

## **Searching for Competitive Advantage: the case of Booker plc**

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## Abstract

In the mid-1990s, Booker - then one of Britain's largest wholesalers and diversified food producers - embarked on two significant strategies; firstly, to centralise and upgrade its logistics and distribution systems through Project Heartland and, secondly, to acquire Nurdin & Peacock Plc (N&P), one of its cash and carry rivals. Project Heartland was justified by management on the grounds of efficiency and customer service. The rationale for the acquisition of N&P was to consolidate the sector as the number one operator, in what was a low-growth market facing inter and intra-type competition. The resulting financial performance of the group was 'failure', culminating in the destruction of shareholder value and finally take-over - at a fraction of its previous value - by Iceland Plc.

This analysis uses internally-focused, resource-based and competence-based approaches of competitive advantage to provide an insight into the choice of strategy and its ultimate failure. It also combines organisational studies frameworks as a complementary tool to assess 'failure' from a management perspective, in the light of decisions to pursue such strategies and with regard to their operational execution. 'Failure' is seen to be the net result of a combination of Booker's inability to build competences, in the required time-frame, through strategic (process) capabilities. This coupled with the lack of compensating competitive advantage through other key resources and the exposure of strategy by external environmental factors, in particular low growth in its key markets.

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## Searching for Competitive Advantage: the case of Booker plc

### Introduction

In the mid-1990s Booker, then a publicly quoted company, could best be described as a diversified food production and distribution group, with a range of strategic business units (SBUs) as shown in Table 1. The focus of this research is the wholesale SBU, known historically as Booker Belmont Wholesale (BBW).

**Table 1.** Proportion of turnover and operating profit by division 1992-1998 (%) Booker plc

Year	Turnover (%)					Operating Profit <sup>1</sup> (%)				
	Wholesale	Foodservice	Prepared foods	Fish	Agribusiness <sup>2</sup>	Wholesale	Foodservice	Prepared foods	Fish	Agribusiness <sup>2</sup>
1992	64.9	18.0	6.6	4.5	6.0	47.0	10.7	15.9	9.4	17.0
1993	65.6	17.2	6.1	6.8	5.3	50.0	15.2	10.8	8.4	16.6
1994	65.4	17.1	5.9	5.8	5.8	50.0	12.9	10.8	6.7	19.6
1995	61.1	21.3	5.3	4.8	7.5	49.0	11.3	5.5	4.4	29.8
1996	64.0	21.2	3.4	5.2	6.2	53.0	8.2	6.0	6.7	26.1
1997	73.4	17.1	1.0	3.9	4.6	68.7	11.3	1.9	6.7	11.4
1998	72.6	19.1 <sup>5</sup>	0 <sup>4</sup>	3.7 <sup>3</sup>	4.6	58.8	18.5 <sup>5</sup>	0 <sup>4</sup>	5.0 <sup>3</sup>	17.7

Source: Annual Reports and Accounts Booker plc (1992-1998)

1. Operating profit before exceptionals; 2. Agribusiness in the UK and US; 3. Sold in October 1998; 4. Sold in May 1997; 5. Sold in June 1999

By the early 1990s BBW contained two divisions, Booker Cash and Carry (C&C), with 158 depots, and Booker Wholesale Foods (BWF), a multi-temperature service to retailers (Booker, 1995). The turnover of the C&C comprised mainly tobacco and alcohol sales and fast-moving grocery products, together with small-item household goods. Much of Booker's wholesale grocery business was 'high volume-low margin'. Its main customers being small, independent grocery retailers, CTNs (Confectionery, Tobacconists & Newsagents), and increasingly, caterers (hotels, guest houses, pubs, restaurants and clubs).

**Table 2.** Consolidated profit and loss account statistics 1991-1998 Booker plc

	1991	1992	1993	1994	1995	1996	1997	1998	1998/9 <sup>1</sup>
Turnover, continuing operations (£m)	3362.9	3419.4	3588.7	3699.2	4222.9	4442.6	5265.0	5086.1	6149.1
Operating profit before exceptionals (£m)	105.9	94.4	104.7	102.2	117.7	122.4	107.4	64.3	56.4
Exceptional items (£m)	(22.4)	(10.4)	(1.4)	(20.3)	(17.8)	(88.9)	(4.7)	(94.0)	(150.4)
Profit/(loss) before taxation (£m)	63.6	64.3	86.9	69.8	82.8	13.0	71.4	(71.7)	(146.8)
Earning (loss)/share (pence), after exceptionals	21.1	17.8	28.1	21.2	22.8	(4.7)	19.7	(39.0)	(66.5)
Dividends/share (pence)	21.8	21.8	21.8	22.4	23.1	23.8	24.0	4.2	4.2
Interest cover (based on pre-exceptional profits)	5.1	4.6	5.7	7.3	6.0	5.4	2.8	1.4	1.0

Source: Annual Reports and Accounts Booker plc (1991-1998)

Financial year is the calendar year excepting 1998/99

1 With change of financial year to April to March figures for 1998/99 are for the year to 27.03.99

In the early to mid-1990s wholesale accounted for around 64% of the group's turnover (Table 1) but only 50% of the operating profit, reflecting in part the high volume-low margin nature of its business. With Booker's wholesale sales rising by an average of 5% per annum (1991-6) and good net cash generation, its wholesale business had many of the features of a 'cash cow' (high market share but low-to-moderate growth). The cash generation underpinned management's policy of a high and rising dividend (Table 2) in line with its focus on delivering shareholder value, notably through income returns. However, whilst interest cover was reasonable the dividend was barely covered by earnings per share (Table 2), making it vulnerable if any sustained downward pressure on earnings occurred. Furthermore, cash cows are perceived as requiring little new investment. Whilst this may have been the case in the late 1980s and early 1990s, by 1994 Booker's management, then led by Chairman

Jonathan Taylor, was increasingly seeing centralised distribution as a key way forward to extract greater efficiency from its wholesale operations in the face of tougher market conditions.

