

Star appliances 10641 essay



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Quality For

over thirty years, Star Appliances Inc. has been helping people to manage their

homes. Today, Star Appliances Inc. is one of the major competitors in the household industry and one of the most selling brand in America. Star Appliances

Inc. Mission is to: § Achieve technology excellence in current and future generations of products, processes, and services. § Develop innovations by creating entirely new business opportunities. § Help solve critical technical challenges. § Attract and develop new technical leaders. § Ensure leadership technology in all departments of Star Appliances. § Drive corporate initiatives across Star Appliances. § Expand its market by exploring a global economy Satisfaction All Star Appliances products contain proper warranty information.

Each appliance comes with a pledge of Satisfaction Guaranteed or your money

back. Star Appliances offers maintenance agreements and annual check-ups to keep

your appliances running right. And should anything ever go wrong with your Star

appliance (and we hope it never does), we offer a nationwide network of service

technicians to make sure it gets fixed fast and fixed right. Value When you compare feature-for-feature, you'll find that Star Appliances offers more for the money than any other brand. Maybe that's why s leading consumer magazine

recently ranked Star's washers, dryers, and vacuums NUMBER ONE in their respective categories. Have questions or need more information about new Star

products? Call 1-888-1ST-STAR or speak to a Customer Service Representative For

service information or to schedule a service, call 1-800-4MY-STAR. Star

Appliances Inc. Company Objectives Integrity Integrity is an uncompromising characteristic for all Star Appliances employees. It is an implicit factor in customer relationships and the cornerstone of all Star Appliances business activities. Along with the company's reputation for innovation, growth and success, we value integrity among the essential and critical elements in our employees. It is the baseline by which we measure everything else and from which

we never compromise. Creativity Star's continued success is the result of its employees' creativity. Every day, teams of Star Appliances people push the frontiers, developing new products and services to serve their customers.

Focusing on highly specialized financial services segments, our people develop a

unique understanding of customer requirements as they apply their collective

talents to solving industry challenges. Intellect At Star, we've never separated

ideas from actions—both are essential elements of the competitive equation.

Developing the most advanced financial product or innovative service is

meaningless if you don't move quickly to get it to market and delivered to customers. The people from Star understand the importance of both ideas and

action to maintain the company's position as one of the leaders in the market.

Quality as a corporate objective: Company-wide Quality, as a corporate

objective, means attaining a level of overall performance and attitude that

makes Star Appliances the natural choice of customers and earns the respect of

all those affected by the Company's activities. Company-wide Quality, as an individual objective, is achieved by employees who aspire to be better than the

best. Star Appliances is committed to providing flexibility in the design,

calibration, repair, and testing services to customers while maintaining a

consistent, optimum level of quality. The services we offer include standard

service packages as well as customized service capabilities to accommodate

unique customer requirements. Our business-wide commitment to meet the needs of

customers is the foundation for the Quality System. Star Appliances is dedicated

to maintaining close relationships with our suppliers. The overall objective is

to make certain that we exceed our customer's expectations. Company

Profile q

Historical Outline Star Appliances Inc. designs, manufactures, sells and

supports a line of household appliances. The company was started in 1970

and has

grown steadily to its current size. Star Appliances has its head office in

Bridgeport, CT and about 8 domestic branch offices. The two major factories are

located in Iowa and Texas. Star Appliances Inc employs approximately 500

personnel. The company went public in 1984. Today, Star Appliances Inc has taken

around 15% of the U. S. household appliances industry. Star Appliances Inc. has

international markets, including Canada, Japan, and Mexico. v Focused Management

With premium business management teams, we can provide our customer better

service, sharpen our product focus and increase the efficiency of our own

personnel. v Accelerated Sales By consistently creating the leading products in

our respective markets, Star Appliances Inc. has developed valuable brand equity

and an enviable record of sales growth. The increased breadth of our product

line, the organization of our sales and marketing, the diversity of our

complementary markets and our refocused R&D all work to enhance Star's

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sales potential. v Scale Star Appliances Inc. has nearly doubled the number of

of our facilities, greatly increasing our capacity and resources. We, a large size company, enable us to successfully complete and fulfill significantly larger orders, increase the comfort large customers have in doing business with us and

provide opportunities in the future further development of our company. q

Financial Statements SWOT Analysis Strengths § Complete product line§

Good

reputation§ Customer loyalty § Employees' creativity§ Being in business

nearly thirty years.§ High quality products§ Excellent after-sale services§

Experienced management teams§ Experience in foreign exporting§ Excellent

performance in foreign markets § Sufficient capital resources to support

expansion.§ Sales increasing steadily § Well-trained repair technicians

Weaknesses § Unfamiliarity with foreign markets due to insufficient research§

Small market shares in the U. S.§ Infrequent participation in exhibitions, thus,

lack of exposure to potential buyers§ Minimal advertising and weak promotion §

Infrequent participation in exhibitions, thus, lack of exposure to potential buyers

Opportunities § International Expansion § Innovative R&D § Further developments in unsaturated markets of Japan, Canada, and Mexico§

Developing

online interactions with customers in Japan, Canada, and Mexico§ Relatively less American competitors in Hungary§ Hungarian standards of living are fast growing

Threats § Intense competitions§ New competitors in the same industry

Business Strategy Business Strategy § Product niche; § Price competitiveness;

§ Appropriate after-sales service; § Right Voltage (220 not 110) - Hungary

Marketing Mix § Product - Star Appliances produces complete lines of basic and major household appliances. Household electrical appliances include housekeeping appliances (washing machines, vacuum cleaners, electric irons),

cooking and kitchen appliances (refrigerators, microwaves ovens, toasters),

air conditioning equipment (air conditioners, fans, air purifiers). We are going to

promote three different categories of our products, which are washer, dryer, and

vacuum cleaner, in our new market Hungary. We select seven kinds of products

from those three categories to enter the foreign markets first. While in Mexico,

Japan, and Canada, which are our existing markets, Star Appliances, Inc will keep the same product categories and introduce innovative small appliances to

those markets. By setting up the manufacturing plant in Mexico, Star Appliances,

Inc will manufacture the whole lines of household appliances. Total output will

depend on production capacity, demand forecast, quarterly financial planning and

other related cost. Output of each line of appliances will mainly depend on estimated demand and inventory level. According to industrial needs and upon

customer's request, Star Appliances, Inc will make certain customization while

maintain our quality standards. § Price – As of the Hungarian Market, reliability and appropriate credit, guarantee and servicing terms are all those factors which are taken into account by the Hungarian end-users and distributors

in the purchase decisions. Home delivery is an attracting factor used by many

retailers over a certain purchase value mostly above HUF 50, 000 (USD 240) and

after-sales services are also essential because Star Appliances, Inc is

determined to establish a significant long-term presence in Hungary. Star

Appliances, Inc. will offer competitive prices compared to our competitors.

