” He’s passionate about this stuff – “We have a duty to run sustainable businesses,” he says – but he’s still a businessman. “It doesn’t have to cost you more money. In the third year that we did Plan A at M&S, we produced £50 million more profit because we were using less cardboard, less water and less energy.”

From bust to bloom

He likes this – going into places, working out what they are doing wrong, then smashing the system. He is more comfortable tackling problems than enjoying their solutions. I suspect he’s easily bored. “I’m better at fixing things than running them,” he admits. “I like a challenge. I like to roll my sleeves up, get into the engine and clean the plugs. Once the engine’s running, I don’t find it so satisfying.”

By 2009, M&S was a solid, profitable business. Did he kick back in the big chair? No: “There was no longer any point being there,” he says.

So he moved on, and these days, he holds a raft of positions. As well as being chairman of Ocado, he also holds the same role at fashion retailer Blue Inc



STUART ON THIS SPOT

BlackBerry or iPhone? iPhone

What’s your extravagance? Wine

How do you keep fit?

Gym and running

What do you do to relax? Reading

What was your greatest mistake?

Too many to mention!

What’s the last song you played?

Probably something from the Buena Vista Social Club album

If you could give your 16-year-old self one piece of advice, what would it be?

Be bold

and Fat Face, the outdoor clothing firm. And he has a handful of non-executive roles at the likes of Woolworths and Dressipi. It’s not surprising that his turnaround skills are in such high demand. There can be no better evidence of his business prowess than the recent spike in Ocado’s share price. The online company, more popular with its customers than it ever was with its bank, haemorrhaged cash for 13 years. Rose joined as chairman in May, picking up 452,284 shares for £9,000. Those shares are now worth £2.1m. Rose, though, prefers the modest approach. “It was never a case of if it was going to happen,” he says. “It was when.” You sense though, that his arrival may have had something to do with it.

Did his long stint at M&S make him the business leader he is today? Perhaps the British institution could become the retail equivalent of Unilever, which churns out hundreds of sharp executives every year? “I didn’t know when I left in 1989 that I would ever go back,” he admits. “I certainly didn’t have a clue that I would go back as chief executive. But while I was out, I worked at Burton, Booker, Iceland and Arcadia, and I learned things I would never have learned if I’d stayed at M&S. That’s what equipped me to go back and do a half decent job.”

Sir Stuart Rose talks to Rebecca Burn-Callander about the thorny issues in his career, how he has overcome them and why he can never see himself retiring

He doesn't waffle much, Rose. The 30 minutes I get with him glean more than an hour with more cliché-prone interviewees. "There are two types of people in business," he stresses. "Those who aren't any good and should leave. And those who are very good but after five years should still go somewhere else. If you're that good, the company will always have you back. Go and learn some new tricks."

I'd never thought of it that way: that the ultimate proof of loyalty to a business is not staying, but leaving and coming back better. But perhaps Rose succeeds precisely because he's prepared to think differently, while also keeping an eye on the basics. "Business is simple," he announces grandly. "And retail is a simple business made complicated by management. If you're a successful retailer you buy something for a pound and you sell it for two pounds. If you're an unsuccessful retailer you buy something for a pound and sell it for 50 pence."

Today though, he suggests that people expect the 50p model. The customer has never had it so good nor the retailer so bad, he contends: "There used to be a saying that customer is king. He's not. He's the master of the universe. If you don't give them what they want, then you have a problem."

Of course, he likes that – having a problem. Because that means he gets to change something.



Antonio Banderas with the retailer's established leading ladies (clockwise from bottom left), Twiggy, Laura Bailey, Lizzy Jagger, Erin O'Connor and Noémie Lenoir, in an advert that took its inspiration from the golden age of Hollywood and was launched in December 2007



Sir Philip Green, owner of BHS and Arcadia Group, and Sir Stuart Rose, have become close confidants in recent years

PHOTO: GETTY IMAGES

"There are two types of people in business. Those who aren't any good and should leave. And those who are very good but after five years should still go somewhere else. If you're that good, the company will always have you back"

"It's Darwinian," he says. "If you don't keep innovating, your business model will be challenged and this will lead to your demise. But then you don't deserve to survive so that's no bad thing."

He has always had this instinct himself, he believes. "The secret to being a good leader is to be restlessly dissatisfied," he says. "And you're either born with it or you're not."

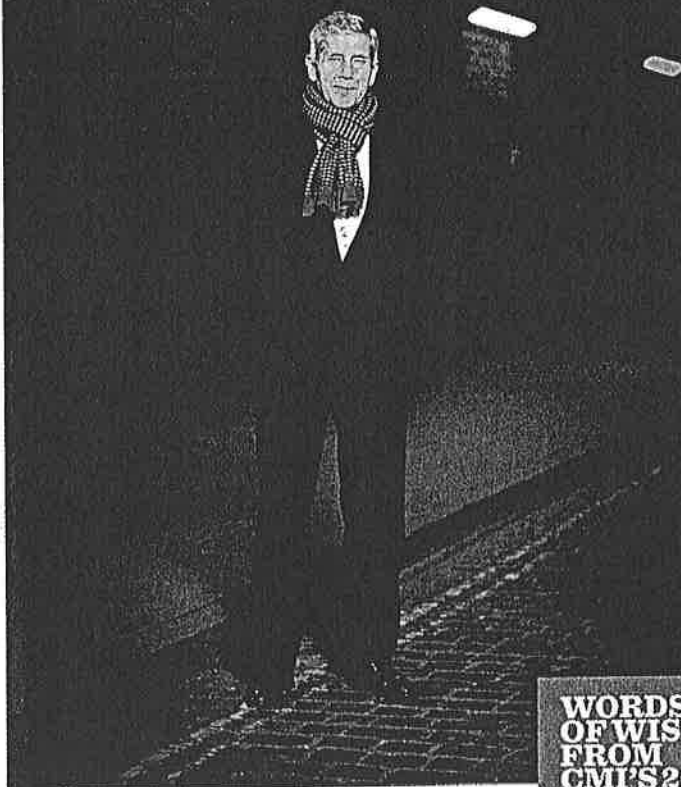
Perhaps. But even innate skill must be trained and honed. This was a lesson Rose learned during his early days at M&S. He recalls an eccentric manager he had in the 1970s, who approached him just three days after joining the company. "He said: 'I've been watching you. Every time you go and

get your coffee, you go the same way. You have no imagination. How do you know what's going on in the stock room? Why don't you go get your coffee that way?'"

Rose spent the following weeks breathlessly seeking new routes to the canteen. "And I was always looking over my shoulder," he laughs.

Despite the eccentricity of the manager's request, the lesson sunk in. Without this kind of agility, business leaders and whole companies can fade away to nothing. "The high street is under real threat and it's a self-inflicted injury," says Rose. "You've got to learn to pat your head and rub your tummy at the same time."





That's not to say that retailers haven't had to cope with unprecedented levels of change. The rise of e-commerce and huge strides in technology have presented both challenges and opportunities. "I remember finding minutes from a meeting at M&S where people said the internet would never take off," he laughs. "And now there's s-commerce [social commerce], omnichannel, click and collect, showrooming, contactless payments and electronic wallets. You can lie down and die, or you can embrace change."

Perennial growth

Rose's attitude to change is one of, if you don't try, you'll never know. "I always say, unless there's a man-trap, go through the door," he says. "Unless you do, you'll never know what you're missing. When someone offers you a new job or opportunity, always take it," he adds, which explains the sheer volume of advisory and non-executive jobs he has accepted.

But Rose's success has come at a cost. "Being chief executive is a very lonely job," he confesses. "You can't just come out of your office and say: 'I don't have a clue what to do.'" To avoid such a vacuum, he suggests building a network around him that he can trust. There's little point asking loved ones: "If you ask your girlfriend or your family for advice," he says, "they'll just tell you what you

want to hear." Perhaps that's why he chooses as his closest confidant his one-time nemesis, Sir Philip Green, the man who attempted to take over M&S on Rose's watch. Today, the pair have a lively friendship and Rose quotes the Arcadia tycoon with fondness: "It's like Philip always says: 'The problem with common sense, son, is that it ain't so common.'"

"Philip tells me the truth. I know he's not going to tell anyone else, I know he's not going to laugh at me, and I know he'll take me seriously."

It's hard to imagine Rose asking anyone for advice. He seems so sure of himself, with an air of impenetrable calm. But he admits that he is as fallible as the next man. His weakness, he says, are the problems that involve people.

"The biggest mistakes I have made have all involved not acting quickly enough because I've known I needed to take a top layer of management out or close something down," he says. "Sacking people is never a nice thing to do."

Ask any chief executive the secret to their success and they will almost always reply: "My staff." It's the first rule of management: whether you believe it or not, it is always in your best interest to convince your people that you value them. But when Rose talks about getting the best out of his people, he is almost evangelical in his vehemence.

"Management with a light touch is the secret," he explains. "You have to give people a vision, a dream that they can have a part in trying to fulfil." It's not management by command and control; it's management by consensus. "You should be able to ask anyone in the company, the person at the front desk, the chief executive and anybody in the middle, what the company stands for and they should know," he adds. "If they don't or if you get three different answers, then you know you, as the management, haven't got your message across."

Given his passion, it's not surprising when he snorts at the idea of ever retiring. "And do what?" he asks. "I am reasonably fit. I live on my own. I don't have a dog. After I've got up and had my cup of tea in the morning, what would I do? I don't play the horses and I certainly don't play golf."

He seems scathing of those who leave the business world, spending their twilight years at home, or, heaven forbid, at the golf club. His diary, at 64, is hectic enough to make a younger man wince. He reels off lists of engagements across the UK, so much so that I almost feel lucky that he squeezed me in. Can he keep up the pace? "I genuinely wish I was half my age," he says, with a smidgeon of sadness. But then he's back: "As long as you are warm and breathing you can make a success out there."

