Proceedings of GLOGIFT 07
November 15-17, 2007
UP Technical University
Noida, pp. 226-234

GLOBALISATION IN APPLIANCE INDUSTRY A CASE STUDY OF ELECTROLUX AB AND WHIRLPOOL CORPORATION

Shyam Sethi*

ABSTRACT

In today's competitive era, globalization is vital for any enterprise to grow. Enterprises have evolved various mechanisms to 'globalize' as well as 'localize' their businesses. Ultimately, every strategy has had to face the acid test of the market - and only some were able to survive. The global appliance industry has undergone drastic changes in recent times. There was enormous consolidation to achieve economies of scale, product synergies and strong brand presence. But having achieved a desired reduction in cost, companies needed bigger markets to sell the products. In the US and most of Europe, the home appliance market was saturated because of penetration rates that went as high as 99.5%. Declining rates of population growth in these countries also meant that the scope of future growth was limited. The companies shorted looking for new markets for their products. This led to the process of Globalisation. The case studies show the globalization process of two global players Whirlpool Corporation USA and Electrolux AB of Sweden.

Keywords: Globalisation, Appliance Industry, Electrolux, Whirlpool

Introduction

The home appliance industry has played a major role in the growth of the economy in the West in the last two decades. Major players such as GE, Electrolux, Whirlpool and Zanussi made large investments for setting up modern, large-capacity manufacturing plants in the United States and in Europe, to take advantage of economies of scale. Japan and Korea were the other countries that made rapid strides in this field.

The paper deals with the case studies of two leading global players, one a Fortune 500 company (Whirlpool Corporation) and the other a world leader in the industry (Electrolux AB). The case studies trace the historical background and explore the need for globalization and the process adopted for entry in the emerging markets.

The global appliance industry has undergone drastic changes in the recent time. There has been enormous consolidation to achieve economies of scale, product synergies and strong brand positioning. The major global players are Electrolux, Whirlpool, GE, Bosch-Siemens, LG, Samsung and Haier; but the two clear industry leaders worldwide are Electrolux and Whirlpool. Both started globalization processes in the 1980s – Electrolux with the acquisition of Zanussi of Italy and Whirlpool with acquiring majority stake in NV Phillips European appliance business. Both realized in the 1980s that their markets in Europe and the US were saturated and the potential for future growth for their products therefore lay in the emerging markets of Asia and

* Technical Consultant and Life Time Associate, Whirlpool Corporation, New Delhi

Latin America. These corporations generally adopted the inorganic route for entry into the new emerging markets, but with different strategies. The case studies evaluate their entry strategy, market penetration and performance.

Electrolux AB, Sweden

Background

Electrolux AB with its headquarters in Sweden, is the world leader in home appliances. The company began manufacturing of electrical appliances in 1912, with the introduction of household vacuum cleaners, and then launched the first absorption refrigerator. The group has 43 factories, a turnover of US$ 15 billion, with operations in Europe, the US, Latin America and Asia. It produces and sells 20 million products, via 35 marketing companies in 40 countries. Today, consumers in 150 countries buy more than 55 million group products annually under brand names, such as Electrolux, AEG, Eureka, Frigidaire, Kelvinator, Zanussi and White Westinghouse. Electrolux is the market leader in Western Europe with a 19 per cent market share, and has a strong presence in North America and Latin America. It has aggressive market plans in emerging markets of Asia and Eastern Europe. It was the first appliance manufacturer to begin implementing a global strategy.

At the core of the dramatic transformation of Electrolux was an aggressive strategy of expansion through acquisitions, with 200 acquisitions in 40 countries during the 1970’s and 1980’s. Electrolux acquired Zanussi of Italy in 1988 to become the leading producer of appliances in Europe. In 1990, it took over White Consolidated Industries of the US, which owned leading brand names like Frigidaire, White Westinghouse and Kelvinator. With the acquisition of AEG of Germany, Electrolux is now the number one appliance manufacturer in the world.

Electrolux also set up refrigerator and compressor plants in China. In India negotiated a strategic alliance with Kelvinator of India, where it had 11.8 per cent equity, but lost to Whirlpool Corporation in the eventual sale. It, however, still owns the popular ‘Kelvinator’ brand name. Electrolux later acquired Maharaja International and subsequently Intron, Voltas and Allwyn.

