Strategic alliance

Business

Strategic Alliance – Whirlpool Corporation and Inland Steel CASE Faced with intense competition, increasing expectations from customers, reduced product life cycles, and localized geographic markets, Whirlpool Corporation (a Fortune 500 manufacturer of appliances) realized that the need to achieve a competitive advantage from its sourcing and material efforts was greater than ever. Part of the strategy to achieve this advantage involved pursuing an alliance with a key steel supplier. Steel is a major component used across all of the company's finished products (such as washing machines, dishwashers, refrigerators, and others).

The purchasing managers at Whirlpool faced a number of questions with regard to their purchasing strategy: •What do we need to do to be competitive? •Who is best suited to be the primary steel supplier? •What do we need to know, and how do we get the information required to answer this question, especially with regard to our organizational culture, technological roadmap, and where both organizations are moving in the long term? •How do we implement a strategic alliance? •How do we establish a strategic alliance in terms of confidentiality agreements, termination agreements, and negotiation strategies? How do we provide the supplier with evaluations to ensure that this alliance continues, with regard to continuous performance, goal achievement, and commitment? •What do we do if we do not meet our objectives—change the situation or simply terminate the agreement? Whirlpool realized it needed to reduce the number of steel suppliers it used and locate a supplier with a common desire to enter into a longer-term alliance. Whirlpool's organizational goals were to leverage the selected supplier’s technical capabilities through early supplier involvement, day-to-day redesign support, and process improvement.

At the same time, top executives realized that in order to obtain these benefits, it was important that the supplier partner perceive value in the relationship.

While all of this was occurring in 1984 at Whirlpool, the management team at Inland Steel was considering a different set of questions. Four vice presidents of marketing at Inland Steel, an integrated steel producer located in the same geographic region as Whirlpool, were reviewing their market strategies and the recent changes that had occurred in their strategic alliances. They had made the decision to reduce their customer base, and were forming a new management plan.

This was part of Inland’s Customer Relationship Management strategy, which entailed reducing their customer base in order to serve only their preferred customers that would yield the highest long-term profitability for the company. This strategy was a direct result of Inland Steel’s total quality management program, which dictates that to delight the customer, one must identify key markets and focus on those markets.

A major component of this market strategy was to approach key customers with the idea of entering into long-term agreements.

In doing so, Inland Steel realized that the best opportunity for reducing costs was to become involved early in new product design with key customers. However, to achieve this objective, the vice presidents realized that significant capital investment would be required to update Inland Steel’s facilities with state-of-the-art steel processing technology to align technologies with key customers. In some cases, this involved some degree to risk, as aligning capital investments with specific key customers could " shut out" new business with other potential customers.

However, the management team reached a consensus that the only way to succeed in the current market structure was to reduce costs through early involvement in customer new product designs, and to back this up with capital investments in design capabilities and new facilities. Meanshile, Whirlpool executives were mulling over whether Inland Steel was the right supplier to form an alliance with.

Whirlpool Corporation had used Inland Steel as a supplier for several years, but had used many different steel suppliers during this period.

The strategy of forming a formal buyer-supplier partnership was a relatively new one. As these two companies explored the idea, it became obvious that a complementary common strategic vision existed between the two companies, which could make such a partnership a reality. This common vision was based on the fact that the Whirlpool Corporation needed to sustain a competitive advantage and support its direct customer relationships, while Inland needed to manage the transition inherent in a customer-focused market strategy.

Thus, Whirlpool Corporation sought to work with Inland Steel to realize reduced costs vis-a-vis the competition, and Inland sought to obtain a major share of Whirlpool's steel contract.

While this initial concept seemed straightforward, it required almost seven years to make it a reality. The vision was made a reality by first understanding that reducing cost did not simply mean lowering the price paid per ton of steel, but rather to take cost out of the business processes, which takes much more time.

Linkages throughout every step of the value chain, not just between purchasing and sales, had to be established (See Exhibit 1). The end goal became to maximize profitability at both companies, while not relying on explicit formulas and equations formalized in contract form. Along the way, the companies encountered a number of obstacles.

However, as the vice president of purchasing at Whirlpool Corporation described the process, “ Neither of us let these problems get in the way of cost reduction efforts, which in the long run far exceeded the changes in market steel prices. Overcoming the obstacles in the relationship required a seamless organization and the elimination of levels of bureaucracy. Functional personnel in each firm had to be able to communicate directly with their counterparts in the other firm, all the way to the chief executive office. The underlying foundation of the relationship was challenged many times during the early years. “ The reason why this relationship works,” says the vice president of marketing at Inland Steel, “ is that Whirlpool Corporation created an environment that allowed questions to be laid out on the table every time a new issue came up. A Roadmap to Trust The following is a timeline of the development of the strategic relationship between Whirlpool Corporation and Inland Steel.

In 1984, Inland Steel began to share its market strategy and management vision with Whirlpool. The sharing was unique because the supplier (Inland Steel) actually took the initiative when pursuing the strategic alliance. By 1986, Whirlpool had reduced its supply-base from eleven steel suppliers to seven, and Inland had invested over $1 billion in new capital investment.

This investment was specifically designed for Whirlpool’s steel requirements in the appliance industry, which could not be used in their other major market, the automobile industry. Inland Steel needed to be granted access to Whirlpool’s engineering personnel to identify the different ways that Whirlpool Corporation was using steel and convert these into process specifications.

At this point, Inland was given assurances that it would receive a larger volume of Whirlpool’s orders. One of the most important of Whirlpool’s later actions was that the company actually did place the orders it said it would.

