

Clayton industries: rethinking strategies in europe

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Clayton Industries: Rethinking Strategies in Europe Clayton Industries has been around since 1938 when they began as a residential and light commercial air conditioner manufacturer and distributor. In the early 80's they expanded in North America, and this has helped establish them today as one of the foremost leaders in the United States and North American air conditioner sales. They restructured in 1988 to better organize their business arms as they were expanding into many different European nations to continue competing on an increasingly global scale.

By the year 2000 Clayton really had established itself in Europe, but the residential and commercial air conditioner industry just was not as powerful as it was in North America at the time and cultural differences put Clayton through many a test of character over the years. They have maintained positive growth in most national European markets except for Italy.

This is their main issue of concern and their point of interest for this case.

When Clayton brings in Simonne Buis as Vice-President of European operations she shakes things up begins immediate initiatives to reverse negative trends in European performance, especially Italy. In choosing the best performance overhaul option for Peter Arnell, the newly appointment head of Clayton's Italian branch, we must analyze Clayton's core competencies, risks associated with each option, and the potential rewards all relative to the current goals of the organization and its administration. Clayton's main strength as it always has been is its North American operations and the massive percentage of sales that goes on here.

We must realize that this market, though very large, is declining and that is a big reason why we must take the best business practices from these operations in North America and translate the success to Italy in as many applicable ways as possible.

Clayton is also very well diversified in the European nations, with operations in almost every major European market and in a wide variety of products on different levels of the distribution channel. This is a very interesting opportunity as one of the company's main goals currently is to use inter country collaboration to cut costs and raise productivity.

At this point they have been doing business in Europe for over 10 years, and they have a good understanding of what works, what doesn't, and why. That said, they are in a very good position to realistically analyze their position and make an educated reform policy moving forward. In selecting a strategy, Peter Arnell is going to base his decision off company and his boss' goals, which are cut costs, collaborate, and scale.

Since coming onto the position in Italy Peter Arnell began a series of dynamic and sweeping reforms and made it very clear from the start that he was an active leader rather than a passive leader.

This is good, because his predecessor Mr. Lazzaro was fired ultimately for bad performance and much too passive approach to the economic downturn affecting performance in Italy so greatly in 2009. Clayton needed a leader that would come out and make dynamic moves to combat the failing economy. Arnell did that by going out to the banks and renegotiating lines

of credit to buy the company more time in paying back their loans, freeing up some capital to make improvements in efficiency.

In response to his immediate layoffs of top management who did not show dedication to the company goals, the Italian Union came looking for a fight with Arnell.

In response, not only did he deflect this potentially harmful situation, he used it as an opportunity to show the Italian press and union that he was going to be making dynamic moves, but they would be transparent, well warranted, and certainly in line for the company's goals for immediate improvements and also long term success.

Arnell wasted no time in diving into the company's history through various meetings and conferences. These conferences were a great opportunity for the different branches of Clayton in Europe to come together and advise each other as to best and worst business practices in the region, exchange new ideas, and collaborate on solutions to shared fears. At this conference Peter Arnell is presented with 3 options for the future of Clayton in industry, and he must evaluate risks and rewards in deciding which will be best for the company's future in Italy.

The first option is suggested by Italian managers and would be to return their plant to profitability by boosting plant efficiency, product development initiatives to revitalize the compression chiller lines, and a sales/marketing plan to expand market share outside of Italy. This option does not very clearly state how they would go about achieving these goals, which makes it

sound like a nice option but leaves a lot to be desired in terms of certainty of success.

It would cost around \$5 million USD for the first year of this plan which is also a turn off, because the plan is supposed to be saving money, not spending it. This option is attractive, because it is the most in line with the goals of the company, the new Vice president of European operations Simonne Buis, and Peter Arnell the new country manager for Clayton in Italy. If they can keep the costs of this restructuring plan down, and show that the ends will justify the means, I think this is a very good option based on company goals and feasibility. The second option was presented by Carlos Sanchez, the head of Clayton in Spain. He suggests that Clayton should fund a big new plant in Spain to address the future of chillers which is moving away from Compression and towards absorption techniques.

This is a risky option for Arnell to consider in his presentation to the board, because they are not particularly interested in this approach at this point, it is very risky, expensive to build a new factory in Spain, and may take years for absorption techniques to be more than a niche market, even though it is better for the environment and energy consumption costs. This may cost \$15 million USD over a 5 year period. The reward in this is that it is better on consumption and thus would save costs for the company, and position them to compete in the future as a leader in top of the line technologies.

Arnell's 3rd and final option was presented by his financial advisor. He suggested it was too early to make a decision in such a volatile European recession. He thinks they should sit tight for at least another 6 months until the situation becomes clearer.

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Though Clayton may benefit from waiting and not making the wrong decision prematurely, I don't believe they can afford to sit and wait while this Italian branch continues to lose over \$1 million USD per year.

Also, Larazzo, Arnell's predecessor in Italy, was just fired for having a very similar outlook on the situation. Neither Arnell, nor Buis and the board are likely to consider this last option in moving forward with Italian production reforms. I think Arnell is a very good man to make this decision and will need to be dynamic in making drastic change to the operations of Clayton in Italy, but he will have to do so carefully in line with the Board's current desires in this tumultuous time.

Of all these choices I would say that backing Carlos Sanchez of Spain is the most innovative and powerful moves that the company can make to differentiate itself from European competition.

If making an investment balances between option 1 and 2, I think investing in something like this innovative new plant which caters to futuristic technologies as opposed to revamping old methods, is much more valuable down the line for Clayton. Also, this investment is actually cheaper than Option 1 investment cost relative to the time it will be in effect.

Furthermore, once this plant is established they can still put into effect all of the cost cutting methods, scaling, and collaboration techniques they seek to implement, only now they can do it on an even greater level due to increased core competencies and differentiation. = from competition. To cut costs even more and kill two birds with one stone so to speak, Arnell could

offer up part of the Italian production to be dedicated to a collaboration in the way of new absorption chillers.

He would be cutting investment costs in a potentially huge avenue of future company growth and at the same time finding a key use for an otherwise failing branch.

In rolling out this adaptation of Option 2, we would be not only strengthening collaboration potential between countries, we would be cutting costs by replacing inefficient operations with extremely useful and high potential R&D as well as high potential manufacturing in the way of absorption coolers. Producing these units lowers costs of commercial users as well seeing as they run on waste heat generated by pre-existing turbines.

IN a failing European Economy firms will be looking for anyway to be more energy efficient and will look to new innovations like this to save their declining margins. I would present this to the board, and state that this would be my most supported decision, but if they talked it over and decided against it would be of high benefit to the firm to pursue activities in Option 1; a simple cost cutting and better business practice implementation for higher efficiency in the workplace.

Once production had started, I would start branding the products with country specific labels based off small adaptations we could make in each country based off nation specific cultural subtleties.

This way we could sell the product competitively across all European markets. Also, I would do similar things with the remaining core products Clayton offers on a production and marketing level in an effort to regain

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strength in the Italian market during the time period of risk we would have in waiting to see how the absorption chiller investment turns out.