Globalization Initiatives

It was in 1984 that Electrolux embarked upon a globalization program, with the acquisition of leading Italian appliance manufacturer Zanussi. The industry was changing rapidly, with competitors like Whirlpool and GE moving outside their home regions. Local European competitors like GEC-Hotpoint in the United Kingdom and Merloni in Italy were making aggressive moves to expand their shares in a relatively low growth market. The Zanussi takeover coupled with the subsequent acquisition of White Consolidated Industries in the US, made Electrolux the world’s largest producer of household appliances. The saga of Zanussi take over by Electrolux has set a trend in global appliance industry

Acquisition Process: The Background

Having begun in 1916 as a small workshop in Pordenone, Zanussi had grown by the early-1980s to be the second-largest privately owned company in Italy manufacturing Refrigerators and Washing Machines, with more than 30,000 employees, 50 factories and 13 foreign sales companies. In 1958, he launched a major drive to improve exports out of Italy. Through a series of acquisitions of Italian producers of appliances and components, Zanussi became one of the most vertically integrated manufacturers in Europe, achieving full control over all activities, ranging from component manufacturing to final sales and service.

Electrolux too had been scouting for a good acquisition to expand its appliance business. Its effort to take over AEG's appliance business in Germany had failed because the conditions stipulated for the takeover were found to be too tough. Zanussi represented the best chance for significant expansion in Europe. 'It was a very good fit,' recalled Anders Scharp, the president of Electrolux, 'There were not many overlaps: we were strong where Zanussi was weak, and vice-versa.'

Key Drivers

The companies were also complementary in products, markets and opportunities for vertical integration. For example, while Electrolux was well established in microwave ovens, cookers, refrigerators and freezers, Zanussi was Europe's largest producer of 'wet products' such as washing machines, traditionally a weak area for Electrolux. Similarly, while Electolux had large market shares in Scandinavia and Switzerland where Zanussi was almost completely absent, Zanussi was market leader in Italy and Spain, two markets that Electrolux had failed to crack.

Leveraging of Global Corporate Strategy

Electrolux's major appliance brands are as follows:

- Electrolux
- Frigidaire
- AEG
- Zanussi
- Kelvinator

While the company wishes to achieve the economies of scale implicit in the use of a smaller portfolio of global brands, it is unwilling to forego the benefits of its long-standing multi-brand strategy. Many of its smaller brands are well established in local markets, and allow the company to produce locally geared appliances and thus create points of differentiation from competitors.

Electrolux AB, Sweden - Kelvinator of India

Kelvinator of India Ltd. (KOI) was established in 1960 as a public limited company. By 1990, it was India's largest manufacturer of refrigerators, freezers and cash registers and had a significant portion of the moped market. With 6000 employees in nine divisions, turnover was Rs 350 crore and its sales and service network had four regional offices and 26 branches.

Until 1991, it had a commanding share of the refrigerator and freezer market (45 per cent), despite tough competition from Godrej, Allwyn and Videocon. Production was just enough to meet the market demand. The company had been living in a sellers market for over 25 years and did not, therefore, make substantial investment in upgrading technology. A six-month labor problem at KOI aggravated the situation and crippled the company, which resulted in a financial crisis, as it incurred heavy losses. The crisis got compounded with other problems and the company started losing market share.

Key Drivers for the Alliance

These were clear signals that KOI management needed a change in its perception and strategy in order to combat the competition. In April 1991, a senior manager outlined this in a memo to CMD Jamshed R. Desai, saying the company was in a crisis situation and faced the possibility of closure or had to realize that the need for a technical collaboration was imperative.

For Electrolux, an alliance with KOI would help establish a strong foothold in Asia, an area where such a presence was necessary for the Swedish giant. The negotiation between Electrolux and KOI was started in 1992.

Negotiation Process

A proposal was mooted to form a joint venture where Electrolux would increase its equity to 40 per cent and provide technology from its plants from Zanussi, Italy. Electrolux also agreed to modernize plants and processes at KOI, provide marketing and management expertise and launch premium refrigerator models. The joint venture also envisaged introduction of a complete range of white goods, including washing machines and dishwashers, would be introduced in order to make KOI a global white goods player.

The deal did not happen-the Electrolux deal fell through. KOI finalized with Whirlpool Corporation and Electrolux started looking for a new partner.

Electrolux: New Partnerships

After the failure of negotiations with Kelvinator, Electrolux began searching for other partners. It entered into a joint venture with Maharaja International, a small refrigerator manufacturer located at Shahajahanpur, near Delhi. Electrolux also acquired the majority stake in Voltas as well as in Intron Washing Machines.

These ventures had several integration problems and suffered from a mismatch in perspective between the global outlook of Electrolux and the limited domestic outlook of Maharaja Promoter Harish Chandra. Competition from Whirlpool of India and Godrej-GE, who had a head start, and the emergence of Korean giants LG and Samsung, made the situation more difficult. Electrolux's Indian arm made a loss of Rs 226 crore in 2003 and is likely to pull out from Indian market.

Whirlpool Corporation USA

Background

Whirlpool Corporation's history dates back to 1911, when Upton Machine Company was founded in St. Joseph, MI, USA to produce an electric, motor-driven wringer washer In 1950, the company changed its name to Whirlpool Corporation. In 1955, automatic dryers, refrigerators, ranges and air-conditioners were added to the Whirlpool product line, and in 1956, a new administrative center was completed on a 100-acre site in Benton Harbor, Michigan, USA.