In 1988 and 1989, the alliance was reevaluated by Whirlpool Corporation, and Inland’s orders from Whirlpool increased by 30%. Simultaneously, Inland began the first of their joint cost-reduction projects, which sought to eliminate cost from the business processes. By 1990, Whirlpool had reduced its number of steel suppliers to four.

The companies held a joint leadership meeting to bring discussion of the alliance to top management’s attention and to formally develop a supplier council. The companies also developed a long-range vision, which was deemed critical to the success of the partnership.

The alliance solidified in 1993. By this time, Inland Steel had established resources at its technical center dedicated to the needs of Whirlpool. In 1994, Whirlpool increased its orders to Inland Steel by another 15%, bringing the total to approximately 80% of Inland's total steel requirements.

At this point, the two companies were sharing joint strategies, and Whirlpool's organizational restructuring was developed around the Inland Steel relationship. Purchasing management was actively involved in top-level strategic planning.

To date, the strategic relationships between Whirlpool Corporation and Inland Steel is in place and producing benefits that a traditional relationship could not have produced. Issues and Concerns In the process of developing greater trust between the two organizations, the companies had to address a number of issues directly. First, different employee practices between the two companies often led to conflict. This conflict was reduced in part by promoting greater cross-cultural interaction, such as having a purchasing manager work at the supplier's plant, which helped to smooth over any differences in corporate culture that existed.

The sharing of cost data was also problematic, but this happened in segments so as to target specific cost drivers in different areas of the business process. In the long run, by focusing on quality improvements and reject-rate reduction, hourly labor costs became almost a non-issue. Even though Whirlpool had several CEOs during this period, the relationship between the companies remained intact because of the level of trust that had developed over time. The relationship was no longer between people but rather between organizations.

Inland Steel was also concerned that a single-sourcing policy might cause it to lose touch with the market, and was concerned with confidentiality of information.

At the same time, Whirlpool was concerned about the technological risks of relying on only one supplier. However, these concerns were ultimately dwarfed by the belief that both companies would be low-cost producers in the long-term because of the relationship. Mechanisms to Support the Relationship

Executive management at both companies recommend that organizations considering pursuing partnerships need to think early on how they will deal with issues such as those just mentioned. Although there are no single right or wrong answers, there are different approaches to these issues that must be tailored to the specific situation. For example, significant organizational realignment was needed so that people could work specifically with their counterparts in the other firm. The creation of a supplier council was also instrumental to the relationship.

This approach permitted the sharing of strategies and tactics so that each party became aware of each other's activities. Senior management discussion, both structured periodic meetings and informal spontaneous telephone conversations, also helped promote greater trust. Quarterly performance reviews by Whirlpool were helpful to Inland for understanding how well they were meeting performance expectations. Engineers from Inland were also co-located at Whirlpool's product development center, which created many other informal avenues for communication.

Recently, Whirlpool has begun to apply the same “ customer service” principles used by Inland to their own customer based.

Whirlpool CEO David Whitwam redefined his company’s mission as a fabric-care of a food-preservation enterprise rather than as a washing-machine or refrigerator maker. Whirlpool sales executives recognize that certain distribution channels make up the majority of their sales volumes – in this case, what they call the “ Power Retailers”, such as Circuit City, Sears, and Electric Avenue. These retailers demand 100% availability, and Whirlpool’s logistics managers meet this expectation.

A second set of customers, building contractors and government agents, purchase in smaller volumes, but also require higher levels of customer service. Thus, they promise close to 95% availability for this group.

Finally, the “ Discount Outlets and “ Mom and Pop” operations require 85% availability, as they purchase infrequently and in smaller volumes. In effect, a different customer service standard is set for different customers, depending on how important they are! This same principle is used by the airlines, who reward their “ Frequent Fliers” with upgrades, preferential seating, and advance boarding.

The underlying outcome for both parties in this agreement is that the relationship became viewed as a covenant, which implies a greater commitment than a contract. In the words of one Inland Steel executive, “ A covenant implies a promise that is enduring and provides a way to manage expectations. The single most important tenet of the relationship is the need to satisfy the end consumer who purchases the finished appliance. By focusing on this covenant, the relationship should survive and prosper over the long term.

” Assignment

The following questions relate to ideas and concepts presented throughout this book. 1. Discuss what the following statement means: ‘ It can take years for a buyer/seller partnership to begin delivering results. ‘ 2. Discuss the advantages of having point-to-point contact (Exhibit 1) between functional groups at different companies. Are there any disadvantages to this approach? 3.

What role does trust play in the relationship between Whirlpool Corporation and Inland Steel? Provide examples from the case that illustrate trust within this relationship. 4.

Why is it important to have a strategic fit between the companies involved in a buyer/seller alliance or partnership? 5. When formulating its purchasing strategy, what other strategy alternatives besides an alliance with another company could Whirlpool Corporation have pursued? 6. How can the companies involved in a buyer/seller partnership tell if the partnership is successful? What specific indicators can the companies use to measure progress and performance? 7.

Under what conditions might the parties to the alliance discussed in this case dissolve or end the relationship? How can firms minimize or manage the bumps, hurdles, or conflicts that often occur when firms join together in an alliance or partnership? ? What is a supplier council? What role does a council have in supporting the strategic supplier alliance between Whirlpool

Corporationand Inland Steel? EXHIBIT 1 Supply Chain Linkages Between Whirlpool Corporation and Inland Steel SupplierBuyer ManufacturingManufacturing Human resourcesHuman resources AccountingAccounting EngineeringEngineering Sales/MarketingPurchasing