

BSW Campbell's Recipe for a CEO Yields Denise Morrison
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The chief executive replacing Douglas Conant looks like a safe choice, though her campaign to reduce sodium has been controversial for the soupmaker

By Diane Brady and Matthew Boyle

June 23 (Bloomberg BusinessWeek) -- When Andy Warhol started painting soup cans in 1962, Campbell Soup Co. (CPB) did not send its thanks. It sent lawyers. That's the kind of company Campbell is. It's not being at one with the zeitgeist that moved 2 billion cans of soup in the U.S. last year, part of a unit that accounted for more than two-thirds of its profits. It's a commitment to deliver an affordable, predictable meal that's not meant to be a work of art.

It follows that Campbell's leadership is nice and predictable, too. The company has had just 11 chief executive officers since its founding in 1869, and as it prepares to anoint its 12th, it has spent more than a year managing a very deliberate public succession—all the better for employees and analysts to get accustomed to the taste of it. On June 23, the board confirmed that Denise Morrison, 57, will replace Douglas Conant, 60, on Aug. 1.

At a May gathering of women corporate directors in New York, the twosome was eager to share their views on leadership and succession. Conant talked about "stretch assignments" and his efforts to help high-potential people "find their leadership voice." Morrison called Conant's early advice to broaden herself "a gift," adding, "I was so results-oriented."

Although she will be paid well—Conant earned \$12.2 million in 2010, and she is expected to move up fast from her \$3.8 million compensation last year—Morrison will be running a company with an uncertain future. Americans seem to have maxed out on their appetite for soup, with consumption dropping steadily in recent years, to about 4.1 kg per capita in 2010, according to Euromonitor International. Even worse, in the ready-to-serve category, Campbell has lost share to rivals such as General Mills (GIS), which owns Progresso. While many U.S. companies have offset declines at home with growth in Asia, Campbell so far has found that Asians prefer their soup homemade.

Based in Camden, N.J., Campbell is largely a family-owned company, with the descendants of John Dorrance, the inventor of the condensing process, owning about half the shares and controlling 5 of the 17 board seats. (Their board member profiles describe them as "private investors.") The company's core product remains soup, especially the condensed version in those iconic red-and-white cans. Its U.S. soup, sauces, and beverages business accounted for almost half of an overall \$7.7 billion in sales last year. Campbell's other brands include Pepperidge Farm cookies and crackers, V8 juices, and Prego spaghetti sauce, all of which have fared better.

Hard times typically boost consumption of canned soup, but the financial crisis didn't produce a bump. "It's a little bit unfathomable," says Sanford C. Bernstein analyst Alexia Howard. One factor is the growing popularity of alternatives, such as frozen entrees, pizza, and boxed pasta. Many analysts also blame

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Campbell's performance on decisions by management, including heavy discounts and a rocky foray into lowering the amount of sodium in the soup. The person making many of those decisions, and the one who charged the barricades on salt, was Denise Morrison.

Morrison grew up in Elberon, N.J., the eldest of four daughters of former Cincinnati Bell (CBB) CFO Dennis Sullivan. Her mother, Connie, was a homemaker and real estate broker. It was a motivated household. Dinner table discussions for the four Sullivan girls, recalls Morrison, were more likely to revolve around the discipline of test marketing than school gossip. Morrison went on to Boston College. All the siblings became executives. Morrison's younger sister Maggie Wilderotter, who became a CEO about 15 years ago and now runs Frontier Communications, observes that "Denise is a little bit more deliberate. She's certainly more patient."

Morrison built a reputation with her record at companies such as Procter & Gamble (PG), PepsiCo (PEP), and Nestlé, and Conant has been her champion. The two first met at a coffee shop in Palm Springs in 1995. He'd just become president of Nabisco Foods when Morrison cold-called him. Her employer, Nestlé, wanted her to move from California to Cleveland; with a daughter in high school, she was looking for an out. Conant agreed to meet and had no trouble distinguishing her amid the retirees and holiday makers: "She was the only person in the diner sitting with her day-timer open on the table," he says. He offered her a job at Nabisco, where she made her mark with innovations such as the idea of selling crackers and cookies in single-serve packages. After Kraft (then part of Philip Morris) bought Nabisco in 2000, Conant moved to Campbell; Morrison joined him three years later. By 2005, Morrison was president of Campbell USA, which includes the soup business that still dominates 80 percent of the U.S. market for condensed soup and about half of all ready-to-eat canned soup.

