

Whirlpool corporation's global strategy case analysis – assignment

[Business](#), [Marketing](#)



The paper analyses Whirlpool Corporation's Global Strategy case study conducted in the year 2001. The paper aims to spot key reasons behind the declining performance the company experienced in the late 1990s a few years after the start of its globalization plan in the year 1987. The plan initiated under the new leadership of David Whitwam encountered many problems in its early stages illustrated in a declining profitability in its home market, losses in the European market and failure in some of its joint ventures in the Asian market. With such poor performance and failure in achieving competitive edges in global markets, Whirlpool was at a great risk of losing huge investments made in foreign markets, and losing highly-potential market shares in emerging international markets to aggressive competitors. The paper illustrates core strategic mistakes around three main strategies; sourcing and operations, entry, and marketing strategies adopted. The goal is to address lessons learned from Whirlpool's experience in globalization in order to shed light for future strategies or building globalization plans for small and medium enterprises aiming to have global footsteps.

Keywords: Household Appliances, Globalization, Internationalization, International Management, Case Analysis, Whirlpool WHIRLPOOL's GLOBAL STRATEGY CASE ANALYSIS Whirlpool Corporation's Global Strategy Case Analysis International Management - Assignment 2 Introduction 3 The estimated \$228.9 billion in the year 2009/2010 global household appliances market can be described as a global industry in condition that the coordination and integration of sourcing, manufacturing, operations,

research and development and marketing activities across multiple world regions and countries is accomplished.

Enterprises capable of harnessing the benefits of strategic global locations and integrate them into one single global vision are the ones that can be described as global. The industry was invented and still dominated by European and American key manufacturers. However, Asian manufacturers from Japan, Korea, and China are enforcing a strong and rapid growing competition in the last few decades. In terms of global industry aspects, over 65 percent of the global appliances sales are through specialty retailers, the rest is divided between hyper markets, department stores and general merchandisers.

Multinational manufacturers experience high fixed and exit costs. The majority of manufacturers does not forward integrate and usually depend on large retailers to distribute their products while retailers tend sometimes to backward integrate. 3 Shedding the light on the US, Europe, and Asia household appliances market, we find that the saturated and highly-competitive market in the US has washing machines, vacuum cleaners and dryers as the most frequently-bought categories. The oligopolistic market has consolidated into top four players; Whirlpool, General Electric, Electrolux, and Maytag with 80 percent market share for the four corporations combined. Other competition in the US includes Korean brands especially in specific categories such as microwave ovens. 5 Japanese foreign

WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS direct investments in the US in the appliances and electrical machinery were aggressively competing

in providing high quality goods for fewer prices than local manufacturers. Whirlpool led the American market and achieved a growing market share from 1995 to 2000 in categories including; dishwashers, Microwave ovens, and refrigerators. The company's share is most threatened by Electrolux with growing shares in categories like; dishwashers, and ranges. 7 4 In the world's top home appliances market of Europe⁸, Categories expected most to grow are microwave ovens and dishwashers; while the slowest are refrigerators and freezers. Many European manufacturers are shifting to lower-wedge countries to produce in order to save cost. In terms of competition and consolidation, Europe was moving towards an oligopolistic scene in the mid 1990s. Appliances market by unit was dominated by less than a handful of main manufacturers; Electrolux (22.5 percent), Bosch-Siemens (15 percent), Whirlpool (14 percent) in the year 1994. 10 Mentioning few integration examples; Electrolux acquired White of the US, and Zanussi of Italy, Maytag acquired Chicago of the US, General Electric formed a joint venture with GEC of the UK which is the owner of the brand Hotpoint. 1 The new ambitious Korean entrants were adding to the tough competition and dominated the microwave ovens category, 12 Unlike the American market, European appliances market is highly regionalized with diversified preferences across countries. 13 In Asia; the Asian financial crises occurred in the year 1997 affected most Asian economies with a downturn of consumer demand and trust in the area. 14 Whirlpool's competitors were also not far from this challenge. General Electric for example reported challenges in its Asian market due to currency exchange and interest rates in the region in its 1997 annual report. 5 The world's second largest and fastest growing home