As noted above, the wholesale markets in which Booker operated grew in the first half of the 1990s but a dis-aggregation reveals a mixed picture. Wholesale rose by 34% from 1992 to 1997 (Keynote, 1998), just ahead of the rise in the consumer expenditure index. The underlying cause of this was the relatively good performance of delivered wholesale to the catering sector, which more than doubled its share of wholesale between 1991 and 1997, from 17% to 38%. However, the independent retail grocery share fell from 68% to 60%. The principal reason for this was that the part of wholesale serving small, independent retailers was, and remains, under consistent pressure. This was largely due to the decline in the number of small-scale independent retailers, who faced significant competition from large-scale buying groups (for example, Nisa-Today) with their own dedicated logistics serving convenience stores, from voluntary groups (such as SPAR), and from the big superstore grocery multiples such as Tesco, Sainsbury and ASDA. Such multiples are themselves increasingly entering the convenience store market which competes directly with the small independents, either through new stores (such as Tesco's Metro outlets), the acquisition of multiple convenience-outlet operators (Tesco's acquisition of T&S Plc), or through partnerships with oil companies (BP, Shell, Mobil) to supply products to convenience stores situated within petrol stations. Thus, small-scale convenience stores that are open long hours and have an increasing emphasis on, for example, chilled foods have become prominent, and are a growing sector of the grocery market. 'Top-up' or 'distress' shopping which supplements the weekly shop at the superstore is an important role of these outlets, as people work longer, irregular hours and family meals become more fragmented. The small independents have a presence in this growing market but they are faced with significant competition from buying-groups (symbol groups), multiple convenience store operators (Alldays, Budgens, T&S, the Co-op) and also, as indicated above, the big superstore owners.

A Keynote survey of Britain (1998) indicated that, within wholesale, C&C accounted for 63% of the market but grew by only 9.9% between 1992 and 1997. The multiple depot operators such as Booker, Makro and Batleys who, combined, held 40% of depots in 1997 (Keynote, 1998), held a 54% value share of the C&C market. However, pressure was increasing from the buying groups, which now represented the fastest growing area of C&C, and the voluntary retail groups, such as SPAR. Therefore, for Booker as an individual firm, it was not the intra-type competition from other C&C operators that has been the main challenge, but the broader, inter-type competitive attack on, and erosion of, the independent retail market at which its C&C operations are principally aimed.

It is against this company and market background that Booker, in the mid-1990s, embarked on two major initiatives that fundamentally changed the company. These initiatives, which were implemented by Booker's management in January 1995 and November 1996 respectively, were the development of its distribution network through Project Heartland and the acquisition of Nurdin and Peacock Plc, a rival cash and carry/wholesale operator. However, significant operational and competitive problems emerged - notably from the final quarter of 1997 - leading to a catastrophic decline in the financial performance of the company and to a severe erosion of its shareholder value. Four years later Booker was acquired by Iceland Plc (now The Big Food Group Plc), at a fraction of its value in the mid-1990s. Operational strategies in areas such as logistics and distribution, IT systems, merchandising, re-branding, and customer relations sought to leverage competences but, by early 1998, it was evident that the strategies were not only falling short of expectations but were significantly contributing to undermining the financial stability of the group.

This paper aims to understand the rationale for Booker's new distribution and competitor strategies and the critical factors that led to its decline. The research utilises frameworks that principally focus on factors internal to the firm, but acknowledges the key role external factors have in influencing the degree to which internal resources are valuable to the firm, and how management responds to its markets. The two frameworks used and discussed in this analysis are those of Organisational Studies (OS) and the Resource-Based Theory, with the complementary Competence-Based Theory.

## Analytical and conceptual frameworks

The Resource-Based Theory (R-BT) directs scholars to resources (bundles of assets) as being at the heart of a firm's competitive position. It has been discussed at length by Barney (1991), Collis and Montgomery (1995), Grant (1991) and Wernerfelt (1995). Competence-Based Theory (C-BT) is seen as complementing R-BT in that it distinguishes a range of resources which firms can effectively harness for their sustained advantage and has been employed by authors such as Chandler (1990), Hamel and Prahalad (1994), Sanchez, Heene and Thomas (1996). A detailed historical summary of both frameworks is provided in Hunt and Lambe (2000) and a useful critique of Barney's key work (1991) is given in Priem and Butler (2001), with a response from Barney (2001).

It is not the intention here to discuss the detailed polemics of the various authors, such as whether the above approaches are theories or views. However, R-BT and C-BT provide a legitimate framework for analysing the basic building blocks of a firm's differential (competitive) advantage or of a firm's attempts to build it. Interestingly, many studies using R-BT tend to do so to analyse 'success', often in a retrospective way, but it is argued here that it can also help in understanding the intentions and policy directions of firms as they seek to enhance any advantages (existing or new), and also shed light on where they fail to create them.

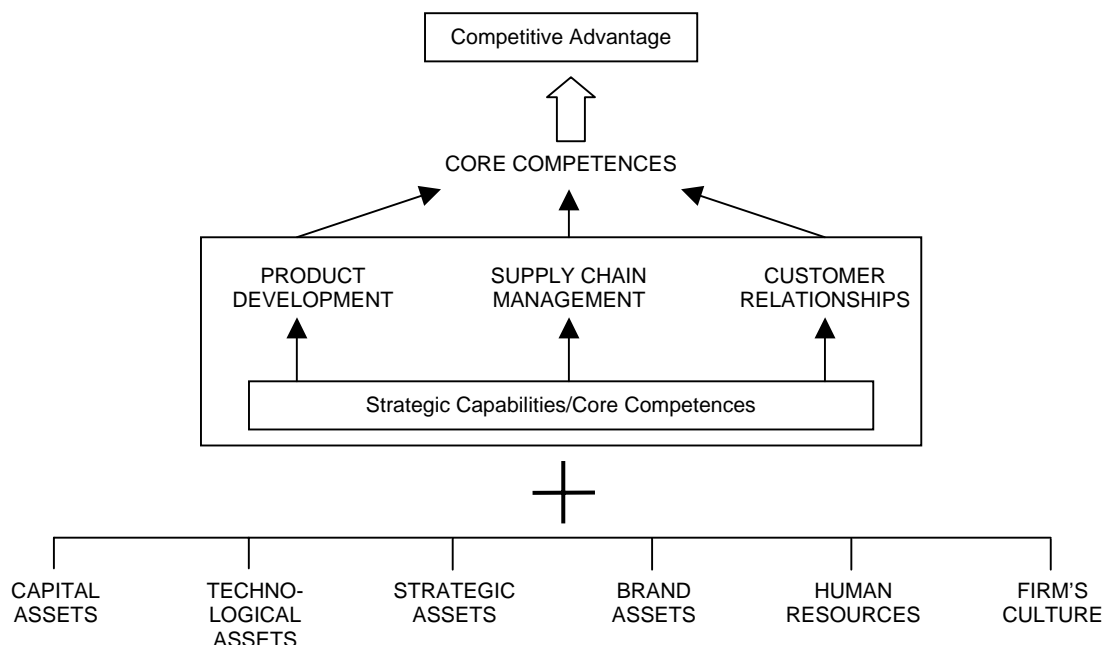


Figure 1. Resource/competence-based theory of the firm: sources of actual and potential competitive advantage