WORDS OF WISDOM FROM CMI'S 2013 CONFERENCE

"US investors ask why your valuation is so low; British investors will ask why it's so high. US investors will ask how they can help you succeed; British investors will ask you when they will get an return on investment." **Simon Dixon** (BankToTheFuture.com)

"It's interesting becoming an entrepreneur later in life - when you've already learned about how to make businesses better." **MT Rainey** (Thnk and Horsemouth.co.uk)

"Women are half as likely as men to become entrepreneurs." **Gilla Snowball** (AMV BBDO)

"Google's prediction that 25% of all transactions will be done online by 2025 will prove way out. It will be much more; companies must be prepared." **Sir Stuart Rose**

Apple's Tim Cook: Martyr or visionary?

{ Steve Jobs' suited successor may not excite the same quasi-religious fervour, but those who lament that Apple's heyday is behind it may yet be proved wrong. By RHYMER RIGBY }

When Steve Jobs died on 5 October 2011, Paul Talbot, a tattoo artist based near Birmingham, had the company's striped 1980s Apple logo inked onto his foot along with the letters 'RIP'; his wife had a similar tattoo done on her ankle. Talbot says that he did this because 'I'm a huge Apple fanboy'.

Three years on and Talbot is still keeping the faith. 'As far as I'm concerned Apple remains the standard by which every other product is measured,' he explains. While expressing the hope that this will continue to be the case as the company leaves its iconic founder further and further behind, he adds: 'It's too early to tell.'

Others are more bearish. In late July, Pedro de Noronha, managing partner at the hedge fund Noster Capital, said that, while he loved Apple, he was not convinced about the company's long-term prospects. 'It might become obsolete in two to three years,' he told CNBC.

If this were any other company, Noronha's comments would have stayed on the financial pages. But this was Apple, so his words spread like wildfire. Everyone loves an Apple story, and everyone has an opinion on Apple. People who have no interest in business whatsoever have strong opinions on Apple. What other company could your tattoo artist discuss like a tech analyst?

Apple has been compared to a cult and a religion. People will queue overnight in freezing weather for the new iPhone 6; some even bring tents and sleeping bags. Others

Illustration by
Max Schlinder

build online shrines to the company's discontinued products and write 'fan fiction' about its dead founder. There could easily have been a chapter about Apple in Charles MacKay's 1841 book, *Extraordinary Popular Delusions and the Madness of Crowds*.

And yet, with a market cap of well over \$600bn, it is one of the world's largest companies. This is what really makes Apple unique: you get other cult brands (for example, Harley-Davidson, Sriracha and Hello Kitty) but what you do not get is cult brands that are bigger than ExxonMobil.

Everyone agrees that Apple is a phenomenon, but the question being asked is whether it can continue to be so.

Given that you can find any opinion you want on Apple, perhaps we should start with the facts. Apple is the biggest company in the world, at least measured by market capitalisation. (If you take sales and/or profit into account, however, then there are several larger companies in China.) Three years ago, after a long, well-publicised illness, its quixotic, difficult and undeniably brilliant founder died of pancreatic cancer. He was succeeded by Tim Cook, a long-time Apple insider who has had a mixed run since he took the helm, although his fortunes are currently waxing.

Some other facts are that the company has a cash pile of around \$160bn (much of it squirrelled away in offshore tax havens), which is more than the cash reserves of countries such as Malaysia, Turkey and the UK. Last quarter it reported profits of \$7.75bn, up 12% on the previous year.

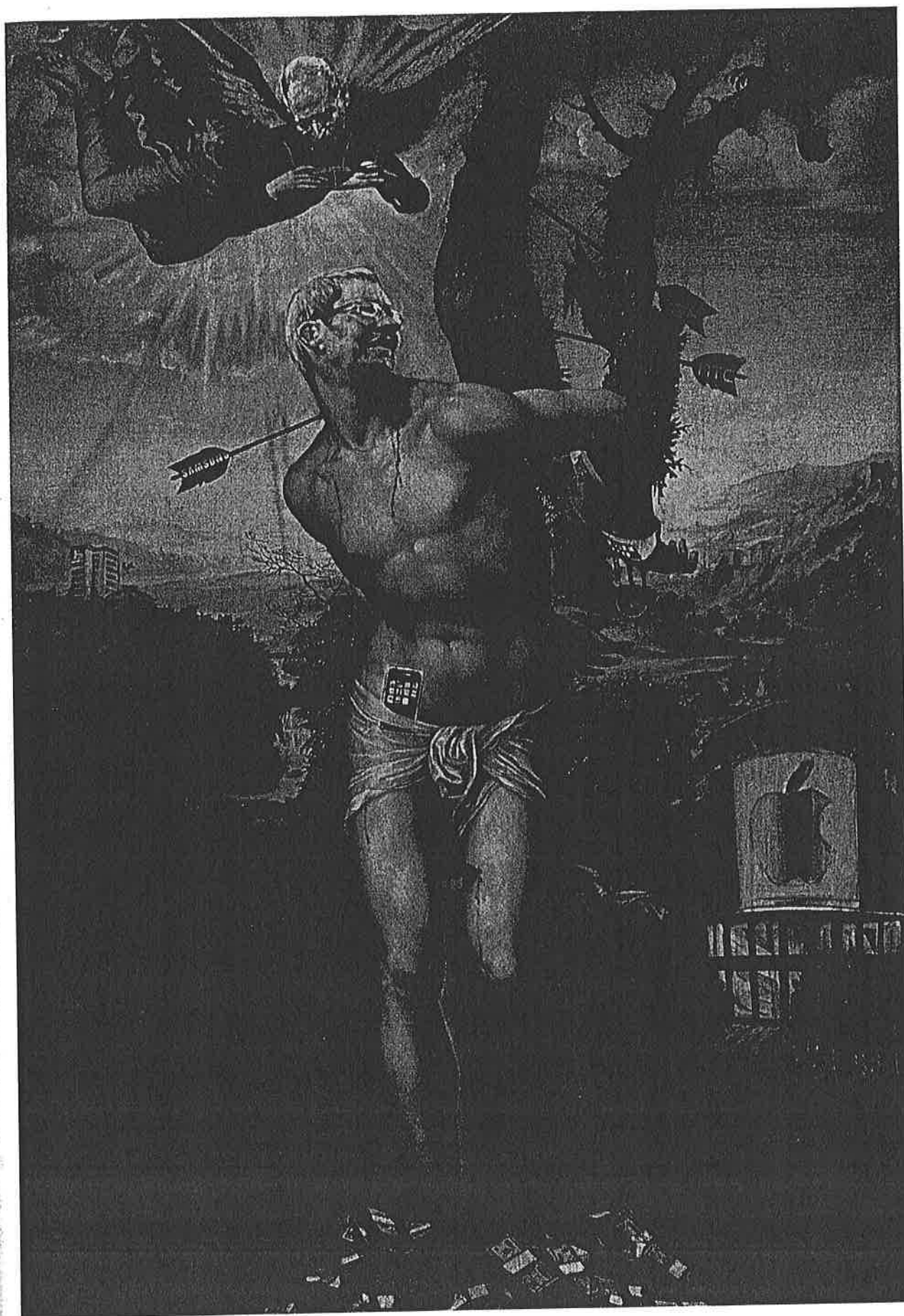
RIGBY, R (2014)

APPLE'S TIM COOK:

MARTYR OR VISIONARY.

MANAGEMENT TODAY.

OCTOBER 2014.



Tim Cook as Saint Sebastian, after the 1525 painting by Giovanni Antonio Bazzi (Il Sodoma)

TIMELINE



1976

Apple founded by Steve Jobs, Steve Wozniak and Ronald Wayne in Cupertino, California. Apple I microcomputer goes on sale for \$666.66



1980

Apple goes public at \$22 a share. Jobs worth \$165m



1984

Macintosh personal computer launches, priced at \$2,500



1985

Jobs pushed out of Apple in coup led by the CEO he hired from Pepsi, John Sculley

Continued on page 31



Steve, Steve and Steve:
Jobs in the noughties
fronts Jobs and Wozniak
in the 1970s

But, even so, people have concerns. They worry that the company is so big and its markets so fully penetrated that it cannot continue to grow as fast as it has been. They worry that it won't be able to keep its margins up. They worry about its product pipeline. But, if we're honest, what they worry about most of all is that Tim Cook is not Steve Jobs.

Apple has been without Jobs before. In 1985, only a year after the first Mac was launched, he was fired from the company he had co-founded nine years earlier. The business did well enough into the late 1980s, but by the early 1990s it had lost its way. Jobs returned in 1996 and Apple was bailed out a year later by its rival Microsoft, in a deal Jobs negotiated. Jobs then put his people into key positions and Apple went on to enjoy one of the greatest comebacks in corporate history, the fruits of which have included the iPod, the iPhone and the iPad.

The effect of all this has been to indelibly burn the connection into many minds that Apple + Jobs = Good, while Apple - Jobs = Bad. But it also explains why Apple hasn't been able to move on from Jobs' death, three years after the event. When Jobs left in 1985, the company didn't run into real problems for six or seven years. Therefore, the thinking goes, you may be able to coast on your Jobs legacy for a long, long time.

Cook was not well known outside the company before he took over, although he was well respected in a 'behind the scenes' way within it. He was an operations guy. A manager, not an obnoxious visionary genius who believed vegans didn't need deodorant. Not Steve.

However, it is worth remembering that Cook may not be carrying on the Jobs legacy single-handed. There is also Sir Jony Ive, Apple's British-born chief designer. For many followers of the cult of Apple, it is Ive who has picked up the torch left by Jobs. Cook runs the church, but Ive is the new messiah.

Apple's financial performance under Cook has been a play of three acts. Jobs' death was expected and 'priced in', so it is barely noticeable on a graph. For nearly all of year one AJ, the shares climbed steadily. But then, just before the anniversary of Jobs' death, the price reversed direction and declined equally steadily for 10 months, down to 45% off its high. Pundits who had begun to give Cook the benefit of the doubt started muttering about him being toast.

