

# Analysis of clayton case essay



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**Problem Analysis** The key business issue facing Clayton in late 2009 is that its Italian subsidiary, Clayton SpA, has been making heavy operational losses for three years now, to the tune of over \$1 million USD a month. While these losses have been exacerbated due to a general global recession which has reduced sales (which are down by 19%), their root cause lies in the fact that since 2001, Simonne Buis had been making organizational changes, and trying to create a more integrated European organization.

In the pursuit of this, she set goals for individual subsidiaries with a broad brush that did not consider the intricacies of local markets. This framing of common targets ignored the strengths and weaknesses of individual subsidiaries. Despite customers' preference and technical limitations for local brands, Buis drove her vision for Europe-wide sales of premium country-specific brands. This strategy was doomed to fail in the face of competition from other local brands and price competition from Asian manufacturers.

In response to CEO Dan Briggs' concerns about cost, Buis asked all subsidiaries to follow her 10/10/10 plan to reduce receivables, inventory and headcount. This would cause different problems in different geographies. Clayton SpA had strong political connections which they leveraged to get large projects. Following Buis' plan meant that they would have had to lose this advantage in order to push sales in room air-conditioners and ventilators market – which was never their strong suit, and where their chances of success were bleak in the face of competition.

At the same time, Buis had so far refused to fund expansion of capacity in Spain for the advanced absorption chiller technology that the market was moving towards. This meant that Clayton were not preparing to offer products that customers would demand in the future. The overall effect of Buis' strategy was to dilute the local subsidiaries' efforts into areas where they were weak, while inhibiting their capability to capitalize on their strengths. This hit Clayton SpA (Italy) hard on the profitability front, and also reduced Clayton Industries USA's overall preparedness to address future market requirements.

Decision Analysis I recommend that Peter Arnell hold off any further investments for now, and focus on efficiency measures in Clayton SpA (Italy) to restore profitability. This course of action directly addresses the immediate business problem of Clayton losing \$1 million a month, and maintains Clayton's overall strategic course as well, while still giving Arnell time and space to plan for future growth. Going forward, Arnell has these four options: 1. Follow the Italian managers' suggestions for their market, and invest there 2. Invest in building capacity for modern absorption-chiller technology in Spain 3.

Exit the European commercial air-conditioning market 4. Hold off any investments for six months, and tighten efficiency measures in Italy His options should be evaluated against these three criteria: 1. Profitability 2. Future (post-recession) potential for growth 3. Acceptance from all stakeholders A brief analysis of each decision option vis-a-vis the criteria is presented here: 1. Follow the Italian managers' suggestions for their market:

2. 1. Profitability: This decision may or may not lead to profitability in the long term, based on the implementation.

But it will definitely require investments in the Italian plant, which will reduce profitability at a time when there is a cash crunch. 2. 2. Potential for growth: The compression chiller technology is being superseded by absorption chiller technology, and investments in new products in this line will not ensure future potential. 2. 3. Acceptance from all stakeholders: While being acceptable to the Italians and his boss Buis, this option will not be acceptable to the CEO, Briggs. 2. Invest in a new plant for absorption-chiller coolers in Spain: 3. 4.

Profitability: This decision may lead to profitability in the long term, especially as market demand shifts towards absorption chillers. However, it requires an upfront investment, which will strain Clayton's books. More importantly, choosing this option does not address in any way the problem that Clayton's Italian operations are bleeding a million dollars a month. 3. 5. Potential for growth: This decision option has a very high potential for growth, and further market and technical research is advisable to make a stronger case for investment. 3. 6. Acceptance from all stakeholders: The investments required will require stronger justification and political manoeuvring. This option will not be acceptable to his boss Buis, who has invested politically in the Italy strategy. 3. Exit the European commercial air-conditioning market: 4. 7. Profitability: Shutting down the Italian plant will immediately stop the heavy operating losses; however in the absence of a strong and developed alternative source of revenue it will affect the future of Clayton Industries. 4. 8. Potential for growth: This decision option by

definition has extremely limited potential for future growth, unless alternatives are developed. . 9. Acceptance from all stakeholders: This strategy will be unacceptable to Arnell's boss Buis, and is likely to cause major labour and legal problems in Italy for Clayton. 4. Hold off investments and tighten efficiency in Italy (Recommended): 5. 10. Profitability: This directly addresses the profitability issue faced by the Italian plant, and is a good short-term measure that does not hamper any long-term plans or call for any sudden shift in strategic direction. 5. 11. Potential for growth: This decision option does not directly contribute to growth potential.

However by focussing on the critical issue at hand and restoring profitability, it does bring Clayton into a stronger position from where it can plan for future growth. Options like investing in a Spanish plant call for a shift in strategic direction, and this decision gives Arnell the space for further research and analysis to support such a shift. 5. 12. Acceptance from all stakeholders: There will be some resistance from Italian labour (eg FILM), but Arnell can use provisions like the Cassa Ingrazione Guadagni (CIG) to implement this decision. This decision will have strong support from Arnell's boss Buis, as well as the CEO Briggs.

To conclude, Simone Buis' strategy of integrating all European subsidiaries, and the common policies she framed to further that goal, has created problems for individual subsidiaries. However the current business problem is that the Italian plant is making heavy operational losses as a result of those policies, and any decision should address these losses as top priority. By holding off any further investments and focus on efficiency measures in Clayton SpA (Italy) to restore profitability, Peter Arnell should aim to being <https://assignbuster.com/analysis-of-clayton-case-essay/>

Clayton SpA into the black, and use this time to study further options that can poise the company for future growth.