appliances market can be considered as a very attractive market to develop and penetrate. 16 Estimated to reach \$30. 3 WHIRLPOOL's GLOBAL STRATEGY CASE ANALYSIS billion in 2003, the market is divided into six main categories; washing, refrigeration, and cooking appliances, dishwashers, heaters, and vacuum cleaners. Over a third portion of the market is with the cooking appliances. The market is led by Japanese manufacturers such as Matsushita Electric, Toshiba, Sanyo and Rinnai. 7 Korean manufacturers such as Samsung Electronics and LG Group, 18 and Small Chinese manufacturers were also trying to gain a small market share. 19 GE is leading the Indian market where Electrolux is racing to have a stronger presence of nearly four percent in the year 2003 by covering both mainstream brand of Electrolux and the high-end German-engineered brand of AEG. 20 Due to a highly-diversified 5 level of maturity between Asian countries a great degree of product localization to specific needs where required. 1 Analysis After shedding the light on the global appliances industry and special characteristics for the US, Europe, and Asia, the paper analyzes first Whirlpool's financial performance within the period of 1995-1998, then it goes deeper into analyzing the company's global sourcing, entry and marketing strategies, and finally scans key macro environmental factors. Whirlpool Corporation Financial Analysis As seen in (Exhibit 2-6), the inventory turnover ratio dropped in the year 1996 which indicates a problem in distribution or a downturn in consumer demand.

Another problem indicated in the days' sales outstanding ratio which indicates a problem in collection due to an incorrect collection policy or lack

of liquidity by buyers. An increase in debt in the year 1997 and 1998 shows the cost of interest due to aggressive investments or integration strategies. The company's ability to meet its debt obligations drops significantly in the year 1996 due to closing WHIRLPOOL's GLOBAL STRATEGY CASE ANALYSIS the year at a loss, yet the company managed to control it gradually in the following two years.

Profitability ratios show a recovery in the year 1998 after a downturn that continued for two years, but still didn't get the company to its previous performance before 1995. Analyzing financial performance by region, in terms of sales volume, shows the best performance trend in the Latin American market, then follows the Asian market, yet a decline in the Asian market accompanied with a slight decline in North America and Europe in 1997, except the Latin American market which witnesses a significant growth rate in the same year.

In terms of profitability; the American market has a stable positive trend, where European operations recovered from a strong downturn in 1996, and finally Asia with a continued loss for four years. Shedding the light on Whirlpool's key competitors' financial performance, General Electric and Bosh Siemens; we find that in 1997 Whirlpool's profit margin is significantly lower than its competitors' average. Digging deeper into the issue, we find that Whirlpool's return on assets ratio is far beyond its competitors with two percent compared to 9.5 percent for GE and 4. percent for Bosh-Siemens (See Exhibit 5). Sourcing & Operations Strategies Whirlpool chose to in-source all of its manufacturing through horizontal integration and foreign

direct investment in global markets. 22 While the company sold the vast majority of its production to the US and Europe, 23 the two markets also held the vast majority of its global manufacturing and/or assembly plants (See Exhibit 1). 24 In terms of its global sourcing strategy classification; it can be classified under the resource-based view; which illustrates the motives behind global sourcing as a way to increase technological capabilities and production automation through more computer-related production processes, intensive research and development, and a higher number of new products. 25 The Platform Technology initiative which Whirlpool adopted WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS also matches the same strategy, yet until 1994, management acknowledged the initiative's 7 benefits are still to be harnessed.