Star

Appliances, Inc. provides two-year warranty for washing machines dryers, and

vacuum cleaners, which is double the warranty time than other suppliers. §

Place – Foreign brands distributors have either established their own

distribution operations and exclusive product showrooms in major Hungarian

cities or find it easier and more convenient to appoint a local agent /

distributor who acts on a commission basis while distributing their products.

Star Appliances, Inc will find a local distributor in the capital city, Budapest, to distribute our products. The local partner should be capable of waging promotional campaigns, maintaining spare parts and accessories and carrying sufficient stocks. Reliability, timely deliveries and efficient, low-cost, and after-sale service capabilities are key factors in Hungary. Since Hungary is a sophisticated but relatively small market, it is advisable to negotiate an exclusive distribution arrangement when the right company is located. § Promotion – Star Appliances, Inc. wishes to market our household appliances to Hungary and wants to appoint an exclusive local agent/distributor

who acts on a commission basis. The representative should be able to set up promotional campaigns with the financial help of Star Appliances, Inc. and maintain an extensive household appliance inventory carrying a large range of stock kept in a bonded warehouse. There is a wide range of commercial television, radio, newspapers and magazines advertisements as well as direct

mail services. We decide to use television advertising, because it can reach

more than 80 percent of Hungarians. A single showing of a 30-second commercial

in Hungarian costs between USD 5,000-8,000 depending upon program ratings and

timings. A 30-second radio advertising at a national commercial radio station

would cost around USD 600. We will also look into other promotional methods such

as participation in international trade fairs, exhibitions and business to

business promotions. Analysis of Major Competitors in Household Appliance

Industry § Kenmore - The Kenmore company has been on the market for over 70

years. Today, it is one of the best selling brands of home appliances in

America. Kenmore sells its products through Sears, a large appliance retail

chain. Every Kenmore appliance comes with Sears pledge of Satisfaction

Guaranteed or person's money back. Sears offers maintenance agreements and

annual check-ups to keep the appliances running right. Sears offers a nationwide

network of technicians to make sure that their products get fixed fast and fixed

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right. § Whirlpool – Whirlpool Corporation is the one of the world’s leading manufacturers and marketers of major home appliances. The company has principal manufacturing operations and marketing activities in North and South America, Europe, and Asia. Whirlpool’s primary brand names — KitchenAid, Roper, Bauknecht, Ignis, Brastemp, Consul and its global Whirlpool brand — are marketed in more than 170 countries worldwide. In North America, Whirlpool is the largest supplier of major appliances to Sears, Roebuck and Company under the Kenmore brand. Whirlpool manufactures and markets a full line of appliances in each market it serves worldwide: clothes, washers and dryers, refrigerators, freezers, dishwashers, ranges, compactors, room air conditioners and microwaves, together with portable appliances such as stand mixers, hand mixers and blenders. § Kirby – The Kirby Company has been in the market for more than

years. As a Division of The Scott Fetzer Company, they have produced fine Home

Care System in the world. Kirby focuses on providing quality, reliability and service. Although their prices are much higher than those of other vacuum cleaner producers they have enjoyed a steady flow of new customers who are more

interested in quality. Kirby's vacuum cleaners are designed for people who have higher income and who appreciate cleanliness. Kirby products are only sold

through in-home demonstrations. Through their 85-year history, Kirby has shown

that the in-home demonstration allows potential customers the chance to see how

the system can meet their unique cleaning needs. § Maytag - Maytag was founded

in 1893. Maytag Corporation is a leading producer of home and commercial appliances. Its products are sold to customers throughout North America and in

targeted international markets. Maytag also is the majority owner in a China

joint venture with Hefei Rongshida, a leading washing machine company that is

expanding into the refrigeration business. The company produces premium brand

major appliances such as washers, dryers, dishwashers, cooking appliances, refrigerators, vacuum cleaners, extractors, commercial cooking, laundry, floor

care equipment, and vending machines. In 1999 the company increased its sales to

4.3 billion dollars from 4.07 billion dollars in 1998. As a result of this, gross profits rose by 70 million. The company currently pays .72 dollars per share to its shareholders. Net income rose by 48 million dollars. § GE - GE is

a diversified services, technology and manufacturing company with a commitment

to achieving customer success and worldwide leadership in each of its businesses. GE operates in more than 100 countries and employs nearly 340,000

people worldwide, including 197,000 in the United States. John F. Welch has been

Chairman and Chief Executive Officer of GE since 1981. The Company traces its

beginnings to Thomas A. Edison, who established Edison Electric Light Company in

1878. In 1892, a merger of Edison General Electric Company and Thomson-Houston

Electric Company created General Electric Company. GE is the only company listed

in the Dow Jones Industrial Index today that was also included in the original

index in 1896. Revenues of the company for 1999 are \$111.6 Billion. 1999 Net

Earnings are \$10.7 Billion and the number of shareowners is about 2.1 Million

International Expansion 1. External Environment § Demographic - The

population was 10,208,127 (July 1998 est.) Age structure was as follows: 0-14

years: 18% (male 915,412; female 872,706) 15-64 years: 68% (male 3,413,170;

female 3,533,085) 65 years and over: 14% (male 550,974; female 922,780) (July

1998 est.) The population growth rate was -0.23% (1998 est.) Ethnic groups are

Hungarian 89.9%, Gypsy 4%, German 2.6%, Serb 2%, Slovak 0.8%, Romanian 0.7%.

Hungarian is the major language. Other language speakers are only 1.8% of the

population. § Political/Legal - Country name in the conventional long form is

Republic of Hungary, and in conventional short form is Hungary. The local long

form is Magyar Koztarsasag and the local short form is Magyarorszag. The

Government type is republic. The national capital is Budapest. § Economic -

Hungary has consolidated its March 1995 stabilization program and undergone

enough restructuring to become an established market economy.

