

Waterford crystal essay



Waterford Glass was started by two brothers, George and William Penrose, in 1783. It was the most notable of all Irish crystal companies. In 1799, the Penrose brothers sold Waterford Glass to the Gatchell family. The crystal industry was prosperous until 1825.

Irish glass manufacturers began to slowly close due to high export duties, the economic depression, and a lack of capital. Waterford Glass was the last to close in 1851. It was reestablished nearly a century later by Charles Bacik and Bernard Fitzpatrick. In 1947, they set up a factory in Waterford, Ireland.

A turning point in the company's history came in 1950 when Joe McGrath made a sizable investment in Waterford Glass. He invested the capital needed to convert the small crystal manufacturing company into one with the potential to become a major player in the crystal industry. This investment gave his family control for the next thirty-five years. Joe McGrath was committed to Ireland and providing jobs for his country. He wanted to reduce the country's high unemployment level.

His focus for Waterford Glass was on growing the company through exports to the United States. In 1966, Joe McGrath's son, Paddy McGrath, took over management of Waterford Glass. Like his father, he was dedicated to Ireland and to providing employment opportunities for the Irish. McGrath's quest to provide more jobs for the Irish led him to diversify the company.

By 1983, the company had acquired more than thirty non-core businesses. To reflect the expansion, management changed the company's name to Waterford Glass Group. In 1985, Paddy McGrath resigned as chairman of Waterford Glass. Concurrent with Paddy McGrath's resignation, Paddy Hayes

was appointed chairman and CEO of Waterford Glass Group. He immediately began to sell off the non-core businesses in an effort to reduce the company's high debt level.

Waterford Glass's debt was virtually eliminated with the issue of American Depository Shares (ADS) on the United States NASDAQ market. On November 28, 1986, Waterford Glass acquired Wedgwood, a two hundred year old manufacturer and marketer of fine bone china. Paddy Hayes was named the chairman and CEO of both companies and Paddy Byrne was appointed CEO of Wedgwood. In 1989, the company's name was changed to Waterford Wedgwood. Three divisions were created as a result of this acquisition: the Waterford Crystal division, the Wedgwood division, and the Creative Tableware division.

In 1989, Paddy Hayes resigned from his position as chairman and CEO of Waterford Wedgwood. Paddy Hayes was succeeded by Paddy Byrne as CEO of Waterford Wedgwood. Paddy Galvin was appointed as CEO of Waterford and Paddy Byrne continued as the CEO of Wedgwood. In 1990, the ownership of the company began to shift from Ireland. This was the result of an equity investment made by the Morgan Stanley/Fitzwilton consortium. On April 5, 1990, the workers at Waterford Wedgwood went on strike.

The strike occurred when management took steps to reduce high labor costs. The strike lasted fourteen weeks causing significant problems for the local community. In December 1990, Waterford Wedgwood became two independent entities. Concurrent with the restructuring of the company, Paddy Byrne resigned. In September 1991, Waterford introduced a new

brand of crystal called “ Marquis by Waterford Crystal.” THE CRYSTAL BUSINESS Today, the craftsmen of Waterford are supreme artists as they were in the 18th century.

Having craft and design skills is the critical element in establishing and maintaining a competitive advantage. The combined skills of the craftsmen create the distinctive patterns known all over the world. The exceptional clarity of Waterford Crystal is achieved through several steps that have remained almost unchanged for over two centuries. Waterford products are manufactured by a strict process of mixing, blowing, cutting and polishing. Manufacturing crystal is very labor intensive. Labor costs are generally 50 to 55 percent of the manufacturing costs.

Chemicals are mixed to create a unique formula that gives Waterford crystal its special sparkle and light refractive qualities. It is then heated to 1400 degrees centigrade in a natural gas fired furnace for at least 36 hours to produce molten crystal. A blower, using the traditional tools and techniques as in the 18th century, gathers a quantity of crystal from the furnace on the end of a blowing iron with a twisting motion. This is then smoothed with a wooden block that has been soaked in water and resembles the shape of the desired item. The craftsman then blows the piece, either by machine or by mouth, to its full shape. Crystal pieces are similarly cut to its unique pattern by either machine or by hand.