Figure 1 summarises some of the key features and complementarities of R-BT and C-BT. Resources (assets) are the basis of R-BT, thus highlighting internal (firm-specific) factors. This contrasts with Porter's work (1980), which focuses on the role of external (industry) factors on firms' competitive strategies. R-BT argues that the heterogeneity of resources, imperfect resource mobility and imperfect imitability by other firms, enable an organisation to build differentiated competitive advantage. Resources are seen as tangible and intangible assets; the former includes capital, technological and human resources, and the latter, resources such as brand assets and the culture of the firm (Figure 1). Culture impacts on such key areas as company philosophy/mission, management vision, internal and external relationships ('architecture' of the firm) and innovation. Strategic assets, as used here, are those defined by Kay (1995), that is, assets based on market dominance or position resulting from natural monopoly, regulation or sunk costs. Such costs act as barriers to entry in that new entrants must also sink them in order to compete (for example, logistics and distribution networks, advertising, costs of establishing brands and reputation, and gaining market recognition). As long as the new entrant's competitive advantage is less than the sunk costs, the incumbent firm can 'hold its own'.

R-B theory has thus provided a key framework for analysing the basic building blocks of differential advantage. However, as Hunt and Lambe (2000) note in their survey, authors such as Lewis and Gregory (1996) argue that there is a lack of a bridge, in the R-BT, between resources and strategy, that is, there is a need for a more holistic approach. This is where C-BT plays a complementary role. It focuses on the development of distinctive (core) competencies (Selznick, 1957) through the strategic processes that support and empower such development. Here the literature abounds with a sometimes confusing range of different and overlapping terminologies, particularly on what constitutes 'competences' and 'capabilities'. Competencies are seen as deriving from (strategic) process capabilities *and* from the underlying resources/assets (Figure 1). What is not in doubt in the C-BT is that firms are perceived as needing to deliver sustained competitiveness through competence leveraging which leads to differential advantage.

According to Barney (1991) it is necessary, but not sufficient (for competitive advantage), that resources be rare and valuable (that is, they contribute to a firm's efficiency and effectiveness). In addition, rapid, lower cost building of core competencies, that are difficult to imitate and which cannot be substituted by other resources, generate distinctiveness and assist sustainability. Some authors see such competences as deriving principally from firms' assets/resources, whereas others see strategic capabilities as also playing a key role (Stalk, Evans & Schulman, 1992; Jenster & Pedersen, 2000; Thompson, 2001). Core strategic capabilities are principally processes leading to the firm's accumulated skills, know-how and learning. They are repeatable patterns of action involving complex patterns of co-ordination and co-operation between people and other resources (Hunt & Lambe, 2000; Phelan & Lewin, 2000). Such core processes include product and brand development, R&D, supply chain management and customer relations management. Figure 1 highlights three capabilities that were significant for Booker in the mid-1990s, as areas of actual or potential focus.

It is from assets/resources and capabilities that core competences, the bases of C-BT, emerge. Some authors see core competences as mainly technologically based but others, such as Thomson (2001), argue that capabilities are conceptually different and should be treated as such. Firms may seek to build core competence through the leveraging of assets and capabilities; for example pharmaceutical firms may successfully combine R&D with customer relations management, whereas some retailers may successfully combine brand assets with supply chain management. For the analysis of Booker, the C-BT framework is applied in order to identify how and where the firm sought to build its core competences and where and why problems occurred. Booker's management placed major emphasis on process capabilities (Figure 1). When problems occurred with the full implementation of these processes the company's resource/asset base was insufficient to sustain competitive advantage.

This internal-to-the-firm approach might be seen as totally ignoring external factors. As Doyle (2001) notes, strategic success is not isolated from the markets in which firms operate, and Barney (2001) also acknowledges that external factors have a role in R-BT. This, he says, is because resources are valuable when they exploit opportunities or neutralise threats in a firm's environment, or enable a firm to conceive of, or implement, strategies that improve its efficiency or effectiveness. In these ways, value is exogenous and the markets determine value. Thus, issues of market growth, excess capacity and intensity of competition are market conditions which can significantly influence whether resources will or will not be valuable (Barney, 2001 p.43).

In terms of market conditions, Booker was faced with markets that showed elements of low growth due to maturity. These saturated or declining sectors typically display the following factors:

- increasing competition for market share; holding market share no longer provides growth
- firms increasingly selling to repeat buyers who 'know the market'
- methods of buying, marketing, distributing and selling are often undergoing change simultaneously
- new products and services are harder to come by

The strategic implications of the above frequently include one or more of the following (Grant, 2002):

- low growth exposes ‘strategic sloppiness’ and ‘strategic errors’
- strategic change is often ‘lumpy’ as firms lurch from strategy to strategy to combat low growth; whilst some policy appears proactive, much is reactive and contains elements of ‘hasty opportunism’
- greater attention to costs and also to rationalisation of the product mix by pruning unprofitable items. The firm is constantly looking for efficiencies and synergies
- firms may find it easier and more cost-effective to attempt to raise the purchases of existing customers than look for new ones which might involve an expensive battle for market share
- acquisition of cheap assets in the sector helps the acquirer to consolidate its position in the market. Firms may attempt to increase capacity even though the rate of return on investment is likely to turn out to be poor

The second framework that is utilised in this research is Organisational Studies (OS). This is essentially behaviour-rooted and highlights, like R-BT, internal factors. OS frameworks tend to be applied for the analysis of ‘failure’. Internal factors are seen as the prime cause of failure, defined in terms of decreasing performance over time, with performance measured as profitability (Witteloostuijn, 1998). OS does not directly focus on the building of competitive advantage, as R-BT does, but more on organisation decline, including management’s failure to understand and respond to its external environment. Such failure may, however, be the net consequence of a firm’s relative inability to build competitive advantage and thus there is a direct link to R-BT.

