

KING OF CLEAN

IT'S RECKITT BENCKISER'S BUSINESS TO WAGE WAR ON GRIME. CFO COLIN DAY OUTLINES ITS WINNING FORMULA TO **SALLY PERCY**

If ever there was a company that proved the old adage 'wherever there's muck, there's brass', it has to be Reckitt Benckiser. The Slough-based cleaning product giant has declared war on all manner of unpleasant things. Whether it's the malevolent bacteria lurking in your toilet, the bad smell lingering behind the sofa, dirty dishes, a sore throat, unsightly body hair, headaches, indigestion, even heroin addiction, the chances are that Reckitt Benckiser has a product to banish it or bust it and that product is a household name to boot.

Harpic toilet cleaner, Air Wick air freshener, Vanish stain remover, Finish dishwasher tablets, Cillit Bang surface cleaner, Strepsils throat lozenges, Gaviscon heartburn medicine and Nurofen pain relief are just some of the 17 'powerbrands' – the best performing brands – in the Reckitt Benckiser stable. It is also the manufacturer, aptly, of the well known metal polish Brasso.

Reckitt Benckiser might not be in the most glamorous of businesses, but boy does it know how to make money. Since joining the company in 2000, chief financial officer Colin Day has been part of a management team that has presided over a sterling financial performance. In the past 10 years the company has more than doubled its revenues, it has quadrupled its market capitalisation (it now has a market cap of £20bn and is in the top quarter of the FTSE 100) and it has enjoyed 10 straight years of above industry average growth.

It is famed for high margins and its tight grip on costs

and it even had a strong year in 2009, the year when the rest of British industry was trying to pass off flat growth as good news, raking in revenues of £7.75bn (an 8% increase on the previous year at constant exchange rates) and an adjusted operating profit of £1.89bn (a 12% increase on 2008 at constant exchange rates).

No wonder then that Reckitt Benckiser is one of the darlings of the FTSE 100 and so beloved by its shareholders that they didn't even begrudge the company's enigmatic CEO, Dutchman Bart Becht, the astonishing £92m he took home last year, mostly as a result of exercising long-term share options. (As it happened, he also confounded those critics he did have by transferring shares worth £110m to his charitable trust.)

MAGIC FORMULA

But Day, a little surprisingly perhaps, plays down Reckitt Benckiser's performance in 2009. 'I think it was a good year in the circumstances,' he says. 'I don't think it was a stellar year. Conditions are not easy for any company and that tempers what I would call stellar performance to good performance.'

He's sceptical about theories that the recession meant unemployed people were at home descaling their washing machines, pointing out: 'These are products that are competitively positioned to the consumer, but they are not overly-cyclical or discretionary. By and large, the performance reflects the product portfolio we have. You would not expect to see a dramatic swing in terms



CV

Who: Colin Day

When: March 1955

Where: Watford

Qualifications: FCCA; MBA

Work: Trainee accountant, Kodak; various finance roles, British Gas; group financial controller, De La Rue; group finance director (ABB Kent), group finance director (ABB Instrumentation), ABB Group; group finance director, Aegis Group; chief financial officer, Reckitt Benckiser Group.

Also holds non-executive directorship with WPP Group.

Life: Flying – Day is a qualified pilot; skiing

iPod: Moved over time from hard rock to progressive rock to electric folk rock to folk to classical. 'I still linger in the past but listen to the music more becoming of my age'

'I wouldn't say we have the magic formula that no one else has. We have a business model and we've stuck to that'

of market performance.'

He adds: 'I wouldn't say we have the magic formula that no one else has. We have a business model and we've stuck to that. Everything that we do is geared towards the innovation pipeline, consumer needs, margin expansion, keeping the costs under control, getting the cash in – that's what we do.'

Reckitt Benckiser invests just 1-1.5% of its revenues in research and development but it nevertheless manages to come up with a continuous stream of good ideas. So much so that 30%-40% of its sales each year come from innovation launches in the past three years. 'There's a subtle difference between pure R&D and research that is predominantly around consumer research and consumer insights,' says Day. 'This is about understanding what consumer needs are, then investing through the R&D spend to meet those needs. That's opposed to people developing things without any reference to consumer needs.'

When it comes to marketing, on the other hand, the company isn't afraid to splash the cash. In 2009 it was one of the top 10 global advertisers with a spend of \$2.37bn (£1.54bn), according to industry bible *Advertising Age*, and its brands enjoy strong recognition and loyalty from consumers. That doesn't mean that Reckitt Benckiser's marketers are allowed to get away with financial murder, however. 'Our style is very much [about] making the pound count,' says Day. 'Marketing and advertising are subject to the same disciplines and requirements as any other part of the business. As we've got larger, we've put in the right tools to assess the effectiveness of media marketing. But I think that in our business there is a level of spend you have to invest in to keep the products, the innovation, the consumer right.'