Those crystal pieces that are mouth blown and hand cut have the highest quality of all crystal products. No other crystal is cut as deeply as Waterfords. Some of the companys core competencies are its crystals

sparkle of light refractive qualities and unique 18th century designs. The assembly and packing of the crystal for distribution takes a considerable amount of time to complete. After the crystal is polished, everything is carefully checked and measured.

Every possible step is taken to ensure that every piece of crystal arrives at its destination safely and securely. With its quality craftsmanship and design expertise, Waterford has gained a reputation for quality around the world. Based on price and brand name recognition, crystal products are divided into three market segments: high-end (in which Waterford Crystal was dominant in), medium, and low-end. These markets can be further divided into three subgroups: stemware and giftware, premium and incentive, and catalog mail order. The major distribution channels of these crystal products are department stores.

Waterford Crystal is unique among other crystal manufacturers in that its stemware patterns are never discontinued. If a replacement is needed for a stem pattern bought many years ago, it can be specially made. 1950 – 1985 THE MCGRATH FAMILY ERA Joe McGrath, being intensely pro-Ireland, was more concerned with growing the company in order to provide jobs for his country than making a profit. He focused on doing so through exports to the United States, so in 1961 Waterford established a marketing subsidiary in the United States.

A distributing company was established in the United Kingdom three years later. Sales revenues and profits were on the rise. Employment had grown

and the company moved its operations to a larger location. Financing came from loans and stocks.

When Joe McGraths son Paddy McGrath took over management in 1966, the family controlled 40% of the companys equity and their success continued. Paddy, like his father, had that strong dedication and sense of responsibility to his homeland. His goal of investing in Ireland and creating new jobs led him into the acquisition of multiple businesses. Waterford Glass, which then changed to Waterford Glass Group, went beyond the manufacture and sale of high-quality crystal and into fine bone china, car assembly, and department stores. The acquisition of these businesses increased the companys debt to 50 million Irish punts.

Employment multiplied and of course labor rates increased, especially with workers being paid on a piece-rate basis. By mid-1980s, Waterfords labor rates were 77% above the average industrial salary in Ireland. Management signed a three-year labor agreement that again raised labor-related costs by 44% over the life of the agreement. A typical labor agreement is renegotiated every year, which allows labor to accommodate for inflation and the such. In 1984 Avenue Investments, the holding company, which maintained control of Waterford Glass, made poor investments and had to sell its 20% stake in Waterford Glass to Globe Investment Trust of London.

In order to meet Globes standards, Waterford found itself having to meet an external standard for return of invested capital. Shortly after that, McGrath resigned as chairman of Waterford Glass. 1985 - 1989 THE PADDY HAYES YEARSThe Waterford Board of Directors announced Paddy Hayes chairman

and CEO of Waterford Glass Group in 1985. Hayes had strong experience and managerial know-how. He recognized how the company's various businesses outside of the crystal industry were creating low profits, poor cash flow, and had a lack of commitment toward winning a competitive advantage. These non-core businesses had low market share and were in a slow growth industry, therefore, Hayes knew they had to be liquidated.

He then sold the retail division holdings for 7.4 million punts, the Aynsley China division for 19.7 million punts, and the printing division for 5.7 million punts. Within 18 months, Hayes was able to rid the company of nearly all its debt. Outstanding debt dropped to 22 million Irish punts and the debt/equity ratio was reduced 21% in a year.

By 1989 the company, now Waterford Wedgwood, consisted of four divisions all focusing on the manufacturing and sale of crystal and china. ACQUISITION OF WEDGWOOD Although Waterford had sold off all of its non-core businesses, the company still wanted to diversify into other markets similar to the crystal industry. In 1986, Waterford Glass purchased Wedgwood China for 255.5 million punts. Waterford Glass issued ordinary shares of stock to the public in exchange for their share of Wedgwood stock.

Fourteen shares of Waterford Glass stock were issued for three shares of Wedgwood China stock that raised 166.6 million punts toward the purchase of Wedgwood. Before the issuance of the shares Ireland owned 42%, more than any other country, of Waterford's stock.

After the issuance of the shares, the United Kingdom held 55% of Waterford's stock and Ireland only 35%. Ireland was not the shareholders

main concern for the first time. In addition, Paddy Hayes sold the non-core businesses of Wedgwood to reduce the debt even further.