In April 2013, the tech analyst Rob Enderle wrote: 'It was hard to listen to the second-quarter financial report... and not imagine Steve Jobs spinning like a top in his grave.' For many, the narrative was clear: Cook had burned his way through the Jobs legacy, and Apple was well on its way to becoming the next Nokia or Sony.

They were wrong. In July last year, the shares reversed direction again and, at the time of writing, the company was trading at over \$100 a share. So not being Steve might not be such a bad thing after all – and, as Ben Rogoff of Polar Capital points out, plenty of companies survive the death of their founders: 'When Henry Ford died people said it was the end of the company. But the shares increased tenfold in value.'

There are some interesting parallels here. Ford was innovative, iconoclastic, creative and crazy. Along with his well-documented anti-Semitic views, he built a city in the Brazilian rainforest called Fordlandia. He straddled the genius-loon divide just as Jobs did. Yet (and very hearteningly for Apple shareholders) pretty much every great Ford except the Model T came out after his death.

The last year has put Cook back in the markets' good books and history has been rewritten again. Cook's managerial suitability is the Yin to Ive's Yang. And, for what it's worth, Cook's recent accidental outing on CNBC hasn't hurt either – it makes him more human, more sympathetic. Besides, there are some real upsides to having a suit in



Tim Cook in front of the Apple Watch, unveiled last month

charge. Under Jobs, Apple was often seen as a listed company that ran itself like a private fiefdom; under Cook, corporate governance has improved immensely.

Eight per cent of the Global Technology fund that Rogoff manages is made up of Apple shares and he says he's happy with this, and that while growth investors may struggle with the stock, value investors won't. 'There's going to be a slower growth rate – 5% to 6% – and, in the short term, buybacks and dividends will keep investors happy.' It is perfectly possible, he believes, for Apple to run itself as a premium, high-margin brand like Audi. The time to worry is when the residuals on your iPhone tend to the industry norm – that is, when a three-year-old iPhone is worth as little as a three-year-old Samsung Galaxy.

So, nothing to worry about, right? Wrong. Wrong, because this is Apple and with Apple we expect more than sound financials. We – from analysts to fans, from customers to investors – want fireworks. We want the manic prancing around a stage in a black polo neck and jeans. We want stunning arrogance about new products, followed by products that actually justify that arrogance. We want the old Jobs magic – and recently that has been in short supply.

Since late 2011 we've seen several new iPhone models and some of them have been excellent products. But the changes have been evolutionary, not revolutionary and there is a feeling that, increasingly, companies such as Samsung are defining the category. Last year's iPhone 5s, in particular, prompted a lot of online snark. One memorable parody ad had an Apple representative saying: 'We call it the iPhone 5s. The "S" stands for "same".' Earlier this year, Laurence Balter, chief market strategist at Oracle

Investment Research, spoke for many when told the *New York Times*: 'All we hear from Cook is there are some great products coming down the pike.'

But here too, Cook may be about to enjoy another great reversal. On 9 September, the brand-new Apple Watch was announced, alongside the iPhone 6 range with Apple Pay, a contactless system that might just be mobile payment's long-awaited breakthrough moment. Apple has also acknowledged past frustration and promised great things, and Ive has reminded those with short memories that many of the same things were being said before the launch of the original iPhone.

'Arguably, Apple's survival depends on it perpetuating the values that Jobs embodied'

There are other straws in the wind too: health and medical innovations, upgrades to Apple TV and the possibility that Siri could become a big player in search. People may be sceptical about some of these – notably the Apple Watch – but it's worth remembering that between 1993 and 2009 only eight tablet-type devices were launched and all of them sank with barely a ripple. When Apple's iPad was announced, wags joked that it would be the ninth, memorable only for sounding like a feminine hygiene product. Instead, it created a new product category, rewrote the notebook handbook and is now the middle-class stocking-filler of choice.

Apple has also been hinting heavily about great things to come. At Re/code's CodeCon in May, the company's Eddy Cue said: 'We've got the best product pipeline that I've seen in my 25 years at Apple.' It's a lot to live up to but Apple is not given to announcing vaporware, probably because its fanboys do this for it. Moreover, the company has a strong track record of delivering not only what we want, but also what we had no idea we wanted.

Continued from page 30

APPLE TIMELINE



1992

Jonathan Ive joins Apple as a designer



1997

Jobs returns to Apple as interim CEO. Ive made head of industrial design



1998

First iMac appears, designed by Ive. Jobs made permanent CEO



2004

Jobs reveals he has pancreatic cancer. iPod sales hit 10 million



2007

iPhone launches. Sells one million units in 74 days

Continued from page 31

 TIMELINE



2009

Jobs takes first health-related leave of absence. Has liver transplant



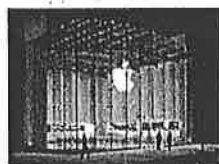
2010

The iPad launches. Sells three million units in 80 days



2011

5 October: Jobs dies. Tim Cook takes over as CEO



2013

Shares plummet to \$56



2014

9 September: the long-awaited iPhone 6 launches, featuring Apple Pay, and is joined by the \$349 Apple Watch



The modern-day shrine that is Apple's Manhattan store

This is a reason we should all want Apple to do well. Because even if you aren't a fan or an Apple h8er, you can't deny that the company is the kind of high-end, high-innovation, high-margin business that we need more of in the west. It is one of the very few companies in its sector that understands it is not about the technology, it's about the impact. Its products have created whole new markets and changed the way we live and work. Even if you do not use any of its products you are affected by them. As Virginia Postrel explains in her book *The Substance of Style*, Apple is one of the key reasons why making things look good is a 21st-century growth industry.

Apple is, according to Interbrand's 2013 survey, the world's most valuable brand, worth just under \$100bn, which is about the same as Microsoft (number two) and Coke (number three) combined. But there are signs its halo might be slipping – the rival BrandZ survey of the world's 100 most-valuable brands puts Apple second (down 20% to \$148bn) behind Google at \$159bn, in its latest 2014 figures.

There's no denying that the brand is unique, but unlike the products, which are real and tangible, the brand can be anything you want it to be. In fact, after a while, immersed in the world of Apple, hearing the thoughts of fanboys and h8ers, consumer psychologists and marketing gurus, you could start to wonder if this might literally be true. Perhaps the real genius of Apple's brand is that it's like something out of a Greek myth. The brand is a sort of mirror onto which we project our own hopes and fears – and this is why you can find almost any opinion you want on Apple.

However, while the company's product pipeline and financials appear in good shape, the Apple brand may actually be in trouble. One of Jobs' greatest achievements was

keeping that brand artificially young. With his company, he did what every toned, wheatgrass-juice-chugging Californian dreams of: he more or less arrested the ageing process. But with Jobs gone, the fountain of eternal youth has run dry and Apple is having to grow up fast.

It may well have had to do so anyway. The company has always traded on being an upstart and did so long into its comeback. But when you're bigger than Walmart it's just not credible to pretend you're not part of the establishment.

Chris West, of the brand strategy consultants Verbal Identity, says: 'Apple has deep roots in being a challenger brand, but now it looks like it's *trying* to be a challenger brand. It seems hollow.' He adds that perhaps the worst

recent example of this was the company's 2012 'Designed in California' tagline. 'Virtually everyone who saw it mentally appended the coda '... and made in China.'

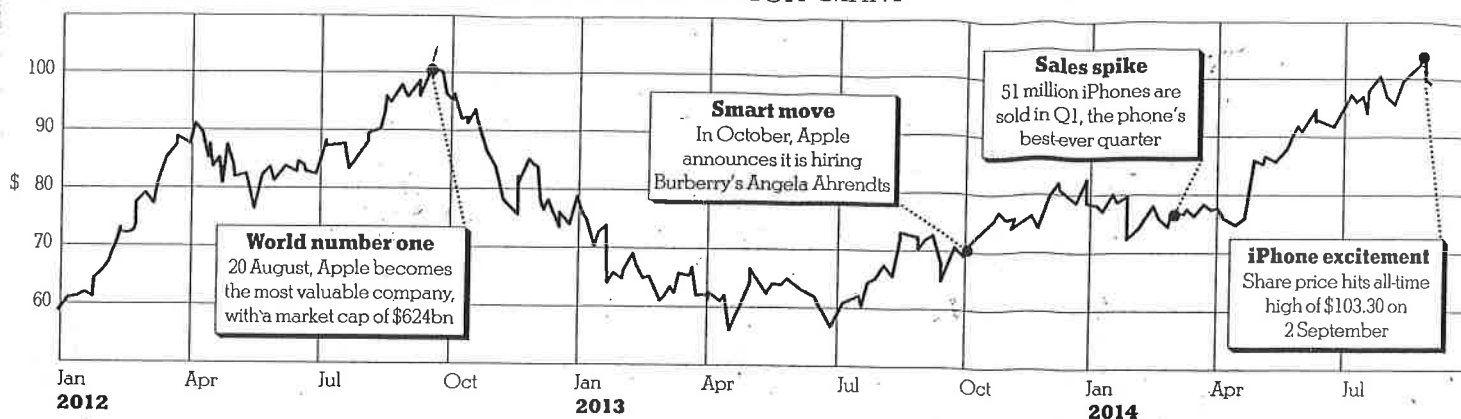
Mark Borkowski, the public relations expert, adds that the games Apple used to play with its public and the media no longer work as well as they once did: 'You'd see Apple products win awards at huge events and the company would send no one to collect them,' he explains. 'It

was famously a brand of no engagement.' In some ways, it still is. *MT*'s requests for an interview for this piece went unanswered; Apple engages on its own terms or not at all. But while you might reasonably expect this kind of behaviour from an upstart run by a genius that makes products for an elite few, coming from the largest company in the Fortune 500, it just seems a bit peculiar, especially in the age of social media. There's a fine line between hauteur and plain rudeness.