Witteloostuijn (1998) places OS in the 5-C framework (after Cameron *et al* 1988, p.6), citing the *content* of understanding of decline in terms of *cause* (of decline), *conditions*, *causes* (of action) and *consequences*. Outcomes are presented as four possibilities, namely, *immediate exit* (firm hits negative profitability and leaves the market), *turnaround success* (profits are expected to return as turnaround strategies are implemented), *flight from losses* (firm finally exits but only after some time elapses), and *chronic failure* (although profit remains negative the firm remains in the market). It is acknowledged that there are other variants. One contender is that acquisitive firms may be the instigators of turnaround. Indeed, the rationale for acquisition may be the perceived opportunity for leveraging a return to profitability (cost-cutting, partial divestments, synergies, product development, economies of scale and scope, etc). This was the case with Booker.

In terms of *causes* within the 5-C framework, the OS school has generated a plethora of explanations, some of which link management’s behaviour to changes in the external environment of the firm. As Mellahi, Jackson and Sparks, (2002) note in their survey of OS frameworks, it is a combination of internal and external factors that is responsible for failure. *Causes* include:

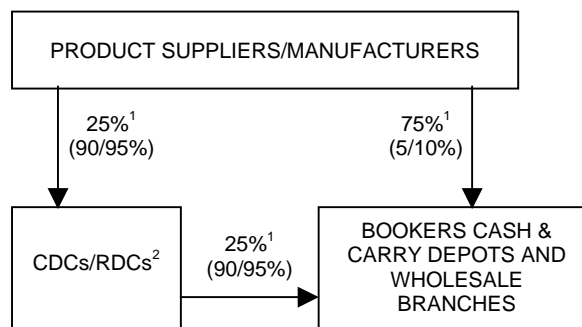
- Organisational inertia, rigidity and paralysis (Hannan & Freeman, 1984; D’Aveni, 1990; Hambrick & D’Aveni, 1988; Straw, Sandelands & Dutton, 1981)
- Escalating commitment by management to pre-existing strategies (Bateman & Zeithaml, 1989)
- Narcissic leaders/exaggerated pride/arrogance (Macoby, 2000)
- Blinded perceptions of management to their weaknesses and strengths, to customers’ needs and to competitors (Zajac & Bazerman, 1991)
- Management malfunctioning (Argenti, 1976) such as impulsive decisions that extend the firm’s assets; also the tendency of firms to be either too active or too passive prior to decline

Before proceeding to apply OS and R-BT/C-BT frameworks to Booker’s competitive situation, the two projects that were critical to this in the mid-1990s, will be discussed in greater detail.

## Project Heartland and the acquisition of Nurdin & Peacock

In early 1995, the first of Booker's two key strategies was introduced, focusing on the radical overhaul of its supply chain via Project Heartland. This was likened, by Booker executives, to the pumping of blood through the body's arteries, that is re-invigorating its system through the building of a centralised distribution system. This included five new state-of-the-art Regional Distribution Centres (RDCs), four in England, and one in Scotland. The aim was to improve product availability to its customers and to enhance stock management, in particular reducing stock levels through just-in-time deliveries. Their customers, who were principally small retail independents and caterers (hotels, pubs, restaurants, clubs, guest houses and so forth), had regularly complained about "long periods of stock-outs" (The Grocer, 1998a p. 33). Therefore the RDCs, as the 1995 Annual Report noted (Booker plc, 1996), would enable more frequent deliveries to be made to C&C depots and to the independents.

The existing, pre-Heartland, system focused largely on product suppliers shipping their goods either directly to Booker's cash-and-carry (C&C) stores, or, to Booker's Central Distribution Depots (CDCs), the more antiquated and numerous predecessors of the RDCs. On-shipment to retailers and caterers was either through Booker's own transport, or via customers visiting the C&Cs. Project Heartland involved increasing the proportion of throughput of products going via the RDCs, from 25% to 90-95%, and a concomitant reduction in the direct supply from product manufacturers (suppliers) via the RDCs from 75% to 5-10% (Figure 2). The £95m plan would be paid for, management argued, by releasing the previous system's working capital. Any direct supply from manufacturers to C&Cs would be just-in-time deliveries of chilled foods, a system developed by Booker after assessing component deliveries within the automobile industry.



Source: The Grocer (1998, 10 January pp. 32-34)

<sup>1</sup> 1995/6 flows, as a proportion of aggregate flows: targets, indication relative change in the proportions, are in brackets

<sup>2</sup> CDCs = Central Distribution Depots; RDCs + (new) Regional Distribution Depots as part of 'Project Heartland'.

**Figure 2.** Booker's 'Project Heartland' (1996): distribution flow changes (targets in brackets)

Project Heartland mimicked the distribution systems of the large retail grocery multiples, such as Tesco and Sainsbury, who had eliminated the role of the traditional wholesaler by direct supply from grocery manufacturers to RDCs, and then to their superstores. The project started in early 1995 and its rationale was, to improve stock control and product availability. Importantly, from an operational viewpoint, management predicted that the full benefits of Project Heartland would not be realised until November 1999, some 22 months after it had commenced.

Whilst this project was seen as a 'blood transfusion' to Booker's distribution system, its other major strategic initiative, in September 1996, was subsequently described by The Grocer (1998a p.32) as dealing the company a "near-fatal cardiac arrest". In hindsight this was a prophetic view, even though in 1998 total fatality was not considered a possibility. This second initiative was Booker's £264m bid for Nurdin & Peacock Plc (N&P), a principally C&C rival, involving a full cash offer or 14 new Booker shares plus £154 for every 100 N&P shares. The bid was completed in November 1996.