Trent Sanitaryware, a company that produced bathroom fixtures, sold for 26.5 million punts the Ranton Estate, a hunting reserve, sold for 2.8 million punts and two facilities in Australia sold for 2.4 million punts.

However, the debt level that was previously zero increased to a level of 67.3 million punts after the purchase of Wedgwood. Management thought that they could decrease this debt level through savings from the operations of the two companies. Wedgwood China, famous in both British and Japanese Markets for quality, was a 200 year old company based in England.

Wedgwood had 18 factories and 6,600 employees while Waterford only had 5,300 employees at the time of the purchase. The company made fine bone china with a high quality image though the market was controlled by porcelain china. The fine bone china attracted people because it was made very thin and translucent giving it a delicate and eloquent appearance. The core competencies of the two companies as well as the strategies were basically the same. Both of the companies used excellent manufacturing skills to gain a competitive advantage over their competitors. Waterford Glass and Wedgwood also had the same international strategies of producing a high quality standardized product for each country to which they distributed.

Though the acquisition created high amounts of debt, Waterford's management thought the purchase would be beneficial as a strategic move. Paddy Hayes felt that the two companies could benefit from each other

because Wedgwood was striving for the same brand name image of high quality and prestige that Waterford was striving to obtain. Management thought that the image of Wedgwood would complement the products of Waterford and vice versa. Another reason that Waterford thought highly of the acquisition was Wedgwood's channels of distribution.

The distributions of the two companies were similar because both sold high quality products through high-end retail shops.

Waterford thought that they could reduce distribution costs through a world wide distribution network. Waterford now had access to 150 Wedgwood distribution shops in Britain and the Wedgwood sales network in Japan. Also, Wedgwood increased penetration into other markets by gaining access to Waterford's sales network in the United States. Management wanted to market the products separately but use the same distribution channels to lower the distribution costs for both companies. Waterford estimated that they could save 10 million punts annually with the new distribution network. Unfortunately, the two companies brand name recognition did not benefit one another.

Waterford's crystal was the premier brand in the United States while Wedgwood's china image was weakest in the United States. The crystal of Waterford and the china of Wedgwood were both sold in retail shops; however, the crystal was sold at full price with no discounts and the china could not be sold without offering a discount. As a result, the crystal and the china could not be in the same area of the store preventing Wedgwood's name to be associated with Waterford's crystal. The strategy of brand name

recognition complementing each other did not succeed in the United States but it did work in Japan. In Japan, Wedgwood had a high quality image while Waterford Glass' image in Japan was weak.

Wedgwood's base and quality image in Japan increased the image of Waterford's crystal and in turn increased sales. In 1987, all of Japan's major department stores carried Waterford crystal. Even with the difficulties surrounding Wedgwood's sales in the United States, Waterford still changed its name to Waterford Wedgwood in 1989. The Wedgwood division consistently contributed operating profits year after year averaging 20 million punts in profits from the mid 1980's to the early 1990's. In addition, the operating expenses for the Wedgwood China division were far lower than the Waterford division.

For example, an employee of Waterford Crystal division made three times as much as an employee from Wedgwood. The Waterford division needs to coordinate some of their activities with the Wedgwood division to share knowledge on how to improve their profitability. A strong competitive advantage can be gained through the sharing of ideas across all of Waterford Wedgwood divisions. PRESENT CONDITIONS AT WATERFORD At their lowest peak, Waterford reported a one year loss of 21.3 million punts, reflecting high operating costs, unfavorable exchange rates (weak US dollar) and additional provisions relating to stocks and debtors in the United States.

It was dreadfully obvious that Waterford Crystal had become over-dependent on the United States market. Also, the loss was caused by exceptional restructuring provisions of 18.4 million punts with the separation of the

Wedgwood porcelain product line. Around 1990, at the height of Waterfords problems, the company was near the point of insolvency.

Mr. ODonoghue, now Waterfords Chief Executive, was sent to the U. S. to restructure the companys retail business.

He spent just under a year in the U. S., which now accounts for about 70% of sales. Mr.

ODonoghue said that US sales are likely to continue to account for about 70% of company sales, but it will be a 70% slice of a bigger pie. In 1990, Fitzwilton, U. S. merchant bank Morgan Stanley, and an investment group headed by Dr. Tony OReilly invested 80 million punts for a 29.

