



This case was written by Gayle Sparkes and Dr Julie Verity. Data was gathered from primary sources and thanks go to members of the DMGT board and Hobsons personnel for their time and assistance in its preparation. It is designed and written for learning purposes, as a basis for class discussion, rather than to illustrate either good or bad management practice.

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Hobsons

A tale of two failures, several start-ups and one success

It is 1999. A new millennium has almost arrived and the internet has been creeping-up on businesses everywhere, steadily, for the past decade. No business is immune from the disruptive technology, some are more susceptible than others. Many traditional businesses are slow to respond – largely unknowing about how to react to the changes that are around and about to happen.

Chris Letcher, MD of Hobsons was one such leader. At the helm of Hobsons for nearly five years, Letcher had seen sales fall and profits shrink over recent months. The *Graduate Studies Guide*, for example, once seen as the definitive student guide for post-graduate courses, with a specialist circulation of around 800 and annual revenues of £2million plus £1.7million gross profit, dwindled when course information was published on the Internet. Sales targets were being missed with increasing regularity – something that was unheard of since he had accepted the promotion to head-up Hobsons.

Chris scanned the sales floor through the glass-walls of his office. The buzz that the team usually generated from the daily routines was dulled. The culture he had nurtured, of selling hard, winning the sale and enjoying the accountability and transparency of achieving target, was difficult to sustain in this climate and morale was low. He knew there was no better sales team out there, but he also knew that however good they were, they could not counter the ever growing imperative of the internet. He wondered what to do from here.

Hobsons Press was founded in 1974 by an entrepreneur called Adrian Bridgewater. First set-up as a charity based in Cambridge in the UK, Bridgewater's purpose was to bridge the university and working lives of young people [the logo he designed for the company was styled on a local Cambridge bridge]. He did this by publishing career development information and career-related learning materials, such as: Career Guides for Graduates and Post-Graduate Course Directories.

By 1985, the business had grown enough to support a small sales office in London and in 1988 Bridgewater took Hobsons public by launching on the Stock Market. With the funds this generated, Bridgewater acquired several small businesses, moving unsuccessfully away from the core product.

In 1992, the Daily Mail and General Trust plc [DMGT] bought Hobsons. A large, multinational Group, the DMGT was best known for its UK newspaper – The Daily Mail. Newspapers had been at the heart of this business throughout its 100 year history, a history that was also dominated by the Rothermere family. Lord Rothermere took control of the Trust in 1922 and family descendants retained control ever since.

DMGT's acquisition of Hobsons, was part of a diversification strategy which started around the beginning of the Nineties. The Trust diversified in many directions at this time, when newspapers and publishing in general was profitable and, cash was available within the Group to explore unrelated businesses. Acquisitions were not restricted to the UK. In the USA, for example, DMGT made an investment in a company called Whittle Communications. This was a 'place-based media' company founded by a Knoxville student, Chris Whittle. It relied on revenues generated from poster-sites in prime locations on university and college campuses and sold advertising to corporations looking to recruit students. Whittle was an entrepreneur and started other ventures. He was interested in a start-up company called CollegeView, but decided against investing. DMGT, however, decided to buy CollegeView.

Once assimilated into the DMGT group, Hobsons was refocused on its original market space of young people between education and careers and the core activity of publishing. The peripheral businesses that Bridgewater had acquired were sold. For the first three years, the company was run by a senior executive of DMGT. Much later, looking back, he recalled that one of his first initiatives he took at Hobsons was to encourage the management team to buy and use a computer!

Chris Letcher was promoted by DMGT directors to the position of Hobsons MD in 1995. This was a promotion from within, as was typical at the Trust. Letcher had worked for Hobsons since 1986, joining the sales team and working in New Business Development. He was ambitious and took on more and more responsibility as opportunities arose. He learnt fast and well, building skills outside of his primary capability as a salesman. Among colleagues he was viewed as 'cheeky' with a flair for building relationships across the business and at all levels.