N&P had 55 trade and business C&C depots, and 2,200 retailers who traded under the 'Happy Shopper' fascia (Acquisitions Monthly, 1996 p.4). Sales in the year to December 1995 were £1.66b

compared with £4.22b for Booker. Based mainly in the South-East, N&P's fortunes were at a low ebb at the time of the bid. For the half-year to the end of June 1996, pre-tax profits had more than halved, from £15.95m to £7.27m, on sales that were virtually stagnant (The Grocer, 1996 p.4). Joining forces with Booker would lead to an aggregate C&C/wholesale turnover of over £5.5b and 213 C&Cs (55 N&P and 158 Booker). Executives of the two companies claimed that the combined businesses would have a 37% share of the C&C market (an estimate supported by Euromonitor, 1998), and a 22% share of the C&C and wholesale market combined. This would make the new group the UK's largest operator in this combined sector. Consolidation is common in mature markets, and although the acquisition of N&P was not a fire sale, its shareholders accepted the offer with little reluctance.

N&P had also striven to expand market share through acquisitions. As Booker was finding, organic growth is hard to attain in a sector where market penetration is difficult, and markets are under constant attrition from the large superstore grocery multiples, such as Tesco, Sainsbury and Asda, voluntary chains and buying groups. N&P had bought ten 'M6' C&Cs in order to give access to a new geographical market, and had developed 'Cargo Club' to mimic the US-style club warehouses. 'Thompson Wholesale Foods' had also been acquired to promote growth in the delivered wholesale market, and a new 'Premier' fascia was launched as a 'club (symbol) brand' for small retailers. As The Grocer (1996 p.49) noted, "they were all measures of a company desperate to encourage hard-pressed small shopkeepers to spend more," a policy highlighted above as an implication of low-growth markets.

The strategic rationale for Booker's acquisition of N&P lay in a combination of reactive and proactive factors. For the former, Booker desired to prevent SHV, the Dutch owners of Makro C&Cs, from obtaining N&P. Booker had approached N&P in 1995 with a view to a merger, but had been rejected. SHV began to take an interest, and it was even thought that SHV would mount a counter-bid to Booker for N&P. However, Booker's approach was uncontested (SHV later sold Makro to Germany's Metro and turned its attention to the bottled gas market). Thus began the integration of N&P with Booker and, importantly, with the Heartland Project.

From a proactive perspective, Booker maintained that N&P would complement Booker's already considerable geographical coverage (N&P was concentrated in the south-east), and would bring strategic capabilities in the form of operational synergies and efficiencies, as N&P's integration with Booker was developed. Executives quoted estimates of savings of £10m in the first year and £20m in the second year. Furthermore, Booker saw scope for rationalisation and the development of the combined brands of the two groups (The Grocer, 1998a p.33). As previously noted, the life-cycle of the wholesale sector, and of the C&C sector in particular, provides an underlying context for Booker's acquisition of N&P. The stage of the cycle is essentially 'saturation', that is, between 'maturity' and 'decline', particularly for C&C (Lowes, Pass & Sanderson, 1994 p.193). With slow organic growth, consolidation via acquisition would raise market share and reinforce scale economies.

In terms of the R-BT/C-BT framework, Booker had an array of key competences, in the form of resources and capabilities, which it was seeking to reinforce, reinvigorate and develop (in 1995-1996) via Project Heartland and N&P respectively. In terms of the SWOT model used initially by R-B theorists, Booker had certain strengths and opportunities (Figure 3). Its strengths lay mainly in essentially competence-based advantages (Figure 1) and in market dominance. With the acquisition of N&P, Booker had a strategic asset in terms of market position and dominance, particularly in C&C, built up through historical acquisitions and market expansion. A large national customer base with operations that had a significant degree of critical mass (as frequently acknowledged in Booker's Annual Reports), meant that sunk costs were significant and thus new entrants, to be successful, would be faced with similar costs. Therefore, taking the resource/competence-based framework outlined in Figure 1, it can be argued that competitive advantages lay heavily with process capabilities in the form of the supply chain.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Geographic coverage of Britain</li> <li>• Large customer base (&gt;100,000 retailer &amp; 3000.000 caterers)</li> <li>• Market share of national delivered wholesale and C&amp;C market</li> <li>• Critical mass of operations</li> <li>• Strategic assets (sunk costs)</li> <li>• Growth of catering market</li> </ul>	<ul style="list-style-type: none"> <li>• Stock control and availability, and IT systems</li> <li>• Low margins</li> <li>• Management competences</li> <li>• Own brand image</li> <li>• Timing and configuration of strategic change</li> <li>• High financial gearing</li> <li>• Mismatch of targets and results</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Exploit the efficiencies and synergies of the new RDCs</li> <li>• Improve stock control</li> <li>• Reduce brand duplication</li> <li>• Potential to flex buying power</li> <li>• Re-vamp/re-invigorate own brands</li> <li>• Market penetration via product development</li> <li>• C&amp;C has space and capacity to test new concepts (eg. E-commerce)</li> <li>• Divestment of non-core assets</li> </ul>	<ul style="list-style-type: none"> <li>• Large grocery multiples (UK)</li> <li>• Buying groups</li> <li>• Decline in the growth of C&amp;C sector/market</li> <li>• Decline in number of small, independent retailers</li> <li>• Price deflation</li> <li>• Decline in profits performance of other divisions within Booker</li> </ul>

Figure 3. SWOT analysis Booker plc 1996-1999

Opportunities (Figure 3) centred on strategic capabilities in distribution and logistics (stock management for greater efficiency and product availability), around greater buying power (post the N&P acquisition), and, the potential for e-commerce. Additional opportunities lay in reducing the number of overlapping brands and re-building and re-invigorating own brands, notably the ‘Happy Shopper’ (inherited from N&P) and the ‘Family Choice’ value brand. The ‘Premier’ fascia for independent stores was also promoted, though fundamental expansion has mainly taken place under the aegis of the new owners of Booker, The Big Food Group. However, own brands could also be considered an area of relative weakness for Booker, due to the lead time required for successful brand-building and the historical dilution of their own brands through over-proliferation. Further weaknesses are outlined in Figure 3 and discussed below, within the context of the strategic problems that emerged towards the end of 1997.