9% stake in Waterford Wedgwood - the holding company for Waterford Crystal and Wedgwood - as part of a financial restructuring. This restructuring included 1990s wage freezes and a new investment scheme that secured over 200 million punts to stabilize the companys finances. Since the 1990 restructuring, the investment group has been steadily recovering from heavy losses. By the end of March 1995, profits have doubled to 22.

6 million punts and the group paid dividends for the first time since 1988. Also, the group appears to be on target to increase profits by at least 20% for the full year. ENVIRONMENTAL AWARENESS Waterford Crystal was one of eight Irish environmental demonstration projects to receive a partial grant from the European LIFE fund. This partial grant was used by Waterford

Crystal towards a 2.7 million punt project that seeks to develop and demonstrate an emission free process for glass manufacturing.

The company already meets the highest national and international standards. This move keeps Waterford in line with their strategic objective of being at the forefront of technological development within the industry. In an interim report that ended June 30, 1996, Waterford Wedgwood reported an increase of 28% in profit before taxes and sales rose by 8%. This performance was principally due to record sales in the United States and Ireland. Both markets saw increases of 17% and a further strong contribution from its Marquis brand, which equates for nearly 30% of Waterfords sales.

To date, the Marquis brand has not cannibalized sales from the Waterford brand, but sales in western Europe could be characterized as "difficult conditions." Today, Waterford Crystal employs 1500 people. It has an estimated market value in Ireland worth 12 million punts and its export market value is 50 million punts. Not only has Waterford increased crystal sales in its key markets, it has also transformed the actual business of producing crystal into something of a tourist attraction. The companys factory tours attracted 230,000 visitors last year making it the fourth largest tourist destination in Ireland.

This year Waterford estimates tourist numbers will rise to 250,000.

Furthermore, in 1996, Waterford Crystal has highlighted a campaign where it will specifically target the Northern Ireland market. Currently, Waterford is a distant second to Tyrone Crystal that controls 65% of Northern Ireland.

INDUSTRIAL ANALYSISThreat of new Entrants: There is little threat of a new entrant either coming on the scene or drastically affecting the new market share of Waterford due to the labor intensive craftsmanship needed for the high end crystal market. The Crystal market seems to be heading into the mature market phase that is indicated with slow growth. The demand for high end crystal is already fulfilled by the present companies of Waterford/Wedgwood (Ireland), Lalique (France), St.

Louis (France), Baccarat (France) and Orrefors (Sweden). Bargaining power of Suppliers:

Power of the suppliers is considerably low due to the relative abundance of the silica, red litharae, and potash, which are the basic ingredients to the sparkling multimillion dollar crystal industry. Bargaining Power of buyers:

The bargaining power of the buyer is somewhat high when compared to the necessities of a household. If the customer does not like what they are being shown, for whatever reason, they can simply leave the store without purchasing the crystal. The product that Waterford produces must be of value to the customer to make them purchase it over the competitors crystal. Threat of Substitutes: The threat of substitutes is moderate to low.

When purchasing high-end crystal, the question is not one of price, but one of quality. In the US, if you want the best, then there is no substitute. You may select from one of the before mentioned high-end crystal producers, but they are competitors and not substitutes. Intensity of Rivalry: The intensity of rivalry is high, but less so in the United States, where nearly 70% of Waterfords products are shipped. In the United States, Waterford is a

household name, so when people look for crystal, they look for Waterford quality. RECOMMENDATIONSThe Waterford division needs to coordinate their activities with the Wedgwood division to share knowledge on how to improve their profitability.

A strong competitive advantage can be gained through the sharing of ideas across all of Waterford Wedgwood divisions. They should possibly expand beyond its core business by using brand enhancing. They should look at expanding into existing markets such as U. S. (which now represents 70% of sales), Britain, Japan, Australia and Northern Ireland as well as build sales in new markets such as Thailand, Taiwan and South Korea to keep globally competitive.

Being globally successful will allow Waterford Wedgwood to cope more easily with localized fluctuations in demand and become less dependent on its U. S. market. They should improve on operating efficiencies along with the ever increasing cost of their main core competency of skilled labor. They should extend the growth rate of its new mid-priced Marquis line of stemware into all market areas.