Consequently,

Hungary's economy has been growing rapidly over the last six years.

Hungary has

made significant progress in stabilizing inflation through effective

implementation of monetary policy. In the early 1990s, Hungary's economy

experienced high rates of inflation, reaching a peak of 30 percent in 1992-93.

With the help of market stabilizing efforts the inflation rate dropped to an annual 12 percent by the end of 1998. The targeted rate for 1999 is to reach single digits. The government's main economic priorities are to complete structural reforms, particularly the implementation of the 1997 pension reform

act (the first in the region), taxation reform, and planning for comprehensive health care, local government finance reform, and the reform of education at all

levels. Foreign investment has totaled more than \$17 billion through 1997. In recognition of Hungary's improved macro-economic situation, all major credit-rating agencies listed the country's foreign currency debt issuances as investment grade in 1996. The current IMF stand-by arrangement expired in February 1998, and Budapest and the IMF agree that there is no need to renew it.

The OECD welcomed Hungary as a member in May 1996, and in December 1997 the EU

invited Hungary to begin the accession process. Forecasters expect 4%-5% growth

in 1998. GDP's purchasing power parity is \$73. 2 billion (1997 est.) GDP's real growth rate is 4. 4% (1997 est.) GDP per capita purchasing power parity is

\$7, 400 (1997 est.) Inflation rate-consumer price index is 18% (1997 est.)

Unemployment rate is 9% (1997 est.) As a small country with a relatively small

domestic market Hungary's economy is highly dependent on foreign trade.

International trade in goods and services amounted to approximately 80 percent

of the GDP during the last three years. § Sociocultural - English is regularly used in business contexts. There are, of course, firms, especially smaller ones,

whose principals do not speak English. In these instances, an interpreter is

often made available. It is nonetheless prudent to ask in advance what

interpretation provisions have been made for a meeting. Hungarians address each

other by their family names first, followed by their given names (e. g., Smith

John). Business cards follow this convention unless printed in English. It is always advantageous to learn basic greetings in Hungarian. Even the most minimal efforts will be appreciated by Hungarian business partners. § Global - Real wages especially in the private and banking sector are expected to increase 3-4 percent in 1999 and beyond during the following years. The recovery should result in excess disposable household income and could stimulate further demand for small household appliances such as toasters, sandwich makers, fryers etc., which were not typically a part of Hungarian households in the past. Additionally, there is a developing and distinctly upwardly mobile entrepreneurial class, which accounts for about 5 percent of the total population. This segment of the population has more income to spend on luxury goods and is less price-conscious. This group has easy access to household appliances and it is the main purchaser of more upscale items such as automatic

dishwashers, washer-dryers, etc. Imports have increased as a result of CEFTA

liberalization of trade policies and the potential threshold membership with the

European Union. The free trade agreements called for elimination of all duties

on products with the exception of textile and steel products and have increased

business opportunities for European firms through liberalization of trade. U. S.

imports face a more difficult situation due to comparatively higher import duties for imported American products. 2. Industry Analysis v Household

Appliances Industry Summary 1. The total market for household consumer goods in

Hungary was \$589 million in 1998. Consumption is expected to grow slightly and

the total market for household appliances might reach \$620 million by the end of

1999. 2. Since the beginning of the 1990s, there has been a much larger product

selection in the Hungarian market in household appliances - especially the white

goods - owing to increased imports and increased local manufacturing of Western

brands which has contributed to rising consumer demand. This development is

somewhat surprising due to an overall drop in real wages over the same period.

Further growth can be expected over the coming years as consumption levels began

to increase last year. Foreign and domestic brand competition has tightened, and

both quality and price now play an important role in consumers' decisions. 3.

The Hungarian market for household appliances relies on imports from a mix of

countries; among the most important ones are European Union countries (led by

Germany), Japan and the U. S. During 1997, the market for appliances in Hungary

grew by more than 8 percent over 1996. The total market is expected to continue

to grow at about an annual 4-5 percent over the next three years. Imports in 1998 were \$320 million, representing a 7 percent increase over the previous year. Imports from the U. S. amounted to \$22 million, a slight 2 percent increase

over 1997 import level. Of the \$22 million, \$16 million were large appliances, chiefly washers, dryers, dishwashers, refrigerators and freezers, and \$6 million

were small appliances. Best prospects in this category are washing machines,

dryers, vacuum cleaners, hair dryers, HI-FI sets and VCRs. The Hungarian market

for household appliances has shown an overall improvement over the past three

years, and is considered to be a promising market for American products. 4.

Household appliances include the following: - Non-kitchen appliances, e. g.

washing machines & dryers; - Small appliances, e. g. hair dryers, irons; -

Kitchen appliances, e. g. refrigerators, microwaves and dishwashers; -

Household

electronics, e. g. TV sets, VCRs, HI-FI sets. 5. Market Highlights STATISTICAL

DATA (USD million) 1998 1999 2000 Import Market 320, 2 339, 2 359, 5

Production

410, 2 417, 5 428, 3 Exports 141, 0 143, 5 144, 2 Market Size 589, 4 613, 2

643, 6 US

Exports to Hungary 22 23, 1 24, 3 Exchange Rates 192 240 278 Source:

Figures are

based on preliminary and partial data of the Central Statistical Office 1998

Publications, Budapest, Hungary, on " Foreign Trade Statistics" issued

by the Ministry of Economy, 1998 and " U. S.-Hungarian Statistics"

issued by Kopint-Datorg Market Research Company. Estimated Future

Inflation

Rate: 10% Last Year's Import Market Share (Percent for Major Competitors

and

US): Germany: 28%, France: 23% Japan: 21% Austria: 13% Italy: 9% U. S.:

6%

Estimated Future Inflation Rate: 10% or below USA: 8%, EU: 37%, Japan:

20%,

Korea: 17%, Others 12%. 6. According to market research, there is continued

demand for household appliances in Hungary. A reason for that is the wide

selection of internationally well known brands already available on the domestic

market. Previously, limited only to products produced by Hungarian manufacturers

("Energomat" washing machines or "Elekthermax" cookers), and

based on poor East-European quality, consumers are now confronted with thousands

of products — from relatively inexpensive Hungarian and former Eastern brands (Vjatka