### The emergence of strategic problems

An interview with Adrian Busby, Head of Booker Wholesale, by The Grocer (1998a) was optimistic in both its detail and tone, both with regard to the progress of Project Heartland and the N&P integration. It highlighted:

- that the integration of Booker and N&P was progressing well and would be completed by the end of 1998, 12 months ahead of schedule
- 15 branch closures had occurred in 18 areas with 22 areas to be reviewed
- good progress on the integration of Booker’s MIDAS scanning system into N&P
- re-launch of own labels on 850 lines; N&P’s ‘Happy Shopper’ brand was to be the mainstream brand for the group, with the value (generic) brand being ‘Family Choice’
- the first, new RDC, at Livingstone in Scotland, had - in its first year - increased availability of products in the C&C branches from 97.5% to 99%
- improvements in deliveries of fresh produce
- a ‘price watch’ policy to match supermarket prices for Booker’s customers had been introduced

This optimism followed an equally positive ‘bonding session’ with analysts in September 1997, when management said the group was performing well. However, a week after the publication of The Grocer interview (above) in early 1998, a trading update for the last quarter of 1997 gave the first tangible and public indication that the translation of strategies into financial results was not

proceeding as planned. The update gave a profits warning. This was followed by the dismissal of Charles Bowen, the Chief Executive, in March 1998 (see Table 3), followed by the appointment of Alan Smith from Storehouse Plc to head up a strategic review of the group. This review was conducted in the absence of a Chief Executive, as the appointment of a replacement did not occur until October.

**Table 3.** Booker plc Summary of key events 1995-2000

Year	Month	Key Event
1995	January	Project Heartland
1996	November	Nurdin & Peacock acquisition
1997	May	Prepared Foods Division sold
	September	Optimistic update with city analysts on progress of company
1998	January	Trading update and profits warning
	March	Charles Bowen, Chief Executive dismissed. Alan Smith (from storehouse) brought in to head up a strategic review
	September	Booker approached by Budgens plc and also by Somerfield plc for possible merger
	October	New Chief Executive, Stuart Rose 91998-2000) Fish Division sold
	November	Adrian Busby, Head of Cash & Carry dismissed John Napier appointed as new Chairman (to replace Jonathan Taylor 1993-1998)
1999	Spring	Sale of the Spanish C&C operations
	June	Booker Foodservice sold
2000	June	Iceland plc acquires Booker
	November	Stuart Rose resigns as Chief Executive

Project Heartland and the acquisition of Nurdin & Peacock were intended to bring about improvements in the supply chain/distribution systems, to expand market share, and, consolidate the sector as the key player. However, due to the relatively short period of time between these initiatives, there was significant overlap and integration of the strategies, imposing pressure on both systems and management. They were accompanied by a declaration from management on strategic, operational and financial expectations that were optimistically revised, particularly in 1997-98, but remained largely unfulfilled. The facts reveal a severe decline in profitability and, after a take over by Iceland plc, loss of the company's independence. As Table 2 indicates, from 1998 the company experienced increasing losses resulting in a cut in the dividend from 24.0 pence per share in 1997 to 4.2 pence in 1998, and eventually to zero. Operating profits slumped from the third quarter of 1997. Exceptional items associated with re-organisation and write-offs, consequent on the N&P acquisition and the sale of other divisions such as 'Foodservice' (Table 1), decimated earnings per share (Table 2). In 1998, the company came very close to breaching its covenants.

This basic picture signifies 'failure'. The situation of decline was made critical by the high financial gearing (4000%), which meant that operational synergies and efficiencies had to be developed very quickly and smoothly in order to generate net cash flows to cover debt repayments. Cost-cutting was imperative as low market growth turned to a decline in sales, and therefore could not even partially compensate for any interruptions to achieving such operational efficiencies. When the financial problems deteriorated in the final quarter of 1997, Booker's management laid the blame on what they perceived as unforeseen, one-off events. Firstly, these included problems with integrating the IT systems, notably at the large, former N&P depot at Didcot, resulting in delays to deliveries and loss of customers. Secondly, a perceived, detrimental impact from the timing of tobacco duty increases that affected small retailer' stocking and cash flow. A third event was the exclusion of non-trade customers from N&P outlets, although its contribution to falling profitability is not in the unforeseen category as it was Booker's policy to exclude such customers. However, The Grocer (1998b) queried the company's lack of planning surrounding the tobacco tax increase which, unsurprisingly, had led to retailers purchasing large stocks prior to the increase, leading to a cash squeeze which delayed stocking of other products.

**Table 4.** Turnover and net operating profit by division 1992-1998 (£m) Booker plc

Year	Turnover (%)					Operating Profit <sup>1</sup> (%)				
	Wholesale	Foodservice	Prepared foods	Fish	Agribusiness <sup>2</sup>	Wholesale	Foodservice	Prepared foods	Fish	Agribusiness <sup>2</sup>
1992	2165.2	601.7	200.1	167.8	200.7	42.3	9.6	14.3	8.5	15.3
1993	2291.1	601.6	214.3	199.1	183.9	48.7	15.1	10.7	8.4	16.5
1994	2418.0	631.0	216.9	220.1	213.2	49.9	12.9	10.7	6.7	19.5
1995	2582.0	900.2	223.6	202.5	314.6	57.7	13.3	6.5	5.1	35.1
1996	2632.5	871.7	141.7	214.3	256.1	55.7 <sup>6</sup>	8.6	6.3	7.1	27.4
1997	3864.1	900.1	52.5	206.6	241.7	73.8	12.1	2.1	7.2	12.2
1998	3692.4	969.9 <sup>5</sup>	0 <sup>4</sup>	188.6 <sup>3</sup>	235.2	37.8	11.9 <sup>5</sup>	0 <sup>4</sup>	3.2 <sup>3</sup>	11.4

Source: Annual Reports and Accounts Booker plc (1992-1998)

1 Operating profit before exceptionals; 2 Agribusiness in the UK and US; 3 Sold in October 1998; 4 Sold in May 1997; 5 Sold in June 1999; 6 Excluding Recheio (Portugal).