Letcher had strong ideas about how to run a team. He instilled a sense of independence and accountability and shared his passion for selling, closing deals and achieving targets. The selling formula he role-modeled was one of getting close to the customer, having empathy with customers' challenges, markets, pressures and needs. Before Letcher took over as MD, Hobsons was known within DMGT as one which lacked financial control and budgeting rigour, but this changed with the new focus on accountability and performance. Over the first four years of Letchers' time as MD, Hobsons became known as an organisation of aggressive, competitive, and creative sellers. An external management consultant who worked with Hobsons at the time, described the monthly team meetings as "feral"!

Selling became even more valuable to Hobsons during this decade when university education in the UK was changing significantly. Due to changes in Government policy, university places increased as more young people were encouraged to study and, for the first time in the UK, students had to pay a contribution toward their tuition fees. This nudged the university sector away from its traditional roots and toward a commercial, customer/provider model. In response, Hobsons changed the logo (see below) and capitalised on their dominant position in a market space that had few competitors, growing its product portfolio and changing the content balance toward advertising and away from information.



Hobsons' clients were increasingly dissatisfied and frustrated by their lack of alternatives. The aggressive selling approach took advantage of the poor commercial experience among university administration departments and Hobsons' reputation was becoming one of 'floggers' of advertising space.

And so, before the internet started to erode the success of the Hobsons' sales machine, it was as if Chris Letcher and his team 'walked on water', growing revenues and profits year-on-year toward the new millennium.

Meanwhile, CollegeView, the US start-up DMGT bought in 1994, was not doing well. So far, and in-line with the Trust's philosophy at the time, directors at DMGT treated CollegeView as they did all their companies, as one of the federation, leaving the local management largely to their own devices.

CollegeView was focused on developing a CD-Rom search directory of all colleges in the US. It was designed as an aid for high school students making higher education choices. At the time, the company had two main revenue streams i) sales of the CD ROMs to schools and ii) selling advertising space on the CD ROM to universities. In 1995, CollegeView launched collegeview.com, one of the first college searches to go on-line.

Since the DMGT purchase, CollegeView remained in the red, making annual losses that in 1999 amounted to around \$4m. It was increasingly apparent to DMGT that the CollegeView business was going nowhere. The business was poorly managed, had a relaxed attitude to costs and no sense of urgency to deliver. It was decision time for DMGT, should they wind down CollegeView and write-off their investment? DMGT were reluctant to do this for several reasons: they were interested in the education sector where they already had success with Hobsons; they were keen on B2B businesses where they considered they had some knowledge to add; and, they took a long-term view of business (reflecting the relationship the Rothermere family had with the company). Was there a chance CollegeView could be turned around?

The DMGT board had in the back of their mind that Hobsons and CollegeView were in the same market space – bridging students, universities, schools and future employers – but they considered the two companies to be miles apart in their cultures, competences and needs. They reasoned that the hard-edged sales focus of Hobsons was not what an immature company needed at this early stage of developing a new media platform. On the other hand, education was becoming a global industry. Students were searching further from home to study and universities needed to widen their horizons.

Despite the doubts the Board had about the match between the two companies, in 1999 they decided to put it to Letcher to visit CollegeView and take a view about the possibilities he could see in the business. The 'deal' they made with Letcher was to take control of it for a year with the aim of turning it around – while keeping his role at Hobsons. After a year, progress would be reviewed and both Letcher and DMGT would decide where to from here.

The complete transparency between Letcher and DMGT and the trust they had built through working together over the past 4 years at Hobsons reassured both parties. Also, Letcher could see that Hobsons did not have a future in the face of the internet, and had already acknowledged to himself that without digital products, Hobsons was unlikely to be viable in five years time. Even with this knowledge, however, he didn't have any immediate digital solutions, his creativity existed within the bounds of the market he knew. And so, Letcher agreed and booked his ticket for Cincinnati.