- Russian, Eta - former East-German) to the most expensive brands (Electrolux,

Whirlpool, Bosch etc.). 7. The total number of households in Hungary is 3.9

million. Hungarian households spent about an annual 6-7 percent of their annual

income on household consumer goods during the past three years. Most popular

items include: refrigerators, freezers, microwave ovens, washing machines,

spin-dryers, vacuum cleaners and sewing machines. 8. Household appliances are

typically products that are purchased approximately every 5-7 years and

Hungarian populations are considered to be potential customers for these products. The only variation is that customers either purchase these products in specialized retail shops and stores or sample “black” market products in an attempt to try to save money. The black market continues to be significant for household appliances. Consumers purchase small kitchen appliances (mixers, coffee/tea makers, and irons) and even microwave ovens or TV sets and VCRs in the black market. The price level of such products is much lower than of those in legitimate stores but no warranty is offered on them. 9. Hungary’s GDP growth for 1999 is approximately 4 percent, with a USD 3, 600 GDP per capita. Due to import liberalization policies and Hungarian consumers’ preferences for foreign products, now is a good opportunity for European Union countries and American

firms to penetrate this market. The size of the Hungarian market for household

consumer goods reached \$580 million in 1998, and is expected to grow to \$600

million by the end of 1999. 10. Based on a marketing survey, only few homes have

electric razors for women or wet-dry vacuum cleaners. Hungarians prefer Braun;

Elin, Moulinex and Philips household appliance brands but Hungarian-made Hajdu/Energomat

hoovers and coffee makers produced in Szarvas (central Hungary) are also among

the top favorites. 11. Based on another public opinion poll, 6 percent of those asked consider purchasing washing machines and microwave ovens for their

households. Only 3 percent is planning to buy deep-freezer, 2 percent is

planning to buy fryers and only 1 percent said they plan to buy a dishwasher.

If

these plans are carried out, Hungarian households with microwave ovens will

reach 40 percent next year, while the ratio for washing machines will be 55

percent. There was a heavy increase in front-loading washing machines; while

only 8 percent of families had such washing machines in 1995 this number increased to 14 percent by the end of 1998. The top-loading washing machines

have a 40-percent market share but most of the households still have the traditional washing machines and spin-dryers. 12. End users for household

consumer goods include the following business and private entities: O

Importers/Distributors specializing in household consumer goods, O Retail stores selling mixed product lines but representing one or few brands of household appliances, O General Public, End Users and O Hotels and Hospitals.

v Competitive Analysis: 1. Domestic Production The major domestic producers are

Electrolux Lehel Hutogepgyar Kft., Hajdusagi Iparmuvek and Elekthermax Rt.

Electrolux Lehel Hutogepgyar Kft. O established in 1991 O over 3, 600

employees. O Their manufacturing unit located in Jaszbereny (North-East

Hungary). O Electrolux-Lehel is the largest unit manufacturing Electrolux

appliances in Central-Eastern Europe. O It manufactures mainly refrigerators

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with Zanussi and Electrolux brands. The vacuum cleaner production was taken over

by the Jaszbereny factory only in 1997 when the Italian Electrolux production unit refused to work in two shifts. O More than 80 percent of the production

goes for exports providing good turnover for the company. Hajdu Hajdusagi

Iparmuek Rt. O the oldest manufacturer of washing machines in Hungary. O

established in 1952 and transformed into Plc. in 1993. O more than 1, 000

employees. O It has been manufacturing non-automatic washing machines since the

1970s but introduced the new automatic, oEnergomato branded top-load washing

machine in the middle of the 1980s. These brands have been popular in the market

for a long time as spare parts supply was always assured at a reasonable price

and the retail price of these items made them extremely competitive with the

better but more expensive Western brands. O Recently, the price level of

Energomat machines has reached the level of its Western competitors so the

number of consumers buying alternative products increased. O Hajdusagi

Iparmuvek manufactures not only washing machines but spin-dryers and other small

household machines as well in accordance with Western ISO 9001 standards.

Elekthermax Rt. O originally established in 1920 but was privatized in 1990.

O

Currently, the Dutch Elekthermax Holding holds 97 percent of the shares and the

employees hold 3 percent. O around 800 employees O manufactures electric and

gas-operated ovens, cookers and heaters as well as rosette taps. O Most of

its exports are shipped to Germany, Poland and The Netherlands. Szarvasi Vas- es

Femipari Rt. O established in 1952 and transformed into a Plc. in 1997. O over

400 employees. O Its main activity is production of electric tea and coffee

makers, deep fat fryers and lighting appliances. Its main export markets are

Germany, Romania, Bulgaria, Slovakia and Sweden. 2. Foreign Competitors

a)

Third-Country Competition Third-country competition for household appliances is

extremely significant. In general, European Union manufacturers have gained the

largest market shares in the past seven years. German, French, Dutch, Korean and

Italian companies' products are available in all shops and stores specializing

for household appliances. The product lines include refrigerators, washing machines, vacuum cleaners, hair dryers, and kitchen appliances. Dutch and German

companies concentrate on offering a wide range of kitchen appliances, washing

machines, irons etc. The following European companies are active on the

Hungarian market: Company Source Country Available Products Bosch-Siemens

Germany kitchen appliances, vacuum cleaners, irons Braun Germany hair dryers,

irons, kitchen appliances AEG Germany washing and drying machines

Samsung Korea

TV/video sets, microwave ovens Goldstar Korea TV/video sets, microwave ovens

Philips Netherlands kitchen appliances, HI-FI sets Hitachi Japan TV/video sets,

kitchen appliances Sharp Japan TV/video sets, HI-FI sets Panasonic Japan

TV/video sets, HI-FI sets Moulinex France kitchen appliances Candy Italy washing

and drying machines Philips: Philips is one of the major third-country

competitors in the household appliances market. Philips is not only selling but

also manufacturing many of its products in Hungary. It opened its household appliance factory in Kaposvar (SW Hungary) in September 1998. The new factory

employs 300 people and by 2000, the plant expects to turn out two million home

appliances. Philips has invested about USD 100 million in Hungary through the

end of 1997 and will be investing another USD 75-100 million in 1998-1999.