Throughout 1998 it became apparent that more fundamental problems were occurring in the wholesale division, compounded by declining performance in other divisions. Booker Wholesale operating profits fell from £73.8m to £37.8m (1997-1998 see Table 4); however, there was also a downturn in the operating profits of the US and UK agribusinesses during 1997 (Table 4). Agribusiness had tended to contribute around a fifth or more of Booker's operating profits (Table 1) but, by 1997, this had fallen to 11.4%. The Prepared Foods Division, which performed poorly from 1994, was divested in May 1997, followed by the Fish Division in October 1998, leaving three divisions, Wholesale, Agribusinesses and Foodservice (his last division was sold in June 1999 as successive management teams sought to continue to improve the group's focus and to target debt reduction as a key competitive strategy).

Subsequent comment, reflection and analysis in the company's Annual Reports, and also in the trade press, indicate more deeply seated problems than those highlighted by Booker's management in 1997-8 as 'one-off' factors. Booker's Second 1998 Interim Report (1999a) - dealing with the 28 weeks until the end of December and published due to a change in the accounting year - outlined the assessment of the new management team of Stuart Rose (Table 3). The Report blamed the previous management for the problems, "Both projects [Heartland and N&P] required a depth of management and experience beyond the teams charged with their implementation and integration which led to increasing costs plus problems with poor availability of products which in turn led to loss of customers" (Booker plc, 1999a p.2). The expected cost of Project Heartland was £95m leading to annualised benefits of £15m, but by 1999 the actual cost had risen to £150m and had eroded profits in 1998 by £3m. Later, the 1998-9 Annual Report (Booker plc, 1999b) noted that, between 1996 and 1998, distribution costs actually rose, from £40m to £80m. For C&C, the downturn in profitability is reflected in a fall in operating profit, from £73.9m (1997) to £34.5m for the 65 weeks from January 1998 to March 1999, the start of Booker's new accounting year. Of this £39.4m decline, £30m was due entirely to the "under-performing of Project Heartland" (Booker plc, 1999b). One of the key problems with Project Heartland was the delay in implementation. The expected realisation of full operational benefits was originally the end of 1999, but this was put back to the end of 2000. Problems included lower-than-expected stock reductions, and also delays in securing new contracts with suppliers for in-bound freight to the RDCs (Booker plc, 1998). Thus efficiency gains were both lower, and slower, than anticipated. As Grant (2002 p.370) notes, "whilst cost efficiency will not necessarily provide for sustainable competitive advantage, cost inefficiency can be fatal."

A report in The Observer (1999 p.6) highlights one of the main reasons for the over-optimism on the short to medium-term benefits arising from Project Heartland. As Figure 2 shows, Project Heartland involved a re-routing of flows to the new RDCs, from the suppliers who had previously supplied Booker's C&C depots and wholesale branches directly. Intrinsically, any cost reductions had to be generated by the strategic operational roles of the RDCs, and also through their operational relationships with the depots and branches. Simply replacing a direct link between supplier and branch/depot with a more circuitous link involving an RDC, places significant emphasis on the RDC fulfilling the intended role as stock holder, stock availability manager, and bulk purchaser. Even

without the acquisition of N&P, progress on bringing the efficiency benefits of Project Heartland was proceeding more slowly than expected, and, in terms of expenditure, more costly. In effect, it was the suppliers who gained most of the operational efficiencies generated by the new distribution system, as the destination for their products was now a limited number of concentrated RDCs, rather than the more numerous and dispersed Booker depots and branches.

The acquisition of N&P imposed significant operational strains on the company from 1996 to 2001, compounding the introduction and implementation of Project Heartland. Additional capacity had to be immediately added to the RDCs (50,000 sq ft to each), whilst some N&P depots had to be phased out. Importantly, the technical and logistical integration of N&P's depots into the wider Booker network - then being developed through Project Heartland - would be paramount to the enhancement of the wholesale division's strategic capability. The time-frame was set out initially for 1999 but, as indicated above, was subsequently delayed by complexities of integration. The financial constraints were tight, as it was the acquisition that significantly raised gearing and placed a critical emphasis on net cash flow. Optimistic projections of revenues and cost savings were based on the smooth functioning of operational plans (including the completion, on time, of the construction of the RDCs), and, in market terms, on at least a stable customer base and revenues. Reflecting on this, The Grocer (1998b p.15) observed, "It seems naïve of Booker to imagine complex logistical planning could be implemented seamlessly - all the more so when the N&P acquisition had to be integrated with the existing Project Heartland programme."

### **The new management (1998): turnaround strategies**

The acquisition of N&P was a significant, added burden in terms of operational integration and problems regarding the group's debt. As was noted previously, in mature and saturated sectors, one of the key strategic choices is to prune costs, often severely. Grant (2002) states that there are three cost drivers in such sectors. Namely, economies of scale, the reduction of overheads, and the acquisition of low-cost inputs. Booker was pursuing the first of these through its logistics and distribution systems, and through the expanded (Booker plus N&P) market which such systems were serving. The second cost driver - the attack on overheads - was largely pursued through the rationalisation of management (for example, there was a reduction in layers of buyers from 7 to 4), and of head office (loss of over 200 jobs), consequent on the integration of N&P. Finally, the acquisition of low-cost inputs, in Booker's case, translates into lower-priced supplies from food, drink, household goods and tobacco suppliers. With potentially greater buying power arising from its greater size, it was expected that Booker would be able to capture cost reductions, including some of the cost savings of the suppliers now delivering to the RDCs. However, scepticism in the trade prevailed on this issue (The Observer, 1999 p.6).

In the 5-C framework referred to earlier (Cameron, Sutton & Whetton, 1998), turnaround strategies are seen as one of the possible *consequences* of action taken by existing or new managements. Hambrick and Shecter (1983) researching successful 'turnaround strategies' for firms, conclude - similarly to Grant (2002) - that cost surgery is critical. In addition, their results support the importance of selective product and market pruning, namely a refocusing on segments which are most profitable or where the firm has a distinctive strength. This necessarily involves divestment of non-core strategic business units, a strategy that the Booker group pursued through the divestment of foodservice and food-producing operations (Table 4). Thus, in terms of corrective strategy, it can be argued that Booker's post-1998 management (Table 3) was acting consistently with conventional wisdom. Although the management at Iceland Plc, which acquired Booker in 2000, criticised previous Booker management for a lack of focus on product development and over-emphasis on costs, it can legitimately be argued that, in the short to medium-term, Booker's (new) management had little option given the critical nature of the financial position.