Apple's chronological woes don't stop there. The company is now middle aged and its appeal may well be too. West says that the kind of emotional equity that today's fortysome-

'Apple has deep roots in being a challenger brand, but now it looks like it's trying to be a challenger brand'

APPLE SHARE PRICE THE UPS AND DOWNS OF A TECH GIANT



things have in Apple is not shared by the generation below them: 'People under 30 just don't have that belief now.' Indeed, the idea of Apple as a youth brand may well be a concept that exists largely in the minds of today's 45 year-olds.

But you can always find a dissenting voice. Philip Graves, a consumer psychologist, says: 'For now I don't see Apple as having peaked. If it releases a new product it will be received with interest and enthusiasm, and consumers will have enormous faith in it working as it should.' However, he adds: 'Arguably, Apple's survival depends very much on its understanding and perpetuating the values that Jobs embodied.'

So we're back to the Jobs legacy. When it comes to the brand, that legacy is still a work in progress. Since he shuffled off to the Infinite Loop in the sky, there has been a slow drip drip of stories about his crazy behaviour, as more people have spoken out. The wellspring of these was Walter Isaacson's authorised biography, published just weeks after his death, which revealed nuggets such as Jobs being so smelly that his co-workers at his first employer, Atari, called him 'a god-damn hippie with BO' and forced him to work night shifts.

Three years down the line, these nutty revelations show little sign of abating. One is that the Apple university compared the company's approach to that of Picasso, and it was striking that the coverage contained plenty of references to Jobs and none to Cook. You have to feel for a man who often seems to get less press than his dead predecessor.

But it also makes you realise that, in death, Jobs is just as big as he was in life and, if anything, getting bigger. Moreover, it doesn't matter that most of the revelations are negative. Steve had BO because he was a genius, Steve was a fruitarian because he was genius, Steve was an asshole because he was a genius. Each new revelation just feeds the legend.

All this talk of revelation sounds religious and it's hardly a novel view that Jobs did not create a company, but a cult. But what is surprising, perhaps, is how much literal truth there is in this. In the late noughties, the brand expert Martin Lindstrom conducted a three-year study in which he used a fMRI scanner to look at the brains of the most ardent custom-

'A stranger at a product launch could be forgiven for thinking he had stumbled into a religious revival'

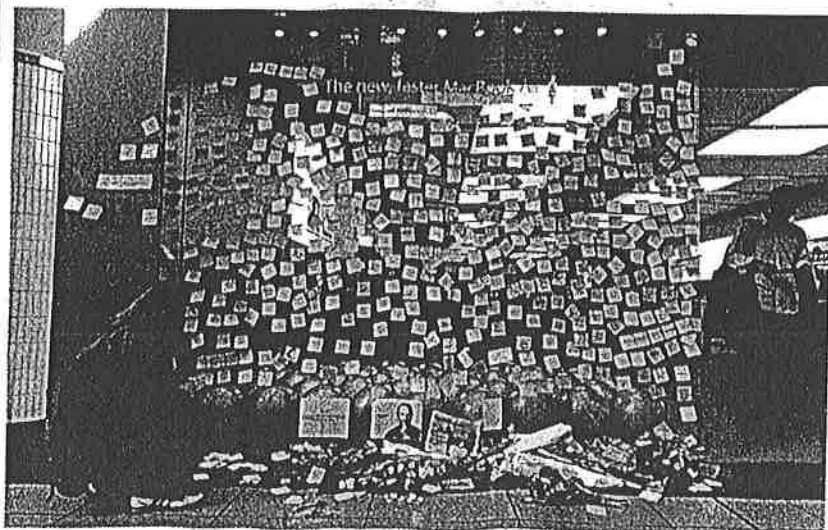
ers of 'superbrands'. What he discovered was that their scans were indistinguishable from those of devout Christians. Apple was held up as a prominent superbrand.

In a similar vein, Dr Kirsten Bell, a social anthropologist at the University of British Columbia, wrote of the iPad mini-launch: 'A stranger observing one of the [product] launches could probably be forgiven for thinking he had stumbled into a religious revival meeting.' She went on to

describe the sacred symbols that littered the building and said that the company leaders address the audience in order 'to reawaken and renew their faith in the core message and tenets of the brand/religion'.

So, rather than digging through the ruins of Nokia or Sony for signs of what lies ahead for Apple, perhaps we should ask ourselves what happens when a cult leader dies. And the answer here is that the cult either falls apart or becomes a religion. There are plenty of cults that have become religions in living memory, but the two most successful are Scientology and Mormonism, so maybe it is these we should be looking at. In which case, as the tattooed Talbot says, it really is too early to tell. **MT**

Tributes at the Apple store in Toronto, shortly after Jobs' death



HAZLEHURST, J (2013)
 KEY MAN - PROFILE OF
 MATTHEW KEY. PROFESSIONAL
 MANAGER. SUMMER 2013.

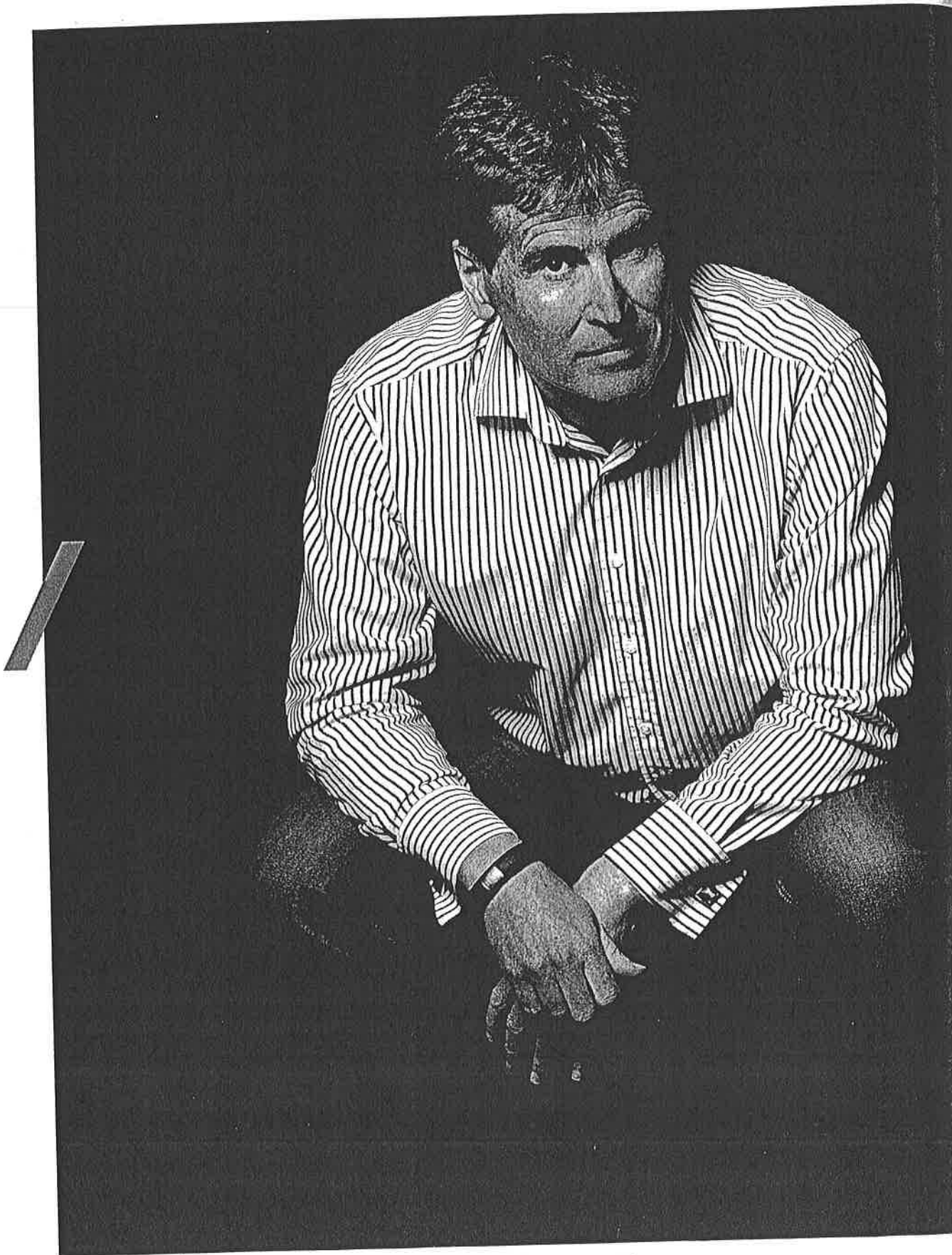
KEY MAN

Matthew Key's flexible, open-minded management style has brought him major success in the telecoms sector, writes **Jeremy Hazlehurst**

PHOTOGRAPHY BY PAUL HARRIS

There is a story that sums up Matthew Key. It's the one he tells about the evening last year when he became a member of the Royal Order of Isabella the Catholic, the Spanish equivalent of getting a knighthood. He joined Eva Perón and Samuel Morse among the foreigners who have been given the medal, which is awarded for services to Spain. It is, as he says, "quite a big gig". He and his parents, both of whom are in their 80s, arrived at the Spanish embassy in Belgravia for the ceremony at which the Spanish ambassador would present the gong. As they were going in, Key's mother turned to him and said: "I used to clean the embassy next door to this one." Key laughs and adds: "It was a nice circular moment."