Adding to this fact, the separate business entity founded in 1990 to manage businesses outside North America and Western Europe, Whirlpool Overseas Operations which was separated into Whirlpool Asia and Whirlpool Latin America in 1993²⁶ indicates a multinational or region-specific strategy for each region. Whirlpool is a leader in terms of product innovation. The company released a compact washer for the Japanese market that doesn't wrinkle Saris, the traditional Asian outfit, 27 it also innovated the front hatch for washers, 28 and the dual-source 3D microwave oven. 9 Entry Strategies The company started thinking outside of its borders as early as the 1950s and 1960s starting by the neighboring countries of Brazil and Canada through foreign direct investment. However, the expansion into the world top appliances market in Europe came as late as 1989, the same year Maytag

also entered Europe, 30 despite the late entry, Whirlpool was still ahead of its other American competitor; GE who entered Europe in 1992. 31 The company started the European expansion by establishing an equity joint venture with Phillips, until it acquired a full ownership in 1991 and transferred the venture to a wholly-owned subsidiary. 2 In the formed joint venture, Whirlpool had the upper hand in terms of bargaining power as the Dutch Phillips was struggling at that time. In terms of knowledge advantage, Phillips had a huge technology and market experience advantage in the region. While European regulations have relatively low foreign equity restrictions on foreign multinationals, the agreement resulted in a major share for Whirlpool. A natural result of this power balance when the multinationals have the bargaining advantage while the domestic firm has the knowledge advantage, under investment usually occurs in the domestic firm. 3 In terms of management, Whirlpool clearly transferred its

WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS American management style and people to its European subsidiary at the early stages of the joint venture. While not being sourced information, it can be logically concluded according to a research conducted in 2004 that finds the percentage of expatriate managers is positively-related to the size of the multinational and negatively related to the age of the joint venture. 34 It can be concluded that local knowledge wasn't given enough focus against Whirlpool's core management style.

The company planned its entry to the Asian market setting up a differentiation strategy with a focus on quality and building strong alliances.

35 The decision to choose fridges, air conditioners, washers, microwave ovens, matches the Asian anticipated most categories in demand. 36 The company entered the Asian market in 1987 starting with a joint venture in India followed by an aggressive series of Joint Ventures and acquisitions in India and China. Across all of its agreements, Whirlpool has always kept the majority interest in joint ventures.

The joint venture in India with Sundram Clyton³⁷, a company which is not specialized in home appliances³⁸ is a type of joint venture that Whirlpool had both the braining advantage and the knowledge advantage. A deal that also should lead to less investment in the domestic Indian firm. 39 In China, the company owned the majority interest in the largest microwave oven manufacturer in China, MC Microwave Products Co. , Ltd. , and the state-owned Beijing Snowflake Electric Appliance Group Corp. to build the first refrigerators factory in China. 0 The company also formed another joint venture with Shenzhen Petrochemical Holdings Ltd. (SPEC) 8 to make and sell air conditioning appliances. 41 In Latin America, Whirlpool's integration strategy and early entry have focused on Brazil and Argentina only in terms of manufacturing and intensive distribution and did not develop a strong existence in other potential markets such as Mexico. The company's operations in the region are all in the form of foreign direct investments; WHIRLPOOL's GLOBAL STRATEGY CASE ANALYSIS it is the only global region where no joint ventures established (See Exhibit 1). 2 Despite that, the region is the top performer among Whirlpool's global operations. Marketing Strategies When completed the acquisition of Phillips in 1991, Whirlpool

Europe planned an expensive brand-transfer plan costing the company \$110 million which started by introducing the dual brand Phillips-Whirlpool against the advice of their agency. The company launched the first pan-European advertising campaign of " Whirlpool brings quality to life" in 1995. 43 The successful awareness campaign phased out the brand Phillips in the European markets while putting Whirlpool as the most recognized brand in Europe. 4 Whirlpool segmented its brands in the US market based on consumer's needs to achieve better loyalty and differentiation, while a price discrimination strategy was adopted in Europe to target all segments. The majority of the marketing budget went for the mainstream brand of Phillips-Whirlpool, where the high and the lower end brands had the minimal share. 45 Whirlpool's marketing strategy in Asia aimed to build awareness only for Whirlpool brands, yet with optional differentiation by creating brand extensions to target specific segments within a category.

Again, aiming to achieve economies of scale, Whirlpool saw a potential to create a pan-Asian brand that can target different Asian markets at once. 46 Shedding the light into competitors' marketing strategies, we find that Electrolux's globalization strategy aimed to keep one global brand of Electrolux, yet following a more localized approach in Europe where it had three pan-European brands; Electrolux, Zanussi, and AEG besides keeping key brands for key markets such as Faure in France, Tricity Bendix in the UK, and Zanker in Germany.