Philips has a final assembly factory in Szekesfehervar (Central Hungary) where

it produces VCRs, stereo and combi TV sets. Philips has interests in other

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ventures in Hungary such as in Philips Car Systems Kft., Philips Monitor Hungary

Kft., PolyGram Publishing Kft., Passive Components and Philips Key Modules

Hungary Kft. b) U. S. Market Position American brands such as Whirlpool and

Melissa Butler are becoming more popular on the Hungarian market although their

market shares are still low, approximately 8 percent. For example, many American

companies are exporting products to Hungary from their European subsidiaries and

warehouses. Whirlpool Hungary: Whirlpool Corporation established its Hungarian

headquarters Whirlpool Hungary in 1992, which is 100 percent owned by Whirlpool

Europe. Whirlpool Hungary is only involved in distribution, logistics and marketing activities and products arrive in Hungary from the company's Western

European factories. Currently, Whirlpool Hungary has a nationwide partner and

servicing network. Whirlpool Hungary sold about 200 000 white goods in 1998,

which corresponds to a 30-percent increase compared with sales in 1997.

The

annual turnover of the company was HUF 6. 7 billion. Whirlpool is the market

leader with top-load washing machines and has a 34-percent market share in the

sales of microwave ovens. Whirlpool Hungary has around 300 trading partners in

Hungary that are wholesale, retail units and chain stores. Whirlpool products

are supplied to wholesalers such as Herta, Cash & Carry facilities such as

Cora, Auchan and Metro. Whirlpool Hungary opened its own brand-name show in the

downtown area. Every third household has at least one household appliance with

the Whirlpool brand. 3. Best Sales Prospects: Star Appliances, Inc. considers

the following product lines with good growth prospects: 1. Refrigerators 2.

Dishwashers 3. Washing Machines 4. Microwaves 5. VCR 6. Dryers 7. Hair

Dryers 8.

Vacuum Cleaners 4. Competitive Situation The Hungarian household appliances

market has been dominated by Korean, Japanese, Western-European and U. S.

products. Recently, U. S. market share has fluctuated around 6 percent of the

household appliances market. Imports of household appliances into Hungary account for 55 percent of the total market. Leading suppliers to the Hungarian

market in 1998 were Japan: 24 percent, Europe (EU): 23 percent, Korea: 12 percent, USA: 8 percent, others 12 percent. Next to European and Japanese products, U. S. products are also appealing to Hungarian consumers, particularly

large appliances, mostly washing machines, refrigerators enjoy good reputation.

Despite the fact that U. S. household appliance manufacturers enjoy a good reputation in the Hungarian market, U. S. exporters should not be complacent in

assuming that it is an easy market to enter. Companies like GE, Whirlpool, which

have local offices, were able to adopt their product design to meet Hungarian

technical requirements. The fact that the EU has a membership agreement with

Hungary provides more competitive opportunities both in terms of import duties

and freight rates for products imported from Western Europe than for those from

the United States. Dominant brands of household appliances in the market are as

follows: Korea : Samsung, Goldstar and Daewoo; Japan Hitachi, Toshiba, Sanyo;

U. S. GE, Whirlpool; Netherlands Philips, Atag, Pelgrim Germany Thompson, Bosch-Siemens,

Braun, Miele, AEG Hungary Orion Sweden Electrolux Italy Merloni, Candy, Ariston,

Indesit, Nardi France Moulinex, DeLonghi Spain Fagor Market share by product

categories: Washing Machines U. S., German, Hungarian; Vacuum Cleaners German,

Korean, Japanese; Dryers U. S., Japanese, Korean. . Japanese, Korean and German

products dominate mostly the Hungarian household appliances market, except for

washing machines market that has been dominated by the U. S.

“ Whirlpool” brand and refrigerators market dominated by the

Swedish-Hungarian brand “ Zanussi-Lehel”. 5. Product Name HS Code

Import Duty washing machines 8422 9. 5 percent spin-dryers 8421 8. 5 percent

vacuum cleaners 8509 10. 6 percent The Value-added Tax is 25 percent in Hungary

for all these products. 6. Testing procedures: Household appliances must undergo

quality testing before they enter the official Hungarian trade channel. These

testings are done by the Commercial Quality Control (KERMI) and Quality Control

Institute (MEI). KERMI: The most important tasks of KERMI are the testing and

approving of the products as well as registering imported and domestically-made

consumer articles prior to entering the distribution channel. A large number of

consumer goods have to be tested according with Hungarian regulations.

This

procedure is regulated by Decree 5/1994 issued by the former Ministry of

Industry and Trade. The most important task of KERMI is testing and approving

consumer products prior to putting them on the market. A large number of

consumer goods have to be tested according to rules. Products without quality

certification cannot be passed through the customs and are not allowed to be

sold. KERMI's activities include: technical testing and analysis, technical and

scientific research, market research and public opinion polls, professional

counseling etc. KERMI requires the following documentation for the registration

procedure: § exact name of the product, the producer and the country of origin,

§ draft of the label and the application instruction in Hungarian, § product

documentation, The information/documentation provided to KERMI should contain

the name of the product, name of the producer and its location, declaration about the innocuity of the product, name and address of the issuing agency.

The

applicant will also be required to submit samples for testing. The cost of the procedure is between HUF 60, 000 - 90, 000 (USD 300-450) plus 25 percent VAT. The

exact fee is based on sample; an exact quotation price will be given to the applicant. A twenty- percent discount can be given in case of serial tests.

Length of the test: 30 days upon the arrival of samples, documentation and the

quoted fee but additional fees will be charged to the client in the case of

urgent testing which can be reduced to 15 days. MEI MEEI Ltd. carries out type

tests to standard, safety tests, product follow-ups, factory inspections and quality system audits, which serve as a basis for its conformity certifications.