The phrase "down-to-earth" could have been coined for the 49-year-old former head of O2, who since September 2011 has been in charge of the newly created Telefónica Digital (the Spanish telecoms giant owns O2, hence the medal). He lives in Beaconsfield, Buckinghamshire, a 15-minute commute from O2's head office in Slough, but the job means he spends much of his time jetting to Silicon Valley, Buenos Aires, Tel Aviv and São Paulo, when he's not in Digital's office in London's Air Street. With his jeans, ●



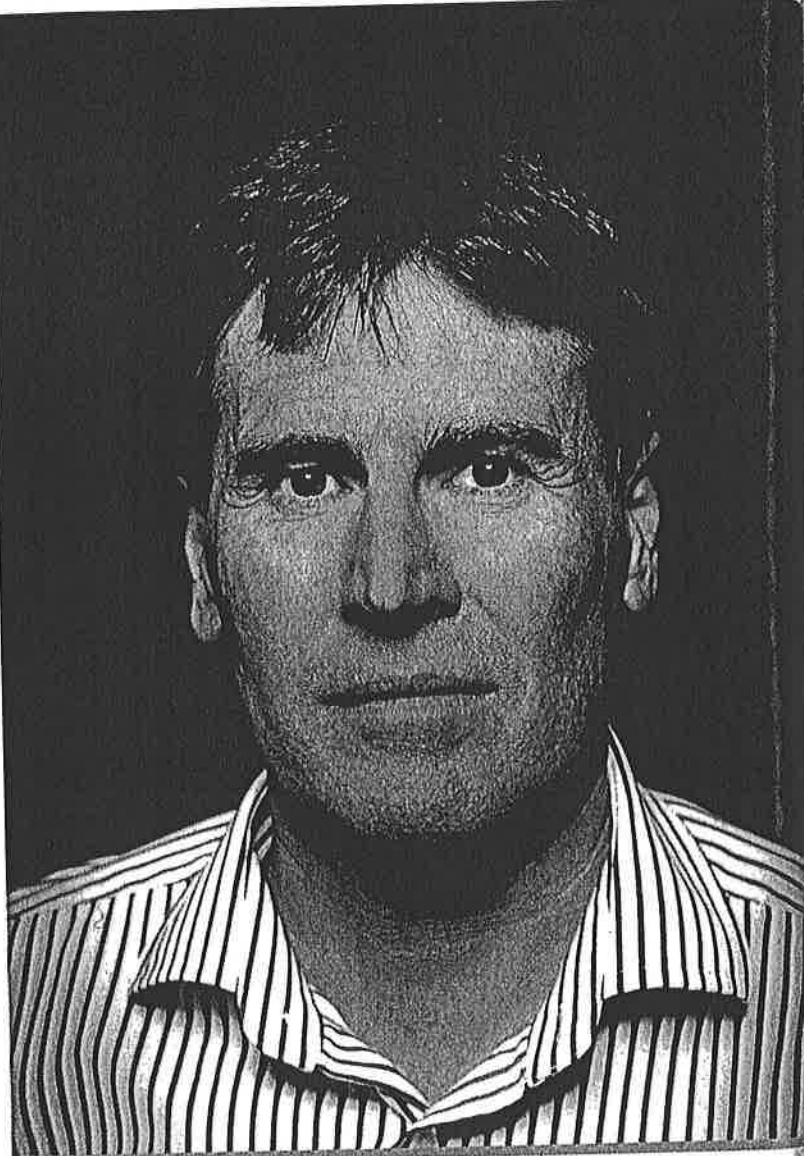
casual shirt, Nike FuelBand on his wrist and affable manner, however, he takes this insane-sounding workload in his stride.

His current job is another big gig. Key says his remit is "effectively to take Telefónica beyond connectivity", which means he deals with anything that is not voice or text. That covers machine-to-machine – the so-called "internet of things" – consumer banking, e-health, big data, e-wallet, mobile advertising, you name it. An early product is TU Go, which lets people use their phone number across multiple devices, but Digital aims to develop innovative products in "whole new value chains," says Key. A Spanish newspaper summed up his job by calling him "*el hombre de internet*", the man of the internet. You might also call it Telco 2.0.

So how does a boy whose mum used to be a cleaner get a job like this? Key grew up in Rochester, Kent, the son of parents whose educations finished at 13 and 16. But he passed the 11+ and went to grammar school, the fantastically named Sir Joseph Williamson's Rochester Mathematical School for Boys, which was founded to train navigators in the nearby dockyards at Chatham (some of whose old boys no doubt had interesting encounters with Spaniards themselves). He didn't exactly excel, academically. "I got three Cs at A-level," he says, laughing in an accent that still has a good amount of Kent in it. "I was not a star student. I was too busy playing sport."

Route to the top

It was while he was at Birmingham University studying economics that he had a "dawning realisation of the amount my parents went through to put me through university and what I owed them. I started to work to an acceptable level." He emerged with a first, although he points out that, "I played first-15 rugby, so it's not like I was a bookworm." After university he trained as an accountant. "You get such a broad vision of so many different companies through so many different facets that I think it's a really good, broad management training," he says. "If you can take some of the capabilities and skills you learn in your financial training, and combine that with a bit of marketing and sales nous, then it can be a very powerful combination."



He didn't do an MBA and doesn't read management books, although he says his presentation style owes a lot to "an influencing skills course. It was really about dance and motion around how you express yourself." Sport has formed him far more than business school. "Particularly team sport," he says. "Rugby is an amazing team sport that creates a real combination across different skills and capabilities." It also helped keep him grounded. After university he played football for Broomfield in the Southern Amateur League. "I was the only graduate in the team," he recalls. "Everyone else was a painter and decorator, although one was a postman and there was also a fireman; they were from a totally different social background and for me that was such a good thing. One of the dangers of corporate life is that you become divorced from what the rest of the world is like." He's taken this lesson to heart. "When I am in London I always travel on the Tube," he says, "because it just gives



a different perspective: who's advertising what, what people are doing with their mobile phones and their tablets. I don't have a chauffeur. It's just not the right thing." His three children went to state schools.

Key admits that taking the Digital job was one of the hardest decisions of his career. "O₂ was my baby; I had grown nine, ten years with it and turned the company around," he says. "I was being asked to go and run a totally different business, a global business, that didn't have a 100% chance of success. It was risky. Exciting but risky." Assessing risk and taking it is a hallmark of his career. He joined O₂ from Vodafone when it was BT Cellnet and "it wasn't the best mobile business around". Everybody thought he was mad. Then in 2007 he convinced O₂'s board to do a deal on the Millennium Dome, renaming it the O₂, and came up with the idea of Priority, where the first tranche of tickets for any gig go to O₂ customers. It not only got O₂ amazing publicity, it helped the firm keep its customers. Key says churn for people who have heard of Priority – whether they use it or not – is 20% lower than other customers. Then there was the iPhone. He went to Apple with César Alierta, the chairman of Telefónica, to meet with Apple, and when Steve Jobs pulled out his iPhone Key knew it was a "game-changer". Three weeks later, the deal to launch the iPhone on O₂ in the UK was done.

So Key has good instincts, but he also puts it down to having "great teams around me". He clearly enjoys managing a talented team, and seems at least as fascinated by people as technology. His current direct reports include "an Argentinian, a Peruvian, two Spaniards, two English people and a Welshman", and he thinks the mix is a fertile one. "The Anglo-Saxon way of running a meeting is that we start at nine, we have 15 minutes for each

Matthew's milestones

- 1998** UK operations finance director, Vodafone
- 2002** Chief financial officer, O₂ UK
- 2005** Chief executive officer, O₂ UK
- 2007** Chairman and chief executive, Telefónica O₂ Europe
- 2011** Chief executive, Telefónica Digital

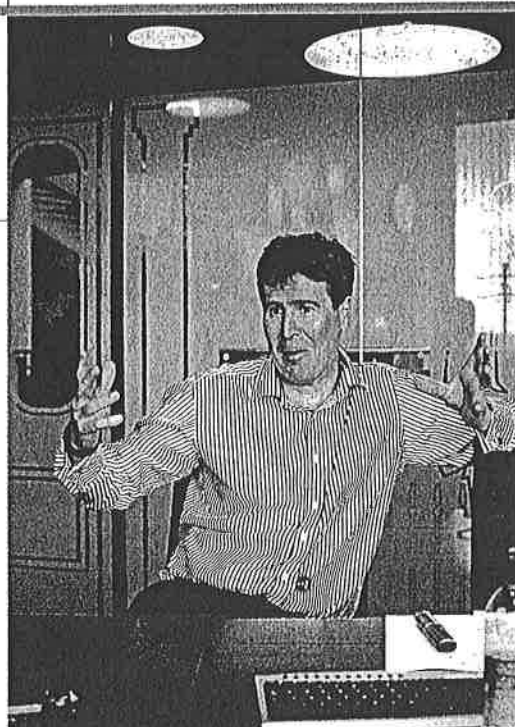
agenda item and we run through the agenda and we finish. The Hispanic way is a lot more flexible, more fluid; there is a lot richer conversation." Everybody can benefit, he thinks. "For us, we get a more free-flowing conversation, from the Hispanic point of view we operate a more efficient way of doing our daily business."

Flexible perspective

What are his tips for good management? "The first thing is that you can't address every management process with the same style; you have to be flexible, and you have to make a fundamental decision: are you going to flex your style, or ask everyone to flex their style around you? And I think you have to flex your style." He tells a story of being in Buenos Aires recently and having breakfast with his Argentinian team-member. Their meeting was meant to start at 9.30am, but the coffee hadn't arrived. "I said, 'It's time to go to the meeting,'" Key remembers, "but he said: 'No, I've got to have my coffee.' From an Hispanic perspective, if you've turned up to a meeting five minutes late but you have had your coffee then that's far better." Key laughs, and

Jeremy Hazlehurst met Matthew Key in O₂'s office in Slough

'Are you going to flex your management style, or ask everyone to flex their style around you? I think you have to flex your style'





"The majority of people want to do a good job and feel proud of their output at the end of the month. Think of all your friends – who does not want to do a good job? I think that is basic human nature"

to ban remote working. "My view on this is that you have to create the passion to succeed and alignment in your workforce – this will mean you will get the extra 20% discretionary effort," he says. "It is not possible to micromanage a global workforce. In my experience the vast, vast majority of people want to do a good job and feel proud of their output at the end of the month. Think of all your friends – who does not want to do a good job? Who doesn't want to add value? I think that is basic human nature."