When Conant arrived in 2001, the company was seen as a takeover target. He brought smart innovations and a battery of management principles built around "character," "competence," and "teamwork." That broadly echoed the three stages of "disciplined people, disciplined thought, and disciplined action" that one of his management idols, Jim Collins, outlined in 2001's *Good to Great*. Within three years, Conant had replaced 300 of the top 350 executives and gotten rid of units such as Godiva, while introducing new products. For years, the company thrived.

In his management style, he found a kindred spirit in Morrison. They frequently use the same language, peppering conversation with words like "empower" and "vision" and "engagement." Both are fans of business gurus like Collins and Stephen R. Covey, who wrote *The 7 Habits of Highly Effective People*. Conant just wrote his own book on leadership, *TouchPoints* ("The leader is the person who brings a little magic to the moment"). Morrison, naturally, has read it.

As president of Campbell USA, Morrison oversaw what she likes to call a sodium reduction "journey" to cut salt across a wide swath of Campbell's regular soups. John Stephenson of Toronto's First Asset Investment Management calls the push a

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"folly" and compares it to Coca-Cola's (KO) launch of New Coke in the 1980s. He helps manage a \$2.6 billion portfolio that includes about 30,000 Campbell shares, roughly a tenth of what the firm used to have. "No one thought there was a problem with the original product," says Stephenson. "You cannot piss off your core customers. And those customers said, 'This is crap! We like the salty soup!' "

The move, however, was widely applauded within the company. "The No. 1 reason people don't eat soup is the sodium," says M. Carl Johnson III, Campbell's former chief strategy officer, who retired in April after 10 years at the company. "If we had not taken action, it would have been ugly."

To modify the recipe, Campbell hired scientists at a company called Senomyx (SNMX), which works with food companies to create flavor enhancers that stand in for salt. The problem, says Senomyx spokeswoman Gwen Rosenberg, is that "there really is no good substitute for salt." Asked if Campbell's highly trained sensory taste panels picked up on a different taste in lower-sodium soups, Johnson demurs: "I can't say." Campbell decided to end the partnership in March.

Patricia Johnson, an analyst at market researcher Mintel, says that while less salty soups sold fine, they didn't attract new consumers. Speaking with Bloomberg Businessweek, Morrison downplays the taste question, noting that removing sodium was "the right thing to do."

There were stumbles in marketing, too. In September 2008, Morrison's team started a nasty slugfest with Progresso, running ads claiming that Progresso's soups were laden with MSG. Progresso returned fire, claiming that Campbell's lineup had plenty of MSG, too. The "Soup War" got so heated that comedian Stephen Colbert lampooned the battle on his show. The winner? Nobody, really, as the campaign served only to remind consumers how much bad stuff canned soup has in the first place. As the financial crisis worsened, Morrison shifted her spending from ads (Campbell's measured media spend declined 15 percent in 2010, according to Kantar Media Intelligence) to temporary price discounts. Progresso cut prices, too.

Analysts and investors say they wish Morrison had focused those marketing dollars on ads that promoted eating soup—something it did last fall with a \$100 million campaign—and invested more research dollars in developing new soups instead of messing with the old ones.

Despite these missteps, neither Conant nor the board lost faith in Morrison, and she was among the front-runners to succeed Conant when he announced his retirement. From the start, the board's goal was to groom and hire from within. Human resources chief Nancy Reardon says the company looked at external candidates, though she declines to say which search firm it hired to do so, noting that "Doug and I made it a practice to know who's out there." Both are quick to defend Morrison's recent record on soup, with Reardon arguing that "it's important to not tie everything back to one job," while Conant points out that "life is full of two steps forward, one step back."