## Diagnosis

R-BT and C-BT, as discussed above, are normally used to analyse the 'success' of firms. In this research, it has been applied to identify key areas that Booker sought to develop, and to assess the relative roles, strengths and weaknesses of resources and competencies. As shown, Booker sought to gain competitive advantage principally through leveraging the strategic (process) capabilities associated with improvements in the supply chain. Emphasis was on customer relations, on more frequent, timely deliveries of products, and on generally improved stock availability. However, the analysis shows that when significant operational problems arose with Booker's attempted enhancement of process capabilities - problems consequent on the complexity of integrating N&P and also on the low growth of its markets - the strategic consequences were highly detrimental to the firm. Its logistics and distribution system, operating nationwide and with new, state-of-the-art RDCs, was its key competence, offering Booker the important cornerstone - as explained by R-BT /C-BT - of 'imperfect imitability' by other firms in the sector. When this failed to deliver the expected and necessary results within the required time-frame, decline was inevitable. Neither Booker's resource/asset base (Figure 1) - including its sunk costs - or its markets, were sufficiently compensatory.

Other resources were either displaced in their development by the company's emphasis on process capabilities, or required long lead times to produce fundamental value and competitive advantage. For example, product development is frequently perceived by C-BT as a key strand (Figure 1) of competitive advantage attainability. Iceland Plc's first post-acquisition Annual Report (Iceland plc, 2001) reflects on Booker's failure to pursue product development, which it notes, was displaced by the emphasis on costs. However, given Booker's financial plight after 1997, and its need for effective and rapid turnaround strategies, such new product displacement was inevitable, as lead times are often long, and the failure rate of new products high. Other resources, such as brands, were also slow to build across the combined group. Booker suffered from a duplication of brands at retail and trade levels. It also inherited brands from N&P, some of which - like 'Happy Shopper' - it rolled out across the group. Brand rationalisation was seen as imperative. However, brand building, especially of own brands, takes time, particularly where dilution has previously occurred through duplication and overlap. For Booker, 'time' was a scarce resource.

Organisational culture can also be a resource (Figure 1). But OS frameworks suggest that culture, notably 'management culture', can have a negative, as well as a positive impact on the quest for competitive advantage. As indicated previously, OS has tended to be used to assess 'failure'. In the 5-C framework, a range of causes have been presented, some of which combine internal and external factors. As Grant (2002) notes, low growth exposes strategic errors and Booker appears to have been no exception to this. The acquisition of N&P had strong overtones of hasty opportunism in the face of rival predators for N&P. Timing of the takeover was at best, unfortunate, and at worst, lacked vision, particularly in terms of operational implications and complexities. The Grocer (1998b) spoke of the naivety of the pre-1998 management. The replacement management (1998) referred to their predecessors as 'lacking depth and experience' to implement both projects (Booker plc, 1999a) though such deflective blame is not uncommon by successor management seeking to turn the company around.

For at least five years prior to the appointment of new management in 1998, the culture of the company had been geared to supporting shareholder value. The cash cow nature of Booker was only likely to persist (in the face of low earnings cover), if the stable but low-growth C&C market was not undermined by a rising cost base. In such markets, as Grant (2002) indicates, consolidation is a notable feature, and frequently occurs through the acquisition of 'cheap' assets. However, N&P was not cheap in terms of the impact on Booker's gearing, and it had the added problem of having to be shoe-horned into Project Heartland. These two projects represented significant strategic activity for Booker in the mid-1990s. As Argenti (1976) has argued, there is a tendency for firms to be too active or too passive prior to decline. In the case of Booker in 1995-6, the company can be considered to fall into the former category, particularly with regard to the N&P acquisition.

		VISION	
		GOOD	POOR
IMPLEMENTATION	GOOD	Effective strategic management	Opportunist and likely to under perform
	POOR	Wasted opportunity	Ill-conceived mistake

Source: Thompson, J. (2001) p. 507

Figure 4. Strategy creation and implementation

Argenti (1976) also argues that impulsive decisions that extend the firm's assets, as with the N&P takeover, also play a key role in decline. Whilst it can be argued that Booker had made overtures to N&P earlier - and thus was not impulsive in terms of objective - the appearance of Makro as a suitor for N&P prompted Booker into renewed action and at a price that assured victory. It raises the question of the efficacy of Booker's vision (Figure 4). 'Good vision' corresponds to effective strategic management, whereas 'poor vision' is associated with 'opportunism and the likelihood to under-perform'. The acquisition of N&P tends to fall into this latter category. When correlated with implementation, which in Booker's case has been seen to be poor, the conclusion is that N&P was an ill-conceived mistake. Whilst this acquisition added to Booker's dominance in the sector, subsequent sales growth was slow to develop, particularly within the necessary time-frame. Indeed, Iceland Plc's first post-acquisition Annual Report (Iceland plc, 2001 p.6) acknowledges that C&C is generally regarded as a declining sector. The Report notes that the 1% p.a. rate of growth of wholesale is due to delivered sales to customers, notably catering. The acquisition of N&P, principally a C&C operator, did not add significantly to growth of delivered wholesale.

Project Heartland, as discussed above, was embarked upon to improve efficiency and customer service. Its implementation has been seen to be poor, particularly within the required time-frame. However, its longer-term delivery of these benefits and returns did have a basis, as is acknowledged by Iceland's subsequent comment in annual reports (Iceland plc, 2001). Indeed, it is this particular strategic capability - logistics and distribution - which attracted Iceland to Booker, resulting in the 2000 takeover. The development of Iceland's e-business systems, business-to-business and business-to-consumer, through the RDCs and depots was a key attraction. Unfortunately for Booker, it was the operational complications of N&P, and the debt burden to acquire it, which added to the delays and cost of Project Heartland. Thus, Project Heartland can be seen as a wasted opportunity for Booker, undermined by the ill-conceived mistake of the N&P acquisition. Whilst consolidation of the sector was strategically attractive to Booker, the timing and cost of acquiring N&P was a severe, and an eventually disastrous, burden.

The analysis shows that internal resource, capability and management factors played a major role in the decline and failure of Booker. In addition, the external factors of low growth and market attrition acted as major constraints, and narrowed the margin of error with regard to both the design, and implementation, of such major, end-on strategies.

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