Bosh-Siemens also took into consideration specific different needs in products characteristics and features in each European market. 47

WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS Political, Economic, Social, and Technological Environment The dot-com boom in the early 1990s has pushed many brick and mortar companies to sell their products and services online. Whirlpool made a relatively late decision to launch its ecommerce website in 1995. 48 The reunification of Germany also represented an opportunity for more demand. 9 Environmental concerns in Europe are considered to be a rising trend demanding innovative technologies to save water and electricity in appliances, as well as the removal of chlorofluorocarbons (CFCs) from refrigerators and recycling constraints in materials used in products. 50 In China, large amounts of consumers were found to prefer Chinese-made products, a trend that was also encouraged by the government. 51 The introduction of the Euro currency should facilitate operations, processes and financial operations in Europe.

An accelerated time-to-market trend was also rising, as well as an increasing focus on product features and innovation and customer service. European manufacturers also faced rising raw materials and labor costs. 52

Conclusions Whirlpool faced a declining performance in its early stages of globalization due to three main factors; the first factor is illustrated in the corporate-level or global-level strategic assumptions, and the second is illustrated in region or country-specific mistakes, and finally the third factor of macro environmental changes that occurred during the study period.

On the corporate level, Whirlpool assumed it was moving towards being global while its regionalized management or multinational approach was

actually not indicating that. From the distribution of its manufacturing centers in global markets, and the separate regional business units created, Whirlpool did not manufacture where it was more efficient, it mostly sold where it sourced. WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS Having the majority of manufacturing facilities in high-wedges labor countries in the US and 11

Europe should defiantly increase the cost of sales and fixed assets. The argument is supported by the low return on assets and profitability in the financial analysis. The industry can be described as a component-intensive one. Such industry requires a high-productive manner in terms of global manufacturing efficiency and economies of scale. High productive global companies within the component-intensive sector are found to be moving towards South or less-developed countries in terms of outsourcing labor to achieve more cost reduction in countries where cheaper labor exists. 3 The company also assumed that foreign direct investment and joint ventures are the most effective entry strategies to any global market regardless of its specific factors. The company entered mostly all of its new markets through the two most risky entry strategies regardless of the new markets' economic, cultural, behavioral, political, and operational factors. The Entry strategy worked in Europe should not necessarily work in Asia or Latin America.

Another strategic assumption is in product design and manufacturing standardization with a careful study to global consumers' common needs in product features without enough parallel careful study to each market existing competition, buying behaviors and distribution aspects. The same

assumption is illustrated in the European market entry of assuming similarity in preferences between European consumers and American ones where competitors adopted more localization strategies.

Whirlpool's management decisions to cut jobs frequently have defiantly affected employees' morale and motivation which affects productivity. Other assumptions on the regional and operational level for Whirlpool's globalization strategy include; In Europe, the company put the majority of its marketing budget in building an awareness for a new mainstream brand of Phillips-Whirlpool, While the majority of the budget could better be utilized in promoting the already-known high-end brand of Bauknech to reinforce

WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS 12 consumer's decision paying for the product at a price premium matching the price discrimination strategy adopted in Europe. The continuous rotation of European management affected local distribution partners due to having constantly-changing management styles and initiatives. The company placed the two main European manufacturing centers in Italy where labor is expensive while they could've been placed in Eastern European locations.

Similar to the situation in the European market, the company did not carefully study the Asian market characteristics, logistics, and competition before entry. Many distribution, labor, behavioral, and demand-related issues were discovered after the entry which indicates a poor market research prior to making the investment decisions. The choice of Asian domestic companies

to form ventures focused on operational capabilities more than the knowhow and technical competency in their area of specialty.