Morrison may provide somewhat different leadership, says Leonard F. Griehs, a former head of investor relations, who joined the company in 1990 and retired in 2009. "Doug shows his

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emotions a lot more. You could tell when he got pissed off," he says. "Denise is more on guard. She knew she needed to project a certain image." When it came to analyst meetings, he notes, "She did not want to say the wrong thing or say too much." She was, in Griehs's view, "very well coached" and "very careful."

Morrison, in all, appears to be the epitome of a safe choice. In interviews she rarely deviates from a set of preferred anecdotes, a finely tuned list that includes when she knew she wanted to run a business, how she mapped out her career in her early 30s, and her "maturity moment" a few years ago when she went from wanting to be a CEO to "wanting to build a great company."

In an interview setting, she comes across as well-prepared, but never spontaneous. Colleagues also stand by the script when talking about her, with Conant and Chief Strategy Officer Irene Chang Britt both describing Morrison in separate interviews as "tough on the issues and tender on people." Mmm Mmm Good.

During the selection process, and in general, Conant and his management team look to companies like General Electric (GE) as models of excellence. Conant shares Jack Welch's penchant for catchy management slogans as well as a carefully orchestrated succession race of the sort that led to Jeff Immelt's appointment and the departures of Bob Nardelli and Jim McNerney.

Similarly, the two others in the running for the Campbell job have left. Mark Sarvary, who came to Campbell in 2004 as president of the North American division, departed in 2007 and became CEO of Tempur-Pedic (TPX) in 2008, where he earned some \$3.2 million last year. Larry McWilliams came to Campbell in early 2001 and ran international operations. He left after Morrison's appointment and in April was named COO of Keystone Foods, a \$7 billion-a-year supplier to Campbell.

Campbell's and GE's system may not be perfect, notes Stephen A. Miles, a succession expert who runs the leadership practice at Heidrick & Struggles (HSII), a headhunter. "One of the things CEOs are not good at doing is picking their successor," he says. The trends that led to their success often change, leaving their like-minded successors ill-suited to handle new realities. Conant, Morrison, and Reardon all acknowledge this problem and say the board drove the process. (Conant is a member of the board and was part of the search committee.) Through a spokesman, Campbell Chairman Paul Charron e-mails that "The Board is confident that Denise is the right person for the job and that Campbell will flourish under her leadership."

While Campbell's board has long been considered the gold standard by governance experts and pension funds, with annual elections and strict guidelines over independence, it's also one that has steadily increased the company's dividend in recent years, despite lackluster sales growth. While that may be a head-scratcher to some analysts, it likely pleases the descendants of Dorrance.

Morrison was named interim chief operating officer of Campbell last year, giving her time to get used to running the business. After her promotion was announced on Sept. 28, shares fell. They are down almost 8 percent over the past 12 months, while the S&P Consumer Staples Index is up 18 percent. During that time, she steadily took on a bigger role in analyst calls

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and running Campbell while Conant was out several weeks for surgery.

The coming-out party for Morrison is July 12, when she unveils her plan to revive Campbell's fortunes at its annual analyst day. Until then she's reluctant to share details of her strategy, though she promises more consumer advertising and brand-building, ramped-up efforts in emerging markets, and new recipes aimed at Millennials instead of the baby boomers who have slurped chicken noodle for decades. She talks about Campbell's increased focus on soup for cooking, with cool iPad apps for recipes. And she argues that her controversial moves to cut sodium, with more than 200 "heart healthy" products in the portfolio, allow her to focus on creating new "taste adventures."

Of the 20 analysts who cover the stock, only two recommend buying it. For most, the issue isn't whether Morrison is the right insider for the job. It's whether an insider should have the job at all. "You could say, let's get some new blood in there," says Jack Russo, an analyst at Edward Jones. "But is she really new blood? Is this another Campbell disciple or someone who will take a fresh look at the business and mix it up?" As tastes change, there's no easy recipe.

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