

Hornby plc case A: Building Communities

It was a cold January morning, in 2001. Frank Martin rubbed his hands, watched his breath vapourise in front of him, and stared pensively at the seagulls circling over the office of Hornby plc in Margate, a small seaside town in Kent on the southeast coast of England. It was his first day on the job as the company's new CEO and he was about to enter the building. Once, many years ago, Margate had been a bustling resort, where thousands of workers and upper-class Londoners spent their holidays in search of fine beaches, fresh air, quality restaurants, luxurious hotels and a wide choice of entertainment options that ranged from donkey rides on the beach to glamorous nightclubs and theatres and the country's oldest wooden roller coaster. But much had changed since the Victorian and Georgian days of abundance; the piers had crumbled, the esplanades were all but empty and the seafront hotels looked tatty and deserted.

Hornby, the renowned manufacturer of model trains and race tracks, had experienced a fate similar to that of the town. Once it had been its largest employer, providing thousands of jobs in its factory. Its products were loved and owned by a vast number of English schoolboys and its brand recognition was such that its slot-car racing brand, Scalextric, had become synonymous with the product in the English vocabulary. But with increasing competition from the far East and new toys such as gaming computers quickly gaining popularity among children, it had fallen on hard times. Most recently, four years of patchy performance had seen sales plummet 35% and the institutional shareholders, who had run out of patience with the company's management, had unsuccessfully attempted to sell the company. In a desperate attempt to cut costs, Peter Newey, Hornby's then CEO, had slashed headcount and moved all manufacturing from Margate to China. But it was too late for him: On 3 January 2001 Frank Martin replaced him as CEO.

Martin, who had been working for Airfix, a rival toy manufacturer in the hobby sector and who at the time had unsuccessfully tried to acquire Hornby, was convinced that Hornby's trains and racing cars had great potential. He was confident that Newey's cost-cutting initiatives would help the company's bottom line but, when he opened the door to the office for the first time to meet his employees, he also felt anxious. He feared they might not share his optimism. After all, they had been faced with many years of decline. How was he going to restore his employees' confidence and trust, and convince them there was a future for them and Hornby plc? And, equally challenging, how was he going to convince retailers to help him increase sales, and how was he going to convince investors to put up the money necessary for the expansion? Last but not least, how was he going to regain the product's former popularity among customers? He knew the brand had potential, but he also realised there was still a long and arduous way to go.

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