Consumer goods

Cleaning up

The maker of Harpic and Dettol seems to get dazzling results every time. How?

RECKITT BENCKISER is not a household name, but as one of the world's biggest makers of household cleaning-products it has become the star of a staid industry. Since the merger in December 1999 of Benckiser, a German company incorporated in the Netherlands, and Britain's Reckitt & Colman, the outfit's sales have increased by an average of 7% a year, and its share price has risen by 356% compared with a 13% decline in the FTSE 100 index. Bart Becht, who was at the helm of Benckiser before taking over as chief executive of the merged company, is one of the best-paid bosses in Britain.

As he announced results for 2007 on February 13th, analysts and investors expected impressive growth in sales and profits, and a preview of new products with peculiar names. They were not disappointed. Sales were up 7% to £5.3 billion ($10.4 billion) and profits up 15% to £905m. Mr Becht announced plans for a 20% hike in dividends and a £30om share buyback. And the firm will soon launch Vanish Oxi-Action Magnet, a stain remover in a sachet, and an improved version of Cillit Bang Multi Power Lime & Grime and Degreaser.

Mr Becht attributes his firm's success to its innovative and entrepreneurial culture. Up to 40% of Reckitt's sales come from products that are less than three years old. Innovation is not driven by high expenditure on research and development, but by the company's insights into consumer habits. Controversy is encouraged. The company's multinational staff come from very different backgrounds, which "creates tension in the system", says Mr Becht. Reckitt has good brands and good market exposure, but other firms do too—so it is set apart by its lack of bureaucracy and ability to reward performance, says Julian Hardwick, a consumer-goods analyst at ABN AMRO, an investment bank.

For 2008 Mr Becht has set a target of 7% sales growth and 10% profit growth, which he hopes to meet by continuing his firm's push into consumer health care. He thinks that consumer-goods firms are far better than drugs companies at retailing, and are therefore well suited to selling over-the-counter (OTC) drugs in supermarkets and chemists. In 2005 Reckitt bought the OTC drugs unit of Boots, a British chemist, and in January it finalised its $2.3 billion takeover of Adams Respiratory Therapeutics, an American maker of OTC drugs.

The Adams takeover was expensive, Mr Becht admits, but he is confident that he will be able to double its sales and profits by 2012. Andrew Wood, a consumer-goods analyst at Sanford Bernstein, an investment-research company in New York, says Reckitt's management team did a good job with the integration of Boots Healthcare in the past couple of years and can do the same with Adams.

Yet in October Mr Wood downgraded his rating on the company because of worries about high commodity prices, a slowdown in European markets and the weak dollar—which helps America's Procter & Gamble, the leading consumer-goods company, as it pushes into foreign markets in search of growth, given a flat market for household-care products at home. Mr Wood also says he is concerned that Reckitt will cut some advertising.

Reckitt's spending on marketing is equivalent to a hefty 12% of sales, but Mr Becht says he does not plan any cuts. He admits that rising commodity prices will result in higher prices for consumers in some cases, though he does not think this will affect sales, since his firm's products are necessities and represent a small fraction of total household spending. But given his ambitious growth targets, will he be able to maintain his spotless record? ■

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