Given his sporting and managerial backgrounds, does he have any views on Sir Alex Ferguson, arguably the best manager in Britain, who recently retired as Manchester United boss? "He has always had a core group of players who have the right attitude and will set the standards that all have to adhere to," says Key. He points out, too, that Ferguson created loyalty, and few of his top players left. Also, he was able to "get the best out of players who have been known as very difficult to manage and combine them into a cohesive unit with his 'core'. Diversity in any team is good if you can harness the different attitudes," he adds.

His final tip for managerial success?

Make sure you can get away from it all at the end of the day. "People see what time I get in and go home, and what I have for lunch," he says. "As a leader that can be tough and lonely, and you need absolute escape time. You can't live life with the profile I've got all the time." Golf is the only he sport he plays now, and he makes a point of keeping it social, very rarely mixing it with business; the week after we met he was going to Portugal to play with his old schoolmates, something he does every year. "You have to switch off," he says, "and I switch off when I'm with my mates from my village. We have a blast and I'm not Matthew Key, CEO of Telefónica Digital, I'm Matt who lives round the corner."

adds with a shrug: "We were in Argentina – so we were five minutes late."

The second thing is to give very clear direction and "make it very clear what is negotiable and what is non-negotiable". You need to have a big debate "because you need the richness of the input from everyone round the table, but as a leader and a manager you have to be 100% clear with your decisions. At the end you say: "Thank you very much, we are going over there, get on the bus."

Reaping what you sow

Third, embrace diversity. "It is very easy to recruit and assemble a team in your likeness, but unless you have diversity, it's very hard to get a rich result. Constructive tension is a very positive thing in business, and so you have to have people coming from different perspectives." He's keen on flexible working, and one woman in his team works four days a week. "I tell her not to check emails on a Friday," he says. "If you are doing four days, do four days. As long as everybody knows, they can work around it." Incidentally, he's a fan of remote working. "I make sure there's once a month we are always physically together as a team, but the majority of time my team spend will be by telepresence. Yesterday we had one room in Madrid, one here, one in London, one in Silicon Valley and one in Buenos Aires. It's a very efficient way to do it."

Predictably, he seems unconvinced by the decision by Marissa Mayer, the boss of Yahoo!,

Key's future challenge is to look beyond connectivity

HAZLEHURST, J (2014)

Which direction?
Peter Vicary-Smith aims to lead consumers down the right path for them

Forget frameworks. Which? chief executive Peter Vicary-Smith says the best companies manage people as they find them. **Jeremy Hazlehurst** met him

Photography by PÅL HANSEN

STEPS TO SUCCESS

These days there is no shortage of people on the internet willing to tell you how good or bad a television package, hotel, mortgage broker or washing powder is. It was not always that way. Before the age of user reviews and customer comments there was Which?, the consumer champion that was synonymous with straight-talking, customer-helping honesty. You might think that its day is done and that it has been swept away in a world that it helped create. You would be wrong because Which? is thriving like never before. Its magazine has the highest number of subscribers of any paid-for print publication in the UK, a stunning 1.4 million, and is the most profitable online publisher in Europe. Not bad in any circumstances, and when you are swimming against a tide of free reviews and content, and a culture where everyone wants to give their two penn'orth worth, it is deeply impressive.

All this has happened under the leadership of Which?'s affable chief executive Peter Vicary-Smith, whose decade at the helm has seen the

brand change from a slightly uncool one associated with penny-pinching – which was arguably out of step with the rampant consumerism of the 2000s – into one that is bang on trend. “The most common comment I got when I joined was ‘Oh, is that still going?’” he laughs. “I’d been here a couple of years before my brother-in-law told me he was a subscriber, but I was surprised at the number of people I know who subsequently told me they do subscribe. I think it used to be seen as one of those things that old people do, but it’s obviously becoming more acceptable.”

Why Which?

Vicary-Smith is only Which?'s fifth chief executive in 55 years and, like his predecessors, he clearly loves the job, not just the variety – “we’ve tested everything. Condoms, toilet paper, everything” – but also the firm itself. “It’s a fantastic business,” he says. “It’s big, but small enough to get your arms around.” And he also evidently loves that people genuinely find Which?'s work useful.





'Users can tell you the experience of using something over several years, not only if it stops working, but what the thing is that really annoys you about it'

"At dinner parties people always ask me what they should buy," he says. "At all times I have to have the name of a television, a dishwasher and a washing machine in my head." He adds: "It's also great that you're not ashamed of what you're working in. I don't have to tell people, 'Actually, I'm a banker'." (He dismisses any suggestion that this ethical drive is connected to his ancestors being missionaries, as were his wife's.)

In his 10 years in charge of Which?, he thinks his biggest achievement has been changing it from something "tangential to people's buying decisions" to a service with "relevance in people's lives". That was achieved through two successes. First, Which? dealt with the growth of online publishing better than most, recognising that people want a good read and "the best way to give them that is to update it daily, so you can go online

and find out the latest on what the best television to buy is, car insurance and so on."

Second, the organisation reacted quickly to the financial downturn. "When the recession hit, within two months we had completely reengineered the focus of the website," says Vicary-Smith. "We talked much more about how to get value, get more lifespan out of your products."

He believes that there is no conflict between expert reviews and user-generated content: "If you want to know what is the best television to buy, you want an expert for that, because it will be different if you want it for watching football or golf, cartoons or films. We use an expert for things that we can research, but users can tell you the experience of using something over several years, not only if it stops working, but what the thing is that really annoys you about it. The last toaster I bought I didn't think to ask if it beeps, and that started driving my wife mad when she was in bed and I was up making breakfast. You get that sort of knowledge from people using the product."

On a mission

The resulting increase in subscriptions – all Which?'s online product comparisons are paid-for – "gives us the finances to achieve all the other things we do". That's important because Which? is entirely self-funding.

Milestones

2004

Chief executive, Which?

2002

Commercial director,
Cancer Research UK

1996

Director of fundraising
and communications,
Imperial Cancer

1991

Head of appeals, Oxfam

1988

Consultant, McKinsey
& Company

1984-88

Procter & Gamble, Mars
and Kenner Parker

Its mission has three prongs. First, helping people make better decisions about the products and services they buy. "We say that we make individuals as powerful as the organisations that they have to deal with," enthuses Vicary-Smith. Second, it also lobbies and campaigns for changes, either to regulations or the way organisations behave and companies operate, to favour the consumer more. Current campaigns include making it easier to leave your mobile phone contract, demanding broadband firms deliver the speeds they promise, and ensuring meat is what the label says it is.

Third, where it sees a market that is not giving consumers a good deal, Which? will actually start working in that market and show that you can make money while acting well. "Then we will argue, 'We can make money doing it in a way that is fair to the consumer, so why can't other people?'" he says. Which? currently runs a mortgage advisory service, recommending the best mortgage in the market, whether it gets paid a commission or not. A few years ago it reduced car prices in the UK, which were higher than in continental Europe, by buying them there and shipping them to UK customers.

'We cover things that other people don't. If you want a dishwasher there are not that many places that you can read about them; that is bread and butter for us'



Gaining focus

The most searched-for product category on Which?'s website is televisions, but it is the range of products they test that makes them so valuable, says Vicary-Smith. "We cover things that other people don't. If you want a dishwasher there are not that many places that you can read about them; that is bread and butter for us." But they also look at more obscure products too, such as golf clubs ("I offered to test them myself but they told me my swing was too inconsistent," he jokes) and financial products. "We are the place people often turn to for that really difficult, esoteric search that nobody else can help with," he says, adding that he found someone to clean out his septic tank on Which?

Although "ferociously party politically neutral" and focused on "the consumer agenda", Vicary-Smith says that Which? is "immersed in the politics of the day", whether that be the freedom of pension holders to access their own annuities (Which? had been talking about this for a long time before George Osborne changed the rules earlier this year) or energy companies, which they criticise fiercely.

Which?'s enduring appeal suggests that customers often get a bad deal. Why is that? Poor management, says Vicary-Smith. "There are still many companies that don't start from the point

of view of 'What does my customer want and how do I produce it?' They start from something like 'Let's do something really good; now who can we sell it to?' But there are plenty of ways firms go wrong, even if they get the basics right. "You can also go off the rails with all the things you are trying to juggle, all the other things that a manager is having to focus on – pricing strategy, marketing, competitive reaction, new entrants from overseas – all of that can distract you from concentrating on what the customer wants."

This was all drilled into Vicary-Smith when he worked at Procter & Gamble (P&G), he says, and firms have to take this customer focus and "hardwire it into remuneration and reporting structures that go all the way to the board, so



● Related news

Mike Clasper, chairman of Which?, takes over the CMI presidency from Peter Ayliffe this autumn.

'If you asked people about my management style I think they'd say I set a really clear strategic direction and I'm relentless about pursuing that'

marketing expert who was "also a very human individual. He cared about how I was, how I was adjusting to life in Newcastle when I'd only ever lived in Croydon and Oxford before, and what I was interested in. He was a brilliant marketer, too, and that kind of interaction of the strategic, the managerial and the personal is, I believe, quite important. I think people who've worked with me will say that I am interested in how they are and what they are trying to achieve, as well as the day job."

Inspired by the example of a manager who let him take off half-days to do a gardening course at Chelsea Physic Garden, he is keen to give people what they need. "For some people it's holiday, for some it's respecting what they believe in and giving them space for that, for others it's just appreciating what they do, and for some it's money. You have to recognise people for what they are and try to give them what they need. I am not believer in standardised procedures or ways of treating people," he says. "I'm a nightmare for an HR department."

Maybe so, but when they want to know about toasters, you can bet they'll still give him a call.

the directors are focusing not only on the profit level, whatever it might be, but the customer satisfaction scores, measured in a whole range of rich ways".