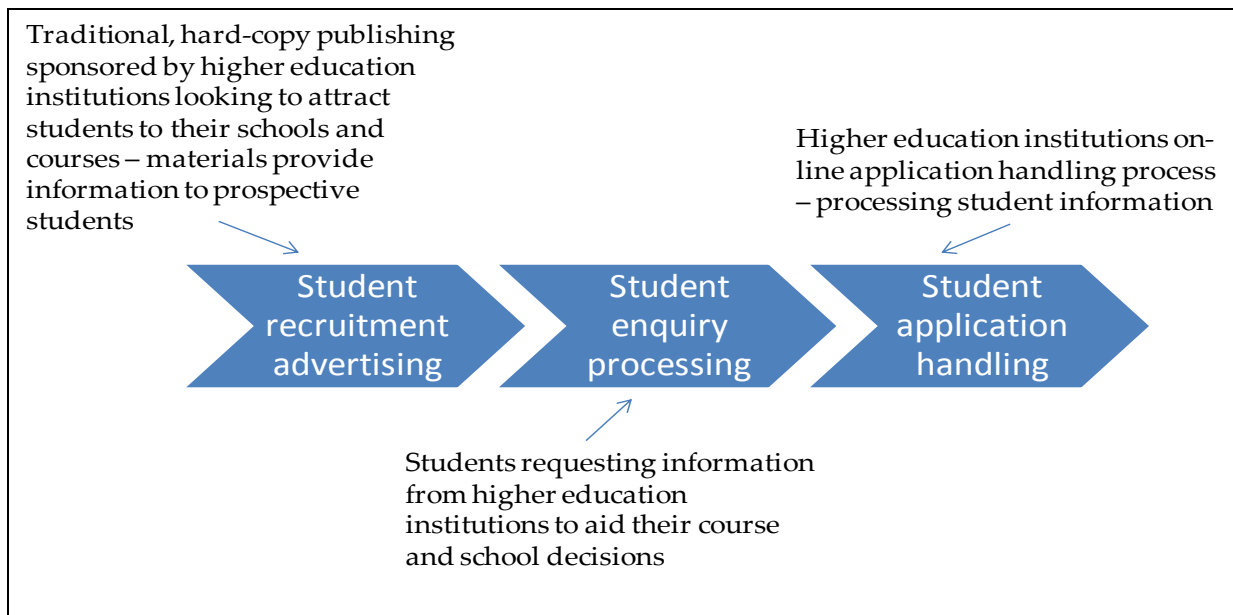
On arrival, Letcher and the colleague he took with him from Hobsons, quickly appreciated the differences between the US and UK businesses:

1. the size of the US market was huge – almost forty times the potential of the UK – with 4,500 higher education colleges and universities. Here was a rich prize if the right offer could be found
2. it was easy to see that CollegeView was not managed well and that a much 'tighter ship' could be run, making easy and quick savings in costs and improvements to the business
3. the relationship CollegeView staff formed with their clients was very different. In stark contrast to Hobsons, the culture in Cincinnati was focused on deep and loyal, long-term working relationships with customers, more of a two-way relationship where customers were involved in the product and its development. There were about 150 clients that were valued as closely as 'family' by CollegeView personnel.
4. and, the mindset at CollegeView was not rooted in 'publishing'. The company was firmly in the digital world. It was not performing well there yet, but by comparison, the UK mindset was still trapped in its past practices of hard copy, paper and print.

Immersing themselves in the CollegeView business, Letcher and his colleague visited college clients. They became acutely sensitive to the changes the internet was having on the business when they noticed piles of paper stacked near administrators' desks everywhere they went. Curious about seeing the same stacks of paper in client offices, Letcher asked questions. He discovered that newly launched college websites were generating huge electronic responses from prospective students that staff had no system to cope with. Letcher said:

Using the internet wasn't a mystery to the average 16 year-old student, but to the average 45-year-old admission officer it was a challenge. Staff were printing off emails from future students and creating piles of paper around their desks – or throwing them away!