The certification of products according to D1 is carried out against the

Hungarian national standards and/or other mandatory regulations, while in the

case of tests based on D2, the certification takes place against implemented harmonized standards. The Hungarian national standards are generally identical

or equivalent in their technical contents to the EN/HD specifications or IEC standards. MEEI Ltd. also undertakes to carry out full or partial type tests and

certifications to standards other than those mentioned above but for which it is

otherwise prepared. The assessment of the manufacturing process for the purpose

of issuing a Certificate for Factory Inspection, may be carried out as follows:

§ on the basis of an on-site assessment carried out by MEEI Ltd., or § on the

basis of audit report issued by an other inspection/certification body acting

upon commission of MEEI Ltd., or § on the basis of acceptance of factory

inspection reports in English (CENELEC MC-6, MC-7), issued by an other

inspection/certification body, recognized by MEEI Ltd., and performed

previously, or § on the basis of evaluation and acceptance of certificate and

audit report, if the manufacturer operates a quality system certified to ISO 9001 or ISO 9002, a filled-in CENELEC MC-6B Questionnaire, proofs on regular checking of measuring-, testing- and monitoring equipment used during the process of manufacture or control, in English. 3. Recommendation on Entry Mode

The key issues for consideration when entering Hungary are: O The main brands

competing in the market have already established a stable, permanent position;

O All main brands have local distributor that sells to retailers providing very competitive pricing conditions; O Retail stores purchasing directly from the brand representatives dominate the market, this should be taken into consideration when bringing new products into Hungary. Recommended entry mode

— Exporting Exporting - Star Appliances, Inc has had experience in exporting to foreign countries. We have had excellent performance in those countries such

as Canada, Mexico, and Japan. Retail and wholesale distribution is developing

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toward western standards in Hungary. In the past, large, state-owned monopolies

controlled distribution, which was largely supply driven. During the transition period since 1989, the monopolistic state-controlled trading companies have been

privatized and/or broken up, but a smooth-working demand-driven system has not

fully developed and some inconsistencies remain. As a result, consumers cannot

count on a regular supply of goods — all shoppers are familiar with the

“ here today, gone tomorrow” nature of inventory, although the use of

newer technologies, such as electronic data interchange (EDI), is beginning to

improve delivery of goods. Large-scale wholesaling is still embryonic and it is

not unusual for retailing and wholesaling to be combined, sometimes even

together with manufacturing. Although Hungary’s retail sector now includes some

larger department stores and supermarkets, small family-run stores are still

quite common. Examples of foreign chains with operations in Hungary include

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Auchan (France), Metro (Germany), Michelfeit (Austria), Ikea (Sweden),
Baumax

(Germany), Humanic (Austria), Julius Meinl (Austria), Penny Market (UK), Cora
(France), Marks & Spencer (UK), and Tesco (UK). A Hungarian corporation,

Fotex Holding Co., has made a significant impact on the retail sector. Fotex
is

involved in such diversified market segments as optical, film developing,
audio

media, household appliances/consumer electronics, cosmetics and furniture.

Recently, indoor shopping malls have arrived in Hungary. Star Appliances,
Inc.

thinks that it is not feasible to establish a sales subsidiary in Hungary now,
because we would like the customers in Hungary to be familiar with our
products

and our company first. We plan to use local agents and distributors, because
they are quite familiar with the Hungarian market. Exporting may minimize
the

risk of dealing internationally by exporting domestically manufactured
products

either by minimal response to inquires or by systematic development of demand in

foreign market. Exporting requires minimum capital and is easy to initiate.

Exporting is also a good way to gain experience in conducting business in

Hungary. FINANCING The Hungarian Forint (HUF) is fully convertible for business

purposes. Because of a worsening current account deficit, the government moved

to a crawling peg devaluation exchange rate policy in March 1995. Since then,

the HUF continues to be a managed currency with a set monthly devaluation rate.

Most import contracts are secured by an irrevocable letter of credit (L/C) bank

guarantee or involve a bank for remittance against documents. This practice is

appropriate and recommended when there is no past relationship and experience

with the buyer. The most common payment terms in this sector are 30, 60, and 90

days deferred payment depending on the product. Many U. S. commercial banks

provide financial services in Hungary for longtime corporate clients. The cost of local financing tends to be high (around 25%). Among the major international

financial institutions, the European Bank for Reconstruction and Development (EBRD),

the International Finance Corporation (IFC) and the World Bank have various project financing programs. Citibank and Bankers Trust are the only U. S.

commercial banks currently in Hungary in addition to several U. S. financial service companies and consultants present in the market. Hungary is eligible for

all U. S. EXIMBank programs available to American equipment exporters.

Appendices: Market share for White Goods: Whirlpool+ Ignis ElectroluxGroup AEG

Siemens-Bosch Hajdu Gorenje Washing Machines 33% 26% 2% 14% 21% 4% Whirlpool+

Ignis ElectroluxGroup Siemens-Bosch Gorenje Goldstar Refrigerators 6% 74% 9% 7%

4% Whirlpool + Ignis Samsung Moulinex Goldstar Daewoo DeLonghi

Microwave 28% 24%

7% 8% 18% 15% Total Market Size in pieces in 1998: Washing Machines

(incl.

Fronload, 160, 600 - 24% increase compared to 1997 Topload,

Washer+Dryer)

Refrigerators: 182, 700 - 22% increase compared to 1997 Microwaves: 184,

600 - 21%

increase compared to 1997 Source: Figures are based on preliminary and partial

data of the Central Statistical Office 1998 Publications, Budapest, Hungary, on

“ Foreign Trade Statistics” issued by the Ministry of Economy, 1998 and

“ U. S.-Hungarian Statistics” issued by Kopint-Datorg Market Research

Company. 1. External Environment · Economic - Japan’s economic strengths

have been overshadowed by its difficulties for much of the 1990s. Recession has

brought a serious crisis since 1997. However, the overall economy continued to

grow, companies did not shed great amounts of labor, and research and

development spending went up. The government stepped in with a five-year economic

plan of infrastructure spending. The World GNP Ranking is 2. GNP Per Capita is

US\$38160. · Global - There were 5. 3 million Japanese Internet users in 1996.