In Latin America and after nearly 60 years since entering the Brazilian market, and with a steady performance for Whirlpool there, the company continued to focus most of its integration investments in Brazil and Argentina and did not leverage the valuable market knowledge into neighboring countries such as Mexico where more potentials for successful market development in terms of sourcing and selling exist, especially with a highly-fragmented competition pattern, high potentials for new entrants to lead the market exist. 4 This increases the potential risk of external environmental factors that can put the whole regional unit in risk. Poor planning for macro environmental dynamics had its share from Whirlpool's declining performance. The unexpected Asian financial crises in the late 1990s had a strong impact on Whirlpool's operations in Asia affecting consumers spending and demand. The reaction to this change was clearly not effective. Cutting work force alone did not help generating more business. The affected region could've been used as a global industrial center WHIRLPOOL's GLOBAL STRATEGY CASE ANALYSIS 13 hat integrates in a global strategy for exports to other healthier economies during the crises. The governmental economic regulations in Brazil also had a strong impact, yet the crises could've been avoided if the company did not depend primarily on the Brazilian market and developed other markets in neighboring countries. Recommendations In terms of sourcing and entry strategies; Whirlpool should rethink its global sourcing and manufacturing strategies within a true

global context. Intensive investments to build end-to-end and wholly-owned manufacturing facilities in all markets might not be the effective strategy.

Instead, the company should move into more strategic alliances and less foreign direct investment especially in global locations where local market knowledge is crucial for success such as the Asian market. The company can build assembly plants for its products' crucial components are in sourced globally through joint ventures and wholly-owned subsidiaries, intermediate components can be outsourced through OEMs or strategic alliances across the globe, and finally, owned or even outsourced assembly plants can be placed in strategic global locations for regional exports. 5 Multinationals aiming to establish a long-term market development, especially when local knowledge, sourcing constrains and high degrees of uncertainty exist should think to form more strategic alliances. The strategy can be less risky than foreign direct investment or joint ventures. 56 In terms of long term planning, the company should plan to allocate main global assembly centers in Eastern Europe, Mexico, Brazil, India, and China.

These centers should produce at least 70 percent of Whirlpool's total production within the next five years, while keeping core components manufacturing in the developed world close to the central research and development centers. In each global region, a central product WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS localization research and development center should exist to oversee all local product characteristics, manufacturing, branding and market researches around customer needs in each 14 country.

A global function should lead and integrate all the regional localization centers into one global strategy. In terms of product and marketing strategies; in saturated markets such as in the US and Europe, companies should adopt more concentric and conglomerate diversification strategies marketing the same products to new buyers such as; house contractors, hotels, and hospitals. The company can also offer new and unrelated products and services to its customers such as appliance maintenance services and consumer electronics for new product lines.

The company can also encourage replacement sales through pulling demand from new product innovation, high-tech features, environmental engineering, and design differentiations (See Exhibit 7). Like the successful example in its US distribution, Whirlpool can leverage the strategic alliances with distributors to expand together in new markets through joint ventures in Mexico, Canada, and Brazil. In terms of branding; the company needs to build more on top of the success of acquired brands towards globalizing them instead of promoting Whirlpool brands from scratch in all markets.

Building a stronger e-commerce platform represents a great opportunity in developed markets of the US and Europe minimizing huge margins for large retailers with high bargaining power, especially in small kitchen appliances categories where lower buyer involvement is needed. This can also be done through strategic alliance with leading e-commerce specialists. In emerging and fast-growing markets where Whirlpool still don't have solid footsteps such as Asia, the company should continue its concentrated growth strategy,

yet reform it into a more focused approach growing in a single category, then penetrating to another.

In Latin America, Whirlpool should also focus on concentrated growth and seek vertical integration with retailers through alliances and joint ventures (See Exhibit 7). WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS

Exhibit 1 -Whirlpool Global Production Markets 199 M 97 15 Whirlpool'