Reasoning these observations out in his mind and with the clarity gained from coming from a completely different environment, Letcher could see the opportunity. First, he needed to broaden his idea of the market away from the limited potential of placing advertising in publications aimed at graduates, toward the whole process of students leaving school, choosing a place of study, enrolling for a course and, the complementary process of universities having to attract, recruit and administer students through their entry into tertiary education (see value chain below).



Second, the solution was a technology one and CollegeView had made early moves into the technology space. Third, universities knew they had a problem and also knew they had no solution, but some of them had excellent relationships with CollegeView who were a trusted partner. And fourth, CollegeView had an established reputation that was much broader than the clients they currently served.

Letcher had an idea of where to take the US business, but he didn't have a product within CollegeView and given the company had no cash and were losing money, he thought it highly unlikely that DMGT would invest in developing the solution he needed. His back-of-the-envelope calculation of the sort of money the software development would involve was \$2m!

With a mind primed with a possible solution, Letcher continued to talk with US clients and customers in the enlarged market space he was now interested in. He picked-up stories about a software package that had the functionality he was looking for – called Enrolment Management Technology (EMT), developed by California Polytechnic (Cal Poly) staff. EMT was a customer relations management system specifically designed for universities, allowing them to market to interested students and manage all subsequent communications, from registering their interest, through the applications process and enrollment. As it happened, Cal Poly was a client of CollegeView (!)

Letcher needed this product, but he had no means to purchase it outright. He went to talk with the small team that was developing the software. Given the importance of this meeting to CollegeView's future, it might have been an advantage that Letcher was a good salesman and a creative thinker, but in the end, it was relatively easy to seal a deal. While the Cal Poly team was confident of their product and their ability to develop an industry-leading system, they had never done it before and lacked the commercial experience to take it to market. Also, within education (especially at this time) the mindset was far less about financial gain and more about the opportunity to develop research papers and showcase innovation and capabilities.

So, Letcher and Cal Poly agreed to put their different skills together. Cal Poly would develop a commercial version of EMT, allow CollegeView sole distribution rights and, in return, receive a royalty-based commission on future revenues. This required minimal up-front cash investment from CollegeView and offered both parties the potential of high reward. Similarly, the deal for both provided no guarantees of success (or money) if either party could not deliver.