The number is expected to rise to 31, 950, 000 in year 2000. While these are

mostly businessmen using “ the net” in connection with work, the number of

household users is also increasing. 2. Industry Analysis 1. Market Highlights

& Best Prospects (Statistical Data) Unit: million of USD Estimated Annual

Growth Rate 1994 1995 1996 1996-1999 Import Market 962. 7 1, 520. 2 1,

640. 4 20%

Production 26, 624. 5 31, 201. 1 27, 022. 0 1% Exports 3, 256. 9 3, 187. 2 2,

701. 8 -10%

Total Market 24, 330. 3 29, 534. 1 25, 960. 6 2% Source: JETRO U. S.

imports: USD 73. 8

million Exchange rates: 102 yen, 94, yen 109, yen/USD Future inflation rate

assumed: 1. 3 percent 1996 import market share: U. S.: 4. 5 pct, China: 19. 4

pct,

Germany: 11. 2 pct, Taiwan: 9. 3 pct, Thailand, 7. 1 pct 2. Imports -

According to

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JEMA, Japan imported USD 1, 640. 4 million of electrical home appliances an
8. 0

percent increase over 1995 on a dollar basis (25. 2 percent in yen terms).

According to JETRO's import data the major suppliers are as follows: Country

1996 Imports Percentage share (In USD million) China 317. 7 19. 4% Fr.

Germany

183. 7 11. 2 Taiwan 152. 3 12. 3 R. Korea 125. 7 9. 3 Thailand 116. 1 7. 1 U.

S. A. 73. 8

4. 5 Note: The above percentage shows shares of total imports of USD 1,
640. 4

million. The following tables show the breakdown of overseas suppliers of
major

electrical home appliance, by category. 1995 % Share 1996 % Share %

Growth

Electric Washing Machine China 13. 8 17. 4 23. 9 29. 4 73. 1 Philippines 17. 0
21. 5

17. 2 21. 1 1. 1 Italy 26. 1 33. 1 14. 0 17. 2 -46. 5 R. Korea 3. 6 4. 1 10. 3 12.
7 217. 5

Singapore 5. 4 6. 8 5. 3 6. 6 -0. 2 USA (9th) 0. 8 1. 0 1. 0 1. 2 26. 9 Other 12.
3 16. 1

9. 5 11. 8 — Total 79. 0 100. 0 81. 2 100. 0 2. 7 Drying Machine for Clothes
USA 0. 4

30. 9 0. 5 33. 8 12. 9 China 0. 2 18. 2 0. 3 24. 3 37. 8 Fr Germany 0. 3 22. 2
0. 2 16. 5

-23. 6 Denmark 0. 1 7. 6 0. 2 14. 2 92. 5 Taiwan 0. 1 10. 4 0. 1 3. 3 -67. 2
Other 0. 2 10. 7

0. 1 7. 9 — Total 1. 3 100. 0 1. 4 100. 0 3. 1 Vacuum Cleaner USA 57. 5 50. 3
35. 2 34. 0

-38. 8 China 8. 5 7. 5 20. 1 19. 4 135. 3 Taiwan 16. 7 14. 6 16. 8 16. 2 0. 6
Malaysia 2. 1

1. 9 8. 9 8. 6 317. 4 R. Korea 11. 4 10. 0 6. 7 6. 5 -40. 9 Other 18. 0 15. 7 15.
7 15. 3 —

Total 114. 2 100. 0 103. 4 100. 0 -9. 4 Source: JETRO 3. Expansion Strategy
for the

Future Five Years Star Appliances, Inc started exporting to Japan in 1990.

Star

Appliances, Inc has built up good reputation in both product quality and full

after-sale services. According to our research, The market growth rate is

expected to be about 2 percent per year for the next two to three years.

Industry experts say that one key to future market expansion will be to present

electrical appliances which fill an actual need, offer unique but simple functions, and have sophisticated designs which are not available in existing products. This market's receptivity to our products is generally good. Our suppliers of electrical home appliances are advised to note that Japanese consumers are not generally interested in low priced, low quality products. They

demand reasonably priced, high quality electrical home appliances together with

full after-sale service. In many cases, imported products have to be designed or

modified to fit into the Japanese lifestyle and also to meet the Electrical Home

Appliance and Material Control Law. Best prospects/key success features:

Japanese consumers increasingly seek electrical appliances which allow them to

enjoy higher and more comfortable living standards. In particular, products that

fill obvious needs (e. g., products which offer great convenience, save time, and

offer healthier environments or tastier foods) have bright prospects. For

example: High-power vacuum cleaner – There has been a persistent concern in

Japan about children's dust and pollen allergies. High-power vacuum cleaners

with advanced technology (especially the ability to deal with dust mites, or

dani in Japanese) are promising. Washing machine (drum-type)- Drum-type washing

machines are relatively new to Japan because the noise and vibration have not

suitied Japanese-style housing. However, the first drum-type washing machines

manufactured jointly by a European manufacturer and Sharp Corporation were well

received, and other Japanese manufacturers have begun manufacturing similar

products. In the next five years, Star Appliances will focus on product

innovations and market penetration in our Japan market. We expect an increasing

in sales by 15% by the end of 2004. We are also planning on setting up a branch

office in Japan in 2003. This branch office is a wholly owned corporation by Star Appliances, Inc. Setting up a wholly-owned subsidiary will involve more time and expense, but it can offer an effective means to guarantee better protection for proprietary information, obtain credit and penetrate markets which have subtle but substantial barriers to imports. Moreover, there is a perception in Japan that a company with subsidiaries is both more committed and

more substantial and this perception can serve as a powerful selling point for that firm. A branch office of our company can engage in trading, manufacturing,

retailing, services, or other business. A branch office may take and fill orders and carry out a full marketing program, including arranging for advertising, recruiting a sales force and performing all necessary promotional activities. A branch is liable for payment of Japanese taxes. The branch must appoint a

resident representative in Japan and must register with the Legal Affairs Bureau

of the Ministry of Justice. In addition, the establishment of a branch office is considered a direct investment under the Foreign Exchange and Foreign Trade

Control Law requiring reporting to the Ministry of Finance through the Bank of

Japan within 15 days after the establishment of the branch office. Setting up a

branch is also for the preparation of entering China in the future. Star

Appliances, Inc thinks that China is a potential market for household

appliances. In order to target more Asian countries, a branch in Asia will be of

great help for local industry survey and trend analysis. We would like to

consider the branch in Japan as a bridge to more Asian markets. 1. External

Environment · Political/Legal - Canada is a young country, but it has a legal

system rich in tradition. Under Canada's federal system of government, the

authority to make laws is divided between the Parliament of Canada and the

provincial legislatures. Common law, which is used in all provinces except

Quebec, is based on principles that were developed in medieval England.

