Swot analysis newell

Finance, Financial Analysis

Newell Company has grown over the years from a company simply providing brass extension curtain rods, to a highly diversified company, which mostly relied on acquiring new companies to distribute its products through mass-retail outlets. In 1902, Edgar A. Newell bought assets of a bankrupt manufacturer of brass curtain rods, and from the start enjoyed increasing demand, mostly due to the shift from urban to suburban living. Initially, the company sold its products to small hardware stores, industrial builders, and specialty retailers, but quickly found a powerful distributor in the arising mass-distributors such as Woolworth.

Up to 1966, Newell stayed only in the curtain rod business, with no articulated strategy for the future. This rapidly changed when Daniel Ferguson took over as CEO and began to develop a " build on what we do best" philosophy. This philosophy was mainly geared towards mass-retailers, with whom Newell already had established steady business. Mission and Vision The company sees itself as a manufacturer and marketer of staple volume lines to the volume purchaser.

The company's mission states the increase of shareholder value by continuing to build a company with superior Earnings Per Share (EPS) growth and Return on Investment (ROI), and to earn a reputation for excellence in performance and management. The mission is solely based on performance, which is atypical of today's businessenvironment. The mission can be projected onto the basic strategy, which states merchandising to the customer goods market, a multi-product offering with superior customer service performance for maximum market leverage.

Financial Performance Newell's stock performance can be considered outstanding. From the IPO to the end of the provided data in 1991, the company steadily outperformed the S; P 500, which evidently shows the successful implementation of the company's strategy. Individual divisions that are part of Newell frequently meet the goal of 20% ROI. The same is true for the Debt/Equity ratio. The EPS continually grew over the last decade from $0. 38 to $1. 81 (1981 to 1991); this significantly underlines the company's success and stringent compliance with its strategy.

SWOT Analysis

Strengths

The company establishes well-definedgoalsfor each division, like EPS and ROI goals. Newell's advanced computer systems, such as EDI, improve customer relationships. Another strength is the process called " Newellization". This is the process of quickly integrating acquired companies and realizing potential profits. Newell also has a reputation for superior customer service.

Weaknesses

Increased complexity as more and more acquisitions are made.

Newell lacks the flexibility and ability to rapidly react to environmental changes. The company also has high cash requirements because of the cost of acquisitions and the cost of subsequent integration of more businesses.

Opportunities

Newell may to expand beyond domestic borders by following the same acquisition strategy. This might be a great opportunity for Newell especially considering that one of its main customers, Wal-Mart, is also starting to

expand globally. Furthermore, Newell may continue to acquire strategically fitting companies.

This combined with possible mergers and joint ventures can increase the size and power of the company, thereby giving it more market power and influence.

Threats

Antitrust litigation by Stanley Works in 1990 hinted that Newell may becoming too large to remain intact. Although this litigation didn't implicate Newell, nor did it alter the company's acquisition strategy, antitrust laws remain a concern to companies pursuing an acquisition strategy. Another threat comes from the bargaining power of Newell's mass-market retailers; the most notable of which is Wal-Mart.

The threats associated with this include price dictation and demands for discounts. These retailers account for a significant portion of Newell's sales (10% sales to Wal-Mart 1992) and must therefore be dealt with carefully. Newell's strategy consists of offering a wide array of consumer products to mass market retailers. This is achieved through strategic acquisitions of related businesses in order to gain penetration into new markets and product lines. An example of this related acquisition strategy is the Mirra-Cote acquisition, which gave Newell access to the bath hardware market.

Since Newell was already in the shower curtain rods business, an expansion into bath hardware made strategic sense. Newell continued to acquire companies that manufactured lowtechnology, non-seasonal, non-cyclical, non-fashionable products to be supplied to high-volume retailers. One of

Newell's core competencies (and perhaps distinctive capabilities) was the process of quickly integrating newly acquired companies; a process known as " Newellization". This process focused on operational efficiency and profitability by centralizing administration, accounting, and customer-related financial aspects.

The entire process was usually completed within 18 months and often in less than 6 months. An acquired company's minimum operating margins were expected to be 10% after Newellization. Acquired companies were primarily large, domestic companies that possessed high market share. They also had a strong strategic fit, which allowed Newell to apply its core competencies to improve the operations of acquired companies. Newell's acquisition strategy was based on achieving greater economies of scale and reducing the number of competitors in the market.

It stayed away from products and markets that were strategically incompatible. The idea of adhering to the company's main focus was extended to the divestiture of businesses that were considered ill-suited, despite healthy profit margins. Customer service was an important part of Newell's strategy. The company consistently surpassed industry standards for order delivery, thereby gaining the reputation of being the most reliable supplier. This reputation was carefully maintained because it justified a premium pricing strategy. Problems Newell relies heavily on sales to a few top clients.

Top 10 customers accounted for 66% of customer sales volume in 1992. This dependence on the top retailers makes Newell vulnerable to the bargaining

power of these clients. Some acquired businesses may have very divergent sets of technologies or possess very distinctive production models. In such instances, the " Newellization" process may become very complex and expensive. The pressure for steady growth through acquisition may force Newell to acquire companies that demand a greater investment of time and capital before they become profitable. You may also read Next PLC SWOT Analysis

This demand for cash could lead to a reduction Newell's stock price and ROI. Newell must consider at what price acquisitions should be deemed too costly to make strategic sense. Recommendations Two companies were being considered for acquisition in 1992, Sanford, and Levolor. Sanford was profitable, but financial performance was hindered by the questionable acquisition of Sterling Plastics Co. Sanford seems to fit well into the Newell strategy, with mass retailer distribution and a strong consumer product line.

We would recommend that Newell acquire Sanford and divest Sterling Plastics Co. Levolor seems to also fit strategically into Newell's business portfolio. It is highly focused on mass-retailer distribution and profit potential. Levolor was experiencing a lack of focus and direction as well as a successful administrative body. A heavy investment should be expected to consolidate and " Newellize" Levolor, therefore the company should be acquired only if a fairly low price is accepted.