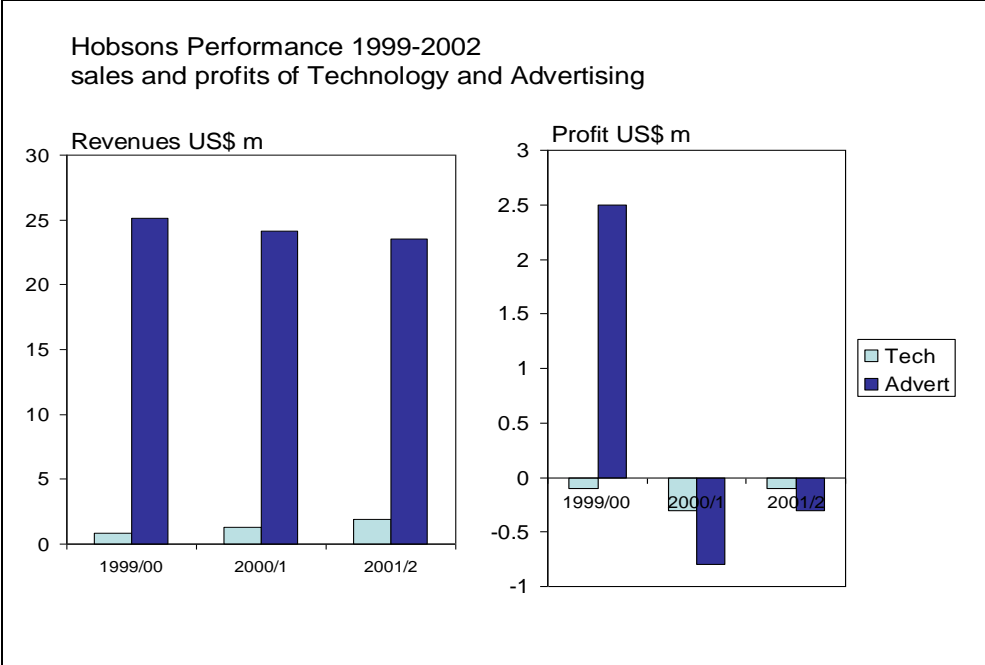
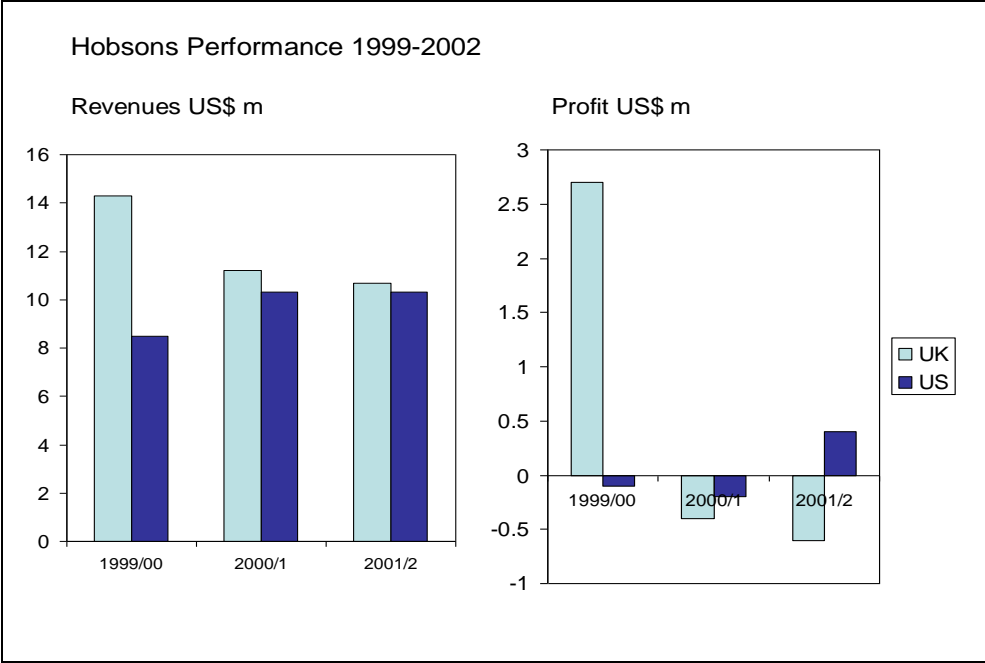
During this first year, the CollegeView name was dropped in favour of Hobsons. A senior manager from the UK was moved to Cincinnati for nine months into the MD position, with the specific task of introducing financial and cost discipline. When this was complete, she was replaced with a second secondee. This second MD was an exemplar of the positive aspects of the Hobsons UK culture¹. He had the sales skills and performance-orientated approach needed to take the EMT product to market. Letcher also introduced print-based publishing to the US operations, transferring the capabilities and knowledge of Hobsons UK and providing an early revenue stream for the US business.

DMGT allowed Letcher significant headroom to run the newly merged Hobsons, allowing his entrepreneurial drive to develop. At first, Letcher matched the capabilities of Hobsons and CollegeView – bringing the best of both together. He introduced urgency into the US business, motivated and inspired staff and started to develop new partnerships based on the trust that the old CollegeView brand had among clients in the US and by spotting opportunities.

On the strength of the new prospects for both businesses, DMGT let Letcher go into his second year as the CEO of Hobsons.

By 2002, two years after first visiting the US, annual sales of EMT grew to \$2million. While continued success appeared likely, this had been an intense period of learning how to integrate operations and use limited skills to maximum effect. There were still gaps in Hobsons capabilities, but both companies were surviving and for the first time the old CollegeView delivered a positive return to DMGT – eight years after acquisition.