Canada

is also governed by the rules of international law, whether based on custom or

on treaty. The Canadian Dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market.

There are no exchange control requirements imposed on export receipts, capital

receipts, or payments by residents or non-residents. Prices for most goods and

services are established by the market. The most important exceptions are government services, services provided by regulated public service monopolies,

most medical services, and supply-managed and other agricultural products (including wheat, eggs, poultry and dairy products). The principal sources of

federal tax revenue are corporate and personal income taxes and the Goods and

Services Tax (GST), a multi-stage seven percent value-added tax on consumption.

The personal and corporate income tax burden, combining federal and provincial

taxes and surcharges, is significantly higher than in the U. S. · U. S.-CANADA

Relations - The bilateral relationship between the United States and Canada is

perhaps the closest and most extensive in the world. It is reflected in the

staggering volume of trade — over \$1 billion a day — and people — over 200

million a year — crossing the U. S.-Canadian border. Canada has an affluent,

advanced industrial economy that closely resembles that of the United

States in

its per capita output, market-orientation, and pattern of production. Growth

in

Canada's export sector should continue to be fueled by ongoing strength in

the

U. S. economy and Canada's low dollar. Global disinflationary pressures have

more

than offset the negative impact of the low Canadian dollar on import prices

and

consumer price inflation. Consequently, Canada's inflation rate is at the

lower

end of the Bank of Canada's one-to-three percent target band. Total two-way merchandise trade between the United States and Canada was US\$334 billion in 1998 (Statistics Canada reports the total as C\$505 billion). When services and investment income are included, total two-way trade was approximately US\$365 billion, or US\$1 billion per day in 1998. (Statistics Canada reports the number at C\$619 billion.) Regardless of which set of statistics are looked at, it is important to realize the magnitude of the bilateral U. S.-Canada trading relationship. Canada is the largest single-country export market for the United States. In addition, total two-way merchandise trade between the United States and Canada is larger than total U. S. merchandise trade with the entire European Union, or total U. S. merchandise trade with Japan.

2. Expansion Strategy for the Future Five Years Star Appliances, Inc has entered the Canadian market in 1980.

In the next five years, Star Appliances, Inc will keep exporting products to Canada. By the end of year 2004, Star Appliances, Inc expects an increasing in sales in Canada market by 15%. By establishing a manufacturing in Mexico in 2002, the labor cost and freight cost and overhead will be reduced. The cost of goods sold will be reduced by 10%.

1. External Environment · Political / Legal

- With NAFTA's entry into force on January 1, 1994, Mexico lowered its tariffs on U. S.- and Canadian-origin goods. Mexican tariffs on U. S. goods are between five and 20 percent ad valorem, with the highest Mexican tariffs on agricultural products and finished motor vehicles. Under NAFTA, tariffs on U. S. goods will be phased out over a maximum period of ten years, varying by type of good. Sixty percent of U. S. goods now enter Mexico duty-free. The North American Free Trade

Agreement (NAFTA) continues to be a key factor in boosting Mexican exports and

raising the overall level of economic activity. · Global – The Mexican market is big: U. S. exports reached US\$ sixty-seven billion for 1996. It is also young: 50% of the population is under twenty-five years old. Mexican consumers like American products. They recognize most U. S. brand names and associate our products with quality and value. The leading sectors for U. S. exporters are heavily weighted toward intermediate goods and large infrastructure projects.

Among the leading sectors are: Electrical Power Generation Systems, Electronic

Components, Telecommunications Equipment and Services, Automotive Parts and

Service Equipment, Pollution Control Equipment, Building Products, Management

Consulting Services, and Mining Equipment. 2. Industry Analysis Analysis of

major competitors Washer and Dryers Kenmore – Kenmore has almost 7, 000 sales

agents in Europe and the United States. It sells products to 106 nations and

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regions. With ambitions to become a “ famous global brand like Japan’s Matsu*censored*a,”

It also sells clothes washers to Japan and Mexico. Having chalked up 1996 sales

of \$747 million, Kenmore is some distance behind other global appliance brands.

Part of its growth will come from foreign operations. A Mexican plant makes refrigerators and washers. A Philippine factory is to begin production this year. Kenmore has built a domestic reputation for quality through the use of borrowed foreign technology. It is now relying on in-house research, allocating

4% of projected income (equaling almost \$50 million) in 1998 and aiming to spend

7-8% of income for research by the end of 2000. Kenmore is developing environmentally based technology which, Kenmore hopes it will be the “ green”

appliance manufacturer. Kenmore also will be turning out new versions of products tailored to Mexico’s needs, such as a mini-washer that cleans a small

load with little water. Another cornerstone of Kenmore’s operations is

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service. It has 2, 500 sales and service outlets and a toll-free hotline, and promises delivery or repair of appliances within 24 hours. Maytag - Founded in

Mexico City in 1947, is nowadays the leading enterprise in appliance sales and

production, as well as in motors and compressors. Maytag operates various plants, located in Mexico City and four other Latin American countries.

Besides

Maytag's end products, they manufacture their own plastic components, presses,

compressors, transmissions and motors. For more than three decades, Maytag has

refurbished its export industry, making it possible for their products to reach more than 40 countries in America, Europe and Asia.. With its rounded shapes and

exclusive washing system, Maytag's automatic washers offer maximum cleaning

without mistreating the fabric. Its basket, with 6, 8 or 10 kilo capacity, is made with indestructible materials. They have also integrated multiple

independent functions and an innovative ecological cycle that avoids unnecessary

waste of water. All of this supported by a 5-year warranty. General Electric -

From electric appliances, to medical equipment, GE with its multiple divisions,

has a great penetration in international markets, always reflecting its great

innovative spirit. In 1987, with Latin America as a goal and then the rest of

the world, General Electric has established a joint venture with Mabe to

manufacture various GE appliances, like the Hotpoint line of washers and dryers.

GE with a re-known international brand that is well established along with MABE,

the first Mexican appliance manufacturer to be internationally sold shall be

able to capture a great portion of the Mexican appliance industry. Whirlpool -

In Mexico, Whirlpool is dedicated to the manufacturing and selling of ranges,

washer/dryers and refrigerators. With the final goal of making a concept.

Oriented towards young couples, in 1992 the brand made substantial cha