As a manager

He agrees with the recent CMI research that found that "robotic compliance" is blinding managers to this fundamental aim (Summer 2014, page 58). "If you look at the financial services industry and the problems we had under the Financial Services Authority that is exactly what happened; you had risk committees who said 'Our job is to tick boxes', then we had a financial crisis. It's recognising that ticking boxes doesn't discharge you from a responsibility to actually find out what is going wrong in business and serving customers," he says.

How does he see his own management style? "I think it is often formed very early on in your career," he says. "I have that P&G way of managing what's important; I can still write a one-page memo, it's just ingrained in me." As a chief executive, he thinks that "the setting of a very clear strategic direction and sticking to it" is critically important. He remembers that a tutor on a management course he once took told him that "strategy gives you permission to say 'no' to a great idea", meaning that you shouldn't do things, however wonderful they sound, unless they are part of a broader plan. "If you asked people about my management style I think they'd say I set a really clear strategic direction and I'm relentless about pursuing that," he says.

But he is also hot on the personal side. He says the manager he most admires was a





the mt interview
by Chris Blackhurst

Blackhurst, C (2013)

Richard Scudamore.

Management Today.

March 2013.

RICHARD SCUDAMORE

The CEO of the Premier League is in charge of the glitziest annual football competition in the world, with TV rights bringing in a staggering £5bn-plus for its 20 clubs. He has to keep this colourful collective onside as he negotiates their interests and kicks back at complaints of greed and neglect of grassroots fans. Just as well then he's a qualified ref...

Any day now, a handful of clubs at the top of the second tier in English professional football will receive a dream visitor. Richard Scudamore, chief executive of the Premier League, will call to say hello and to begin the process of welcoming them to the game's elite. They might not make it, of course – a lot can happen in the last, pressure-cooker weeks of the season – but Scudamore's arrival will be the surest sign yet that a hallowed place in the most lucrative competition in football is tantalisingly close.

According to research from accountants Deloitte, membership of the Premiership is worth at least £90m a year to a club – comprising TV income of more than £40m, gate receipts, replica kit and other sales, and sponsorship. That's for the minnows. For the big boys, the clubs with the largest crowds and international followings – such as Manchester United and Arsenal – the rewards are far, far higher.

Predictably, the Championship play-off match that determines the final team to be promoted each season is known as 'the £90m game'. It's a nerve-shredding affair. Paul Rawnsley, director of the Sports Business Group at Deloitte, says: 'In financial terms, the Championship play-off final offers the winning club the most substantial prize in world football.'

The numbers are staggering. Any club being ejected from the 20-strong list of members receives a parachute payment of £48m to soften the blow – just for being relegated. Last June, the Premier League announced that BT had been awarded the television rights to 38 games a season for three seasons for £246m a year. BSkyB would be showing a further 116 live matches, also for three seasons, for £760m a year. That total of £3.018bn was 70% up on the last round of contracts.

That was on top of the BBC deal to show recorded highlights, for three seasons, worth another £179m. And it does not take into account the overseas TV packages. When these are factored in, the overall value of showing the Premiership on TV, to 643 million homes in 212 countries, is more than £5bn.

This, don't forget, is before tickets are sold, sponsorships are concluded and replica team kits and all the other paraphernalia are purchased. Not surprisingly, Premiership names dominate the annual Deloitte ranking of the world's richest clubs. Its players, too, are paid as pop superstars, some earning £170,000-plus a week.

But the Premiership has its critics. A recent House of Commons committee report castigated those who oversee football, including the Premier League. Too much power was concentrated in the hands of the few, found the Culture, Media and Sport Committee. The professional game at the top level was increasingly exclusive and distant from its grassroots.

The MPs were not alone. Unattractive comparisons have been made between the Premiership and the German *Bundesliga*, where the clubs are still owned by

the fans and tickets are much cheaper. And further evidence of that money-grabbing sickness came this January when David Sullivan, co-chairman of West Ham, said he was threatened with violence by an agent during the recent transfer window.

On the pitch, too, there are rows galore, with players accused of racism, cynically diving to seek penalties, deliberately fouling, abusing the referee and winding up supporters that do not need any further winding up.

Presiding over this controversial, rollicking money-making machine is Richard Scudamore, CEO of the Premier League since 1999. What do you think of when you imagine Scudamore? A permatanned, larger-than-life character, dripping in gold and wearing the most expensive suits known to man and crocodile shoes?

You'd be disappointed. The first clue comes with the offices. The Premiership's headquarters are hardly a temple to bling. They're set in a Georgian terrace in London's West End. The interior has been modernised so that while outside it looks traditional, inside it's all wooden floors, steel and glass with a hollowed-out basement of meeting and conference rooms. The atmosphere is of hushed, businesslike efficiency. That's the point: this could be any corporate office anywhere. Such is the quiet, it could even be a firm of lawyers.

Likewise, Scudamore himself. He may be the boss of the best football league on the planet; he may have TV companies queuing at his door; he may be able to pick up the phone to the chiefs of the most glamorous clubs on earth and they'll listen; he may earn more than £800,000 a year, but you couldn't tell from looking at him.

He is smartly dressed, but in the uniform of the executive everywhere. He could be a supermarket manager, retail banker or perhaps even Mr Mackay from *Porridge*. You look at his neat, dapper appearance, at the business suit pressed just so, and note the lack of thumping great rings and a giant watch, and you wonder. Can this really be the man who presides over the league that embraces the likes of Sullivan at West Ham or Mohamed Al Fayed at Fulham or Roman Abramovich at Chelsea?

He is, but that's the message too. His is the business end of the Premiership, about maintaining image and reputation, regardless of what occurs on the pitch, and ensuring the league negotiates the best prices for its members. And that, too, is another aspect to Scudamore. He may be in charge of the league but he is certainly not in charge of its members. He's both master and servant, answerable to their requests, vulnerable to their say-so.

Scudamore's lean, wiry physique provides clues as to what he likes to do in his spare time. He's a fully qualified county-level football referee. And he has the same disciplined, rigorous approach as the man in black.

He was born and raised in Bristol (he's a lifelong fan of Championship club Bristol City). 'My mother and father were both NHS evangelists,' he says. 'My father was number two in the regional health authority and my



mother was a nurse, which she was all her life.' One of three brothers, he went to a grammar school that became a comprehensive while he was there (he was head boy). He got into university at Nottingham to study law. 'I enjoyed university, but hated law – I didn't find it enjoyable at all.'

Why? He shrugs. 'I was young, I didn't want to be a lawyer.' He does not want to talk about it. However, he does offer, as an aside: 'The irony now is that I spend a lot of my time dealing with legal documents and lawyers.'

He moves on. 'My career was built around three blocks. The first was when I worked for Yellow Pages. I joined them after university. I was an account manager. I did pretty well – I was promoted eight times in eight years, ending up at 30 as a divisional sales director.'

The second, he says, 'was when I joined the newspaper revolution. Ralph Ingersoll had come over from the US and bought some UK newspapers. Ralph did not have a saleshouse in London. I worked for him in newspaper media sales. Then Ingersoll became Thomson Newspapers and I was its UK sales and marketing director. I was also managing director in Edinburgh of *The Scotsman*, *Scotland on Sunday* and the *Edinburgh Evening News*. Then, at the end of 1993, Thomson sold all its UK newspapers and I went to the US to work for the Thomson Corporation as senior vice-president in charge of all their newspaper operations in the southern and eastern United States.'

He smiles at the memory. 'I had 200-odd newspapers in 40 different states to run; that was from 1994 to 1998.'

The third block was football. For a brief period he ran the Football League. 'Catherine [his wife] and I wanted to come back to the UK. I saw an advert for the Football League chief executive's job in *The Times*. I was at Heathrow, waiting to fly back to the US from a friend's wedding. My wife saw it and said: "This is for you. You love Bristol City, you're crazy about football." When I got back, I rang up Spencer Stewart, the headhunters.'

That was in late 1997. Two years later, he was appointed chief executive of the Premier League. 'Now I'm halfway through my 14th year.'

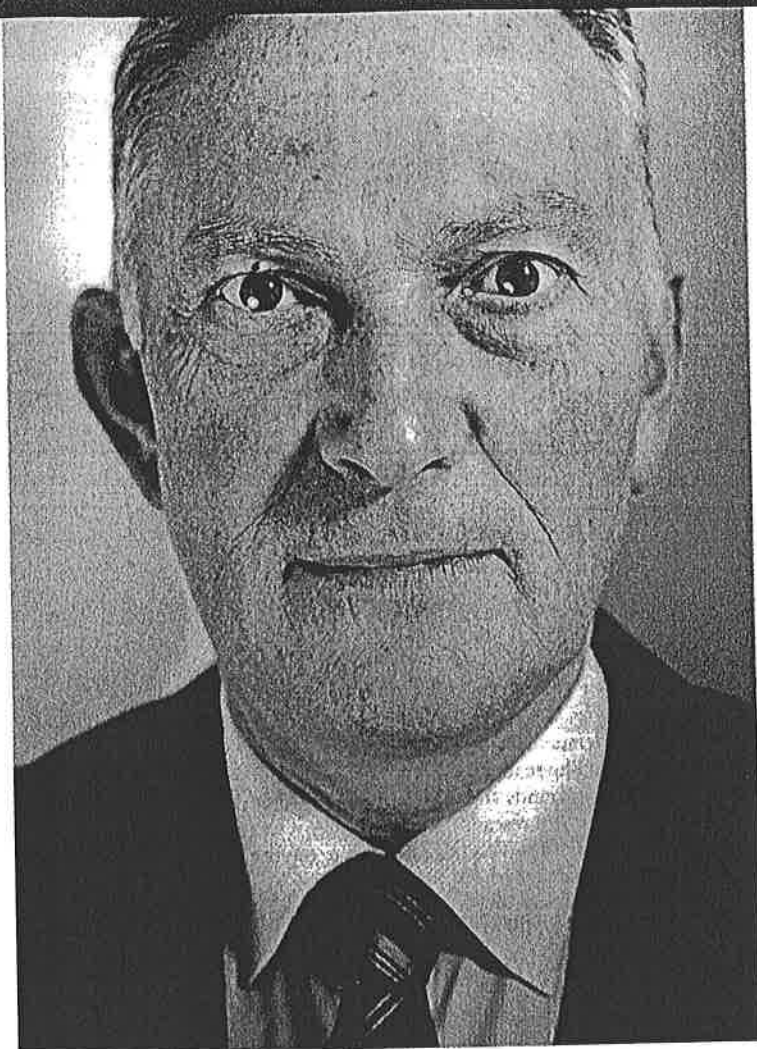
Wasn't it odd, going from running newspapers to sports supremo? He shakes his head. 'It's not like I was a stranger to the game. Since my 20s, I'd been involved in local football administration. I sat on league committees in [his native] Gloucester, and I was a referee. I knew a lot about the game. At the interview, I was able to draw on my multimedia experience in the US, of working with TV and radio and newspapers.'