¹ The culture Letcher instilled was described by others as: team-based and sociable [time out of work spent together]; transparent [open communication about the business, targets, expectations and performance]; celebratory of success [award ceremonies and prizes for achieving targets]; empowered [sales people never turned the sale down and had a lot of freedom to offer new sales ideas]; competitive but fun; strong internal relationships both across Hobsons and between Hobsons and DMGT



It was now that DMGT offered Letcher a different deal. The DMGT board wanted Letcher to focus on building Hobsons into a sustainable business that would deliver future value. It was no longer about cleaning-up the business and surviving. Instead DMGT wanted Letcher to think longer term and identify how Hobsons could grow. DMGT offered Letcher a fixed term, six year contract (to 2008) with an incentive package that included a share of the growth realised over the same period.

With six years to look ahead and the past two years of significant learning and personal growth to reflect-on, Letcher took some decisions. One was to focus on technology. Advertising revenues were susceptible to cuts during recessionary periods (as happened at the turn of the millennium), IT and administration budgets were far less sensitive. Second, was to grow by acquisition.

The education industry was a well-defined, relatively small market which enabled Hobsons to build knowledge of competitors and alternative products. Hobsons's people would frequently chat to competitors at conference events and get to know them better. This informal "due diligence" process was very important to Letcher, providing an initial screen for potential partners or acquisition targets. During this exploratory probing Letcher was testing whether or not the target would fit-with and adapt-to the Hobsons' culture. If these early criteria were met, detailed proposition papers about potential acquisitions were presented to DMGT's Finance Committee for examination and review.

Within the Hobsons network, was a team of people running a small company called, Academic Engine. Letcher thought this company's product had potential and fit well with Hobsons' client needs but, more importantly, he liked the people and the company ethos and culture. This became the first acquisitions he made over the next four years². His recipe was: to spot small companies like Academic Engine and convince their owners that they could be more successful within Hobsons than on their own. Typically, these companies were run by entrepreneurs, had a genuine innovation which was generating revenues but had not yet turned a profit and were not burdened by bureaucracy. Negotiations with prospect companies proved easier as the relationship with Cal Poly continued to flourish and the Hobsons brand grew in strength alongside growth in sales.

Once all the hurdles to acquisition were cleared, target companies were offered 'earn-out'³ contracts. DMGT favoured these deals. They enabled the owners a continued stake in the business and incentives for them to grow revenues over the term of the contract. DMGT and Letcher considered earn-outs to be an integral part of Hobson's success story.

It was 2008 and Letcher's contract was up, he left in the same year.

Hobsons' sales in the US and UK totaled \$55m, double that of 2002. Profits were up to \$9.5m from a loss six years earlier (see below). In eight years Hobsons had remained true to its founding purpose, culture and values; had survived disruptive change by finding and meeting new needs among existing customers; had improved profits by a factor of five and, had a future. Over the same period, revenue generation shifted from selling advertising space to selling technology solutions; internal capabilities were shared, re-aligned to new uses, expanded to

² Other start-ups were: Naviance, Apply Yourself, The strategy describing which areas of the market Hobsons should be targeting for growth was created by a consultant, hired in 2005, to advise Letcher on where-to next. It is acknowledged within DMGT that the people they recruit are primarily active doers rather than analysts, strategists or reflective thinkers.

³ In an 'earn out' the target company valuation is agreed between vendor and acquirer, but whilst the acquiring company take ownership they only pay a % of the value up-front. The remaining % is structured as an earn-out and paid to the original owners [who are commonly still running the target company] over a specified contract period as growth targets are achieved.

include the ability to find, acquire and integrate small companies and their products into the portfolio and, Hobsons was no longer a UK brand with local aspirations. Hobsons UK still had a future. It was a smaller one, but in the minds of DMGT directors, it would become an information services business focusing on Europe, rather than the parochial proprietary content business of the past.

In 2002, Greenhill's investment bank valued the company at \$15-20m. In 2008, this was revised to \$225m based on the future potential of the company.