HIGH FLIER

Reckitt Benckiser and its management team might regularly get investors, the business press and even politicians excited but it's evident that Day hasn't let all the attention get to his head. For a man who is highly respected and holds one of the top finance jobs in this country, and has also held a number of high-profile non-executive directorships including at EasyJet and Cadbury, Day seems very down to earth. His career as an accountant began, he admits, 'by default'. He started at camera film manufacturer Kodak as a commercial trainee in 1973 but instead of doing the commercial role that he'd set his heart on, he was told that he would make a good accountant. So he started studying for the ACCA qualification, which he obtained in 1978 and was in fact a prize winner, coming top in the final exams for his year (for the record, his prize was £15). Day only lasted a year at Kodak ('I didn't enjoy the work') and by the time he qualified he was working at British Gas, which then sponsored him to do an MBA at Cranfield School of Management. In 1980 Day left British Gas to work for the Crosfield Electronics subsidiary of banknote printer De La Rue and by the time he left in 1984 he had become Crosfield's group financial controller. Day has 'fond memories' of his time at Crosfield where he met 'a lot of charismatic, smart people' and worked under 'a lot of pressure'. In 1988, he moved to engineering group ABB, firstly as finance director of ABB Kent and then as group finance director of ABB Instrumentation, where the role was 'more a commercial job' than accounting. He left in 1995 to take up the post of group finance director of FTSE 250 research and media group Aegis. 'We took a small European business, which was financially troubled, to a global media market research business,' recalls Day. When he joined the share price was 20p. By the time he left it had topped £2.40.

Day joined Reckitt Benckiser in 2000 after being headhunted. It was then hovering at the bottom end of the FTSE 100 following a merger in the previous year between British household products company Reckitt & Colman's and its German counterpart Benckiser. Becht, an alumnus of Procter & Gamble, was in place as chief executive. 'I saw Reckitt Benckiser as a mix between engineering, manufacturing and commercial,' recalls Day. 'There seemed to be a lot of interesting opportunities. The only way was up if you did it right.'

CULTURE CLASH

According to Day, Reckitt Benckiser has a 'unique culture' that has been moulded by its international, ultra-mobile workforce. If you take a look at the company's website, you will find the six personality traits you need 'to be a high flier at RB'. These are: passionate, competitive, dynamic, bold, resilient and global. The company also proclaims: 'Conflict is ok; consensus is ok only if it leads to the best decision.' So does this mean that RB's employees are permanently on the edge of



IN FIGURES: COLIN DAY

First salary: £2,000 per annum as a trainee accountant with Kodak

Salary now: £1.7m (2009 accounts)

Size of finance function: Several hundred

Time in post: Nine years, 11 months



a nervous breakdown as a result of arguing with their colleagues? Day says not. 'People have a point of view. The whole style is to encourage people to partake in their point of view. If you attend a meeting here, the perception is you will have something to add to the discussion. To me this is the normal course of business. I have a hard time believing that doesn't manifest itself in other organisations.' He also insists that the staff turnover rate is low – below 10% globally.

People matter, says Day. 'I spend a good third of my time on career/HR-related matters in a positive sense – developing people, training courses, so-called high-performance programmes. People are your biggest asset and the talent development is a critical part of developing that asset. It may not sit on the balance sheet but it's the biggest asset an organisation has.'

He describes the culture of Reckitt Benckiser as 'international and go-getting'. 'Some people confuse that with aggression,' he adds. 'I don't see it as aggressive in terms of "nasty" or "vindictive". It's aggressive in an almost single-minded belief to get things done.' He continues: 'The RB way is low on politics, high in direct action and short lines of communication, and it encourages personal involvement, personal decision-making and personal responsibility.' All of this is important, he says, in a fast moving consumer goods environment where speed to market is vital.

WHAT NEXT?

This year is another tough year according to Day, but 'so far, so good'. The company had been visibly stockpiling

cash, leading commentators to speculate that it was about to enter acquisition mode. This suspicion was confirmed when Reckitt Benckiser agreed last month to buy Durex condom-maker SSL International for £2.5bn to enhance its presence in health and personal care. Day says acquisitions must be 'a strategic fit'.

There is some uncertainty around the US business, however, after the company lost orphan drug status last October, which gave it exclusivity in the US on its heroin addiction treatment Suboxone, thereby opening up the market to generic competitors. Last year, the drug produced profits of £371m, 20% of the group's total profits. Day points out that this development was far from being a bolt from the blue as the company always knew the day would come when exclusivity was lost. 'That's the price you pay if you are a pharmaceutical business, which we are really not,' he says. 'A very small element of our total revenues is pure pharma. It's not a surprise. It's all understood. We're doing our best to manage it.'

When it comes to superior products, Day must surely know more about them than most given the nature of the empire he helps to preside over. So is there a Reckitt Benckiser product that he favours above all others? It turns out that it's Vanish Power Foam for carpets 'because it's normally me that ends up in my home going round, removing small stains'.

Where there's muck, there's brass. You don't get to be the multi-millionaire chief financial officer of one of the world's largest cleaning product companies without being prepared to roll up your sleeves and get your hands dirty.

RECKITT BENCKISER FACTS

- Reckitt Benckiser is one of the world's leading makers of household, health and personal care products.
- It employs 24,900 people globally.
- In 2009, its media spend was 11.1% of net revenue.
- Its products are sold in 180 countries around the world.
- It is the world's biggest maker of mustard, thanks to powerbrand French's, which is very popular in the US and is sold all over the world. It is not, however, the maker of Colman's mustard, which was sold to Unilever in 1995.
- Dettol, an RB product, is the world's number one antiseptic, which has been recognised for use in childbirth since the 1970s.
- The main active ingredient of Gaviscon is a type of seaweed.