McMillan, E. and Carlisle, Y. (2007), 'Strategy as Order Emerging from Chaos: A Public Sector Experience', *Long Range Planning*, vol. 40, no. 6, pp. 574–593.

Shows how complexity theory was used to generate a major change at The Open University.

Mumford, E. (2006), 'The story of socio-technical design: reflections on its successes, failures and potential', *Information Systems Journal*, vol. 16, no. 4, pp. 317–342.

A review of socio-technical design from one of its leading practitioners.

Smith, J.H. (1998), 'The Enduring Legacy of Elton Mayo', *Human Relations*, vol. 51, no. 3, pp. 221–249.

Walton, E.J. (2005), 'The Persistence of Bureaucracy: A Meta-analysis of Weber's Model of Bureaucratic Control', *Organization Studies*, vol. 26, no. 4, pp. 569–600.

Two papers which show the continued application in successful business of early theories of management.

Weblinks

These websites have appeared in the chapter:

www.newlanark.org.uk
www.imiplc.com
www.pret.com
www.tcl.com
www.inamo-restaurant.com

Visit two of the business sites in the list, or those of other organisations in which you are interested, and navigate to the pages dealing with recent news, press or investor relations.

- What are the main issues which the organisation appears to be facing?
- Compare and contrast the issues you identify on the two sites.
- What challenges may they imply for those working in, and managing, these organisations?

For video case studies, audio summaries, flashcards, exercises and annotated weblinks related to this chapter, visit **www.pearsoned.co.uk/mymanagementlab**

PART 1 CASE

INNOCENT DRINKS

www.innocent.com

Richard Reed, Jon Wright and Adam Balon founded innocent Drinks in 1998. They had known each other since they met during their first week at Cambridge University in 1991 where they became instant friends. After graduating, Reed worked in advertising, while Balon and Wright worked for (different) firms of management consultants. They also organised events in London (which they had already done while in Cambridge) – such as a music festival called Jazz on the Green in 1997 and 1998. Although following different careers, they often joked about starting a company together – and during a winter sports trip in March 1998 the topic came up again:

> **We'd had this conversation so many times. One of us said: 'We either have to stop talking about this, or get on with it, otherwise we'll drive ourselves nuts.' So on that trip we made a simple commitment to each other: by the end of the weekend either we would come up with a business idea that we were excited by, or we would drop the topic for good. (Germain and Reed, 2009)**

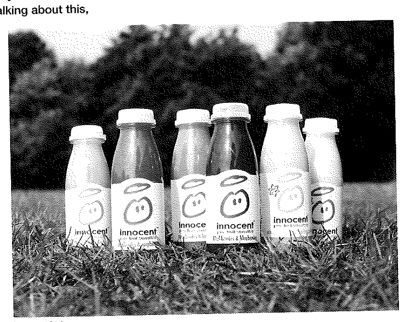
They considered several ideas, talking about their lifestyles in London – working long hours followed by late nights. They wanted to be healthy but didn't have much time. What about healthier food or drinks? They realised a lot of people were in the same position; so that became the problem they wanted to solve – to make it easy for people to do themselves some good. Having identified the need, they thought of 'smoothies' – natural fruit crushed and put into bottles that people could buy on their way to work.

They had hit on the idea which led to the creation of one of the UK's most successful entrepreneurial companies

The juice and smoothie market

Smoothies are blends of fruit that include the fruit's pulp and sometimes contain dairy products such as yogurt. They tend to be thicker and fresher than ordinary juice. While some smoothies are made on demand at a juice bar, this was not the market for which Innocent aimed. It focused on the market for pre-packaged smoothies, which has a premium and a standard segment. Premium smoothies contain no water or added sugar and command a higher price than the standard product.

Most smoothies were sold though three channels – supermarkets, cafés and sandwich shops, and impulse retail (convenience stores and petrol stations).



Innocent Ltd

Early decisions at Innocent

They saw the fact that other brands were already available in 1998 (principally PJ) as a positive sign, showing that a market existed – but the challenge was to make a better alternative. They decided to focus on offering only pure, fresh fruit, with nothing added or taken away.

They also decided how to divide the roles needed to build the business. Reed, with advertising experience, took care of marketing. Balon, who had recent experience of selling Virgin Cola, took on sales, while Wright (who had studied manufacturing engineering at Cambridge) was in charge of operations. They agreed that rather than have one chief executive all three would jointly lead the company.

They used their August 1998 Jazz on the Green festival to do some market research. They prepared a quantity of smoothies using borrowed equipment and set up a stall. In a move that has become part of the company's distinctive image they put a sign above two bins for empty bottles (marked Yes and No) asking the question: 'Should we give up our day jobs to make these smoothies?' By the end of the weekend they had sold all their smoothies, and the 'Yes' bin was full. They were still nervous about giving up good jobs, so agreed to toss a coin – 'heads we go back to work'. They each called tails, and tossed the same coin three times – each time it came up tails. They took that as a sign to stop dithering, and resigned their jobs the next day (Germain and Reed, 2009, p. 29).

A vital decision was price. Their main competitor (PJ) sold smoothies made with concentrate. Innocent planned to make a higher-quality product in that it would be fresher and more natural. This made it more expensive, and the founders doubted if customers would pay the premium required when compared with the cost of a 330ml PJ bottle. The solution came when a designer suggested a 250 ml bottle – risky, but marking Innocent as different from the established brand.