International Operations - 1997 ' s | Sources: Whirlpool Annu Report- 199 57

W ual 97 WHIRLPOOL'S GLOBAL STRATEGY CASE ANALYSIS 16 Exhibit 2 -

Whirlpool Corporation Financial Analysis Year Current Accounts Assets

Receivables Inventory Fixed Total Current Total Tax Expense Debt Interest

Expense EBIT Net Sales Net Income Shares Share

Assets Assets Liabilities Operating Expense Outstanding Holders Equity 1998

1997 1996 1995 3, 882 4, 281 3, 812 3, 541 2, 117 2, 366 1, 565 1, 711 1, 029 1, 034 1, 170 1, 100 3, 662 3, 839 5, 262 5, 511 7, 800 8, 015 8, 270 7, 935 3, 829 4, 022 3, 676 3, 267 6, 311 8, 331 8, 229 9, 596 100 81 -9 209 3, 910 4, 103 3, 758 3, 350 141 165 168 260 242 130 -171 564 8, 347 209 8, 696 156 8, 617 -46 10, 323 310 81 81 82 83 1, 796 1, 845 1, 689 1, 918

Table 1 Whirlpool Financial Figures - 1995- 1998 Sources: Whirlpool

Corporation's Global Strategy- 2001, 58 Whirlpool Annual Report- 199759

Year Current Ratio Quick Ratio

Inventory Turn Over 8. 112 8. 41 7. 365 9. 385 1998 1997 1996 1995 1. 01

1. 06 1. 04 1. 08 0. 75 0. 81 0. 72 0. 75 Current Assets Turn Over 2. 15 2.

031 2. 26 2. 915 Days Sales Outstanding 9. 257 9. 931 6. 629 6. 05 Fixed

Assets Turn Over 2. 279 2. 265 1. 638 1. 873 Total Assets Turn Over 10. 7
 10. 85 10. 42 13. 01 Debt Ratio Debt to Equity Times Interests Earned 17. 16
 7. 879 -10. 2 21. 69 Profit Margin Basic Earning Power 3. 103 1. 622 -2. 07 7.
 108 Return on Assets 2. 679 1. 946 -0. 556 3. 907 Return on Equity 3. 312 1.
 873 -0. 559 3. 231 50. 1 51. 2 45. 4 42. 48. 3 50. 7 45. 8 40. 4 2. 504 1. 794 -
 0. 53 3. 003 Table 2 Whirlpool Financial Ratios - 1995- 1998 Sources of
 Financial Figures: Whirlpool Corporation's Global Strategy- 2001, 60
 Whirlpool Annual Report- 199761 WHIRLPOOL's GLOBAL STRATEGY CASE
 ANALYSIS Exhibit 3: Whirlpool Assets Management Ratios - 1995- 1998 14 12
 10 Ratio 8 6 4 2 0 1998 1997 Year Sources: Whirlpool Corporation's Global
 Strategy- 2001, 62 Whirlpool Annual Report- 199763 1996 1995 Inventory
 Turn Over Days Sales Outstanding Fixed Assets Turn Over 17 Current Assets
 Turn Over Total Assets Turn Over

Exhibit 4: Whirlpool Profitability Ratios - 1995- 1998 8 6 4 Ratio 2 0 1998 -2 -
 4 Year 1997 1996 1995 Profit Margin Basic Earning Power Return on Assets
 Return on Equity Sources: Whirlpool Corporation's Global Strategy- 2001, 64
 Whirlpool Annual Report- 199765 Exhibit 5: Whirlpool Asset Management and
 Profitability Competitive Position - 1997 10 8 6 4 2 0 Whirlpool GE 66 9. 5 6.
 7 4. 7 2 2 6 Return on Assets Profit Margin Bosh Seimense Sources: Whirlpool
 Corporation's Global Strategy- 2001, GE Annual Report - 1997, 67 Bosch-
 Siemens Annual Report - 1998, 68 Whirlpool Annual Report- 199769

WHIRLPOOL's GLOBAL STRATEGY CASE ANALYSIS Exhibit 6:

Whirlpool Debt Management Ratios - 1995-1998 R 60 50 40 Ratio 30
 20 10 0 -10 -20 1998 1997 Year 1996 1995 De Ratio ebt De to Equity ebt 18

Times Interests E Earned Sources: Whirlpool Corp W poration's Glob
Strategy- 20 70 Whirlpo Annual Rep bal 001, ool port- 199771 Exhibit 7:
Whirlpoo Global St 7 ol trategy Form mulation - G Grand Stra ategy Matrix x
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