It also helped that he came from Bristol. 'My CV did not say I was from either London or the north-west, the traditional centres of football power. In football dogma, I was regarded as a neutral.'

At the Football League, he says, 'I was left to get on with the job. There are 72 clubs and they need someone to run it. It's the same here, except there are 20. But they still need someone to run the Premier League.'

The league is a plc in which there are 20 shareholders. Three change each year as clubs are relegated and others are promoted from the Championship. His philosophy is very much that of the collective. The mantra trips off his tongue: 'We do things collectively, which makes us strong; the bits we do together we're strong at.'

However, the potential for feuds and damaging rows is ever-present. Indeed, such are the egos of the owners that it's hard to imagine them ever agreeing on anything. That's why Scudamore cites 'keeping us all together' as his biggest achievement so far.



The sticking together line is one he repeats. It's behind the success of the TV rights, where the price has soared during his tenure. By selling as one, they can raise a bigger total than if some clubs broke away and did their own thing. That threat is ever-present, he says, but by 'keeping our collective strength together', it can be seen off. Similarly, he maintains, attacks from external bodies, from politicians, regulators and commercial rivals are also best dealt with collectively.

What's his biggest regret? 'We've not been able to communicate our success particularly well. Some of the criticisms levelled at us are wide of what we do. We hear too many commentators say the football is fantastic but we're not so good as a business. We've not been able to communicate that link better.'

Warming to the theme that too much attention is paid to the money pouring in – the footballers' salaries, the high ticket prices and the invasion of rich foreign owners – he says: 'If you want to see the world's best talent on the world's best pitches in the world's best stadia, playing with an intensity that does not exist anywhere else in the world, that's what we provide, and you can't have all that without it being linked to our business model. It's high-octane, fast, noisy, aggressive and sometimes vitriolic – it's a healthy cocktail.'

In other words, anyone expecting a *mea culpa* from Scudamore, an acknowledgment that some of the criticisms surrounding Premiership football are right, such as egregious behaviour on the pitch, can more or less forget it. Discipline is not his concern – that's the preserve of the Football Association, the umbrella body, and individual clubs. Scudamore's main concern is keeping the fans and broadcasters sweet, to make sure

FOUR CHALLENGES FACING SCUDAMORE

Continue to raise the profile of Premiership football, securing ever more lucrative TV deals

Protect those TV rights against illegal downloads

Ensure financial fair play is adopted and followed

Support the Premier League's community work and encourage the clubs to remember their grassroots fans

that money keeps flowing into his members' coffers.

He seems to have something like the perfect job – if anything untoward occurs, it's almost certainly a problem for someone else. It's frustrating talking to him because he plays a dead straight bat. Football may attract more mud than any other sport, with one scandal after another, but little of it seems to affect Scudamore. There he is, head of the league of all the major clubs, the one whose players, managers, supporters and matches grab the hostile, shrieking headlines, and he's as calm and collected as anything.

Partly, it's the referee in him: he does dispassionate for a hobby, taking decisions with a detached coolness. Partly, too, it's the American corporate persona: he talks like someone well schooled in marketing and business-speak, putting brand loyalty above everything else. But it's not all Scudamore's fault. It's the way the Premiership is positioned. It's not the FA, and neither does it dictate to the clubs, which, after all, are its owners.

Of the MPs' verdict, Scudamore says: 'It was almost impossible for us to identify with a lot of that report. They ignored virtually everything I said.' But, he waves his hand, 'I do understand it's difficult for a group of MPs to get to the facts. The reality is that the MPs were not from sporting backgrounds and there was not the time for them to do their own research. It's quite likely it was not [the chairman] John Whittingdale's pen on the report but some researcher who wrote it.'

Looking at their points, he says: 'They argue the FA needs to be structured and made fit for the 21st century, but the FA isn't a single company, it's an association of interests. Those interests are the game as it exists here, so they cover the grassroots where the game is played. It's true, we've moved on from factories in the late 19th century laying on football for their workers and affording them bragging rights. The game is largely run by volunteers at the grassroots, then you've got a whole new industry, the pay-to-play sector, including firms like Goals, then you've got the clubs at the top end.'

The clubs in the Premier and Football Leagues, he says, see themselves as operating differently from the grassroots, but they've still got the interests of the sport at heart. From the Premiership's viewpoint, 'we can't win. If we overplay our hand with the FA we're accused of interference. If we underplay, we're criticised.'

Generally, says Scudamore, relations with the FA are good, but he adds, smiling, 'it's no secret that Lord Triesman [the last FA chairman] didn't embrace all the Premier League stands for.'

On financial fair play he has made progress, persuading, by the narrowest of margins, the clubs to vote in favour of new rules that come into effect next season. They cap the amount that can be spent on players' wages and limit losses to £105m over a three-year period.

It has taken all Scudamore's softly, softly diplomatic skills to get this far, although for many the move does not go far enough – the new code lags behind the regulations imposed by the European body, Uefa, for instance. Says Scudamore: 'No one in football is proud of the kind of wage inflation we've experienced, but, equally, we mustn't do anything that dampens the international appeal of our league.'

If a sentence sums up Scudamore's approach it's that one: he won't jeopardise the relentless march of his employer, the Premier League, and its 20 members.

He pronounces himself pleased with the season to date. On the footballing side, Manchester United are 12 points clear but there are still plenty of matches left, and

the fight for the coveted Champions League spots remains tight. And at the bottom, four, six, possibly eight teams could be in the mix, come the season's end.

'On the commercial side, we're having our most successful season – as we've had every year.' Despite the furore over high ticket prices, the stadia are full. 'So far this season, they're 95.1% full, up from 92.4% for the whole of last season. You do that by getting the pricing mostly right.' He clearly resents the accusations of greed, citing the Premiership's community programme by which the clubs have put a combined £60m into the grassroots. 'Clubs have never spent more time or money on this, they've never worked harder in this respect.'

The sport, he declares, has come a long way from the days when the great Tom Finney would ride a bus to the ground, his boots slung over his shoulder, mixing with ordinary, working-class fans on the journey. But it would be wrong, he insists, to charge the clubs with deserting those historic ties, of forgetting their traditional fan base. 'I understand we're not there yet but we must be doing something right if the stadia are 95% full and TV audiences are up. Any sport would give their left arm to be in that situation.'

That's not to say it's perfect, he admits. 'It's like we're flying a jumbo at 37,000 feet. We're hurtling along but there are dangers.' Such as? 'IP rights. We're suffering as much as other creative industries from illegal downloads. We're great content creators, too, and we need a tough regulatory regime and we need to educate people against stealing our product.'

The only other threat, he says, is integrity. 'Our league is the most honest in the world but it's still a concern at the professional level. You've seen Lance Armstrong in cycling and 'bloodgate' in rugby. Things like that hit at the integrity of any sport.'

In that regard, betting worries him. 'It's allowed to ride on the back of our game, but there's no link with us as to what people can bet on. They can bet on who takes the first corner, the first throw-in, all of which are capable of being manipulated by the participants.'

Football betting now accounts for 35% to 40% of gambling revenues (not so long ago, horse-racing took 75% but that figure has fallen and football has soared). But his league has no formal relationship with the betting operators. 'They pay us no royalties for the fixture list, for example. It should all be above ground, legitimised and regulated. The idea it can somehow stay below the ground should be anathema.'

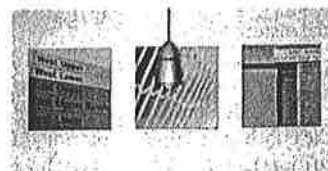
By now, you must have realised, he rejects the claim that Premiership football has overreached itself. 'Greed to me is a pie divided into six segments and someone takes three of them. That's not how it is. We've achieved growth but not at the expense of any other part of football. I don't subscribe to the greed view because I'm not sure whose lunch it is I'm supposed to be eating.'

Far better, he believes, that it's seen as a serious business, a rare UK export success. He accompanies the prime minister on his trade missions and takes the Premiership trophy with him. 'Usually, we'll know the broadcaster or the broadcasting market there. Everyone who sees the trophy will say "wow". Heads of state, prime ministers – they all want a photo with the trophy.'

And that no doubt paves the way for another contract with him. He grins: 'It's what we like to call soft power.'

He's got five children. Does he take them to the big games, like Man United versus Manchester City? He chuckles. 'No. They do all right. They go to Bristol City. What more do they need?' What more, indeed. **mt**

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VIEW, BECAUSE
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in a minute

1959 Born 11 August, Bristol. Leaves Kingsfield School in 1977 to study law at Nottingham University.

1980 Joins Yellow Pages in advertising sales. Works his way up to become sales director.

1989 Joins Thomson and is promoted to senior VP responsible for newspapers in the southern and eastern US.

1997 Becomes CEO of the English Football League.

1999 Moves to the top tier as CEO of the Premier League.

2013 Drives the league to ever greater heights. Criticism directed at Premier League clubs for their perceived greed – and players for their stratospheric wages and behavioural lapses – bounces off him as fans flock to grounds, TV rights soar and the clubs get ever richer.