Another issue was whether to build their own juice factory, or work with someone else's. At first they had assumed they would have to build their own factory, but soon realised that it would be smarter to work with a manufacturing partner:

- their own factory would cost millions of pounds to establish and maintain;
- they had no experience of manufacturing;
- it would distract them from the core tasks of growing the business and building the brand; and
- it would make them less flexible – for example, a decision to change from bottles to cartons would be harder to implement in their own factory than with their suppliers.

Although there were no smoothie manufacturers in Britain with the facilities to make the fresh smoothies the team wanted, they came across a small supplier who was keen to diversify away from his current major customers. He also got on well with the Innocent team, and agreed to work for them. Partnering with other manufacturers has enabled the company to attain a rapid increase in sales without needing a large amount of capital. They believe that if they had tried to build their own squeezing and bottling sites, the company would not be the size it is today.

Finally, they had to raise capital to finance their growth. Conventional sources were reluctant to invest, but eventually Maurice Pinto, a private investor, put in £235,000 in return for a 20 per cent stake in the company. A critical matter in any business which wants to grow is that it continues to have access to the cash needed to finance expansion. Launching a new product or entering a new geographical market inevitably drains cash for a period, even if the venture is eventually profitable. They realised that continental Europe was a major potential market, but that in each country they would be entering into competition with large established companies, who could spend money on advertising and other tactics to defend their position.

So in September 2008 they launched a fund-raising process: Coca-Cola invested £30 million in return for 20 per cent of the shares in the company. This was controversial with a small number of customers, who believed that selling a share in the business ran counter to the values of the company. The company argues that the three founders remain in charge of the business, and that Coke have no decision-making powers over the way the business operates. The deal enabled the company to continue growing rapidly, and also gave it access, if required, to the larger company's distribution systems in Europe.

The Innocent brand

An old friend of the founders, Dan Germain, joined the business in the summer of 1999. They discussed packaging and came up with the idea of printing off-beat messages on the smoothie labels. These became one of the hallmarks of the Innocent brand, as the tone was off-beat, honest, irreverent and distinctly non-corporate. Germain began to take over as the unofficial voice of the brand – writing most of the labels, a newsletter and customer communications.

As the company grew it incorporated more traditional marketing approaches, such as bus and London Underground advertisements. One manager noted:

> **We have to balance Big Brand with Little Brand – the former being a row of cartons on a supermarket shelf, the latter being an Innocent fridge covered with grass in a café next door.**

An experienced marketing consultant commented:

> **They have a really astute understanding of what makes a young metropolitan audience tick. It's almost anti-marketing.**

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Company growth

The formula which the company had adopted was highly successful and sales grew rapidly. The original outside investor advised the founders that, despite this success, they should start thinking about opportunities for further growth. Two options were whether to expand in Europe, or to extend the brand to other products (such as ice cream) in the UK. They decided not to diversify, but to concentrate on geographic expansion of the core range. By 2009 they were operating in most European countries, and were planning to enter the others soon. The table summarises their growth.

	1999	2010
Number of employees	3	250
Number of different products on sale	3	36
Market share	0%	80%
Turnover	£0	over £100 million each year
Number of retailers	1 (on first day)	Over 10,000
Number of smoothies sold	20 (on first day)	Two million a week

Source: Innocent's website. Reproduced with permission from Innocent Ltd.

Since 1999, 11 competing brands have been launched and all have withdrawn – their original main competitor (PJ) was bought by PepsiCo. Several major companies have offered to buy Innocent, but all have been refused. The trio are 69committed to staying with the company for at least the next few years.

Despite the fun image, they run the business very firmly, and are not afraid to fire employees who do not pull their weight. Growth means that they have brought in professional managers from established companies to complement their skills.

Innocent ethics

They want to prove that business can be a force for good. They say:

> **We want to leave things a little better than we found them. Our strategy for doing so is simple – firstly, only ever make 100 per cent natural products that are 100 per cent good for people. Secondly, procure our ingredients ethically. Thirdly, use ecologically sound packaging materials. Fourth, reduce and offset our carbon emissions across our entire business system. Fifth, lead by example at Fruit Towers by doing good things. And, finally, give 10 per cent of our profits each year to charities in countries (such as Rainforest Alliance) where our fruit comes from.**

Where next?

Founded in 1999, the founders run one of the best-loved and fastest growing businesses in Britain. They have no chief executive, give 10 per cent of profits to charity, and have a constant dialogue with customers – 40,000 of who have signed up to receive a weekly email. The company is growing so fast that finding the right staff is one factor that is slowing them down. As one experienced management observer noted:

> **Consumers are looking for businesses to trust, and they want to reward that trustworthiness. Innocent is a model of the values all businesses should aspire to.**

Sources: Based on material from 'Innocent Drinks', a case prepared by William Sahlman (2004), Harvard Business School, Case No. 9-805-031; *Sunday Times*, 24 September 2006; Germain and Reed (2009); company website.

Part case questions

- How does the management approach of the Innocent founders differ from that of Ryanair and Robert Owen respectively?
- Can you see any similarities?
- Visit the website and check on the latest news about developments in the company.
- In what ways are managers at Innocent adding value to the resources they use?
- What seems to you unusual about their approach to managing a business?
- In what ways will further growth pose new problems for the company, especially in Europe?
- In what ways, if at all, are the models in the competing values framework supported by the Innocent case?