Whirlpool is the world's leading home appliances manufacturer and marketer. It has the number one position in North America and Latin America, is number three in Europe and has a strong presence in China and India. It has manufacturing facilities in 13 countries and markets its products in more than 120 countries. It is a Fortune 500 company, with an annual turnover of over US $13.0 billion and a worldwide employee force of 68,000. It had a market share of 35 per cent in the US in 2006.

The 1980s and 1990s saw Whirlpool Corporation's expansion in the global market in Europe, Mexico, India, China, South Africa, Argentina and Brazil. Today, 93 years after Lou Upton started the company. Whirlpool continues to shape and lead the global home appliance industry.

Globalization Initiatives and Key Drivers

In the late 1980s, Whirlpool Corporation set out on a course of growth that would eventually transform the company into the leading global manufacturer of major home appliances, with operations based in every region of the world.

Due to growth constraints in the mature US market in the 1980s, Whirlpool began to think globally under CEO David Whitwam. In an interview in 1987, Whitwam emphasized the need for globalization, saying: "It will be very difficult for any domestic manufacture to operate successfully in the appliances market of the future if it is solely a domestic company. The market is more global than ever and growing more so every day. Global barriers are rapidly deteriorating. So you have to integrate all your operations into a total global strategy."

Whirlpool's global strategy was defined in 1987, when it formed a strategic alliance with Phillips' Italian appliance operation. It acquired 53 per cent stake in NV Phillip's European appliance business in 1989, at a cost of US $ 1 billion. Whirlpool became the sole owner in 1991 by buying the remaining shares. The company launched the dual brand 'Phillips Whirlpool' in Europe to establish the Whirlpool brand.

It also started looking towards the emerging markets of Latin America and Asia as a global strategy and entered the emerging markets of Asia and Latin America. The corporation concentrated on setting up strategic alliances in China and India. It set up refrigerator, washing machine, air conditioner and microwave manufacturing plants in China, both as joint ventures and acquisitions. In India, Whirlpool acquired a majority stake in TVS Whirlpool and Kelvinator of India. It has set up a modern manufacturing plant in Pune for the production of CFC-free and environment-friendly No-Frost refrigerators with an investment of Rs 330 crore. This has been the largest investment of its kind in India.

In 1993, Whirlpool moved into the Asia-Pacific region, headquartered first in Tokyo and later in Singapore, and with sales offices in Hong Kong and Singapore

Levers of Global Strategy

With the competitive dynamics of the global industry, leveraging the advantages became a critical objective for the company in the 1990s. Whirlpool has had success in refocusing a number of its key functions to the global approach. Procurement was the first function to go global, followed by technology and product development. The two functions shared much in common, and have already led to significant savings from efficiencies. More important, the global focus has helped reduce the number of regional manufacturing platforms worldwide. The work of these two functions, combined with the company's manufacturing footprints in each region, has led to the development of truly global platforms - products that share common parts and technologies, but offer unique and innovative features and designs that appeal to regional consumer preferences.

Acquisitions that complement the company's global platform remain an important element of Whirlpool's long-term growth strategy.

Whirlpool Asia

Whirlpool Corporation realizes the importance of the emerging Asian markets and is aware that leadership in the Asian markets would be essential in its strategic objective to achieve global leadership. The Asian markets are expected to grow at a CAGR to 7 per cent during the period 1994-2005 and are projected to achieve volumes of 120 million by 2005, comprising 40 per cent of the global market shares. Whirlpool Asia has a goal of achieving 10 per cent share of Asian markets by 2006.

Key Elements of the Global Strategy

Whirlpool now has a strong start ahead of global players. Its plan for global strategy are:

- Focus on growth opportunity in China and India

- Build focus on Asian consumers
- Create Pan-Asian approach with brand positioning, design, manufacturing and centralized support functions
- Partner with local manufacturers (refrigerators, washers, air conditioners and microwaves)
- Create base for global product supply
- Build aggressive T-4 (refrigerators, washers, air conditioners and microwaves) product approach combined with channel strategy
- Leverage global resources – people, process, design brands; transfer best technology

Asian Strategy - Key Drivers

The key drivers of Asian strategy are:

- Integral piece of Asian strategy
- High growth region (10-15 per cent)
- Low market saturation (< 10 per cent)
- High margin niche opportunity through export
- Increased manufacturing presence in region

With a view to develop a strong presence in the Asia-Pacific market, Whirlpool Corporation invested US $150 million in joint ventures in China. It also established a South-East Asia office in Singapore in 1990. In a span of 18 months, from December 1994 onwards, Whirlpool established joint ventures to manufacture refrigerator, washing machines, microwave ovens and air conditioners. However, due to high operating costs (particularly salaries and expenses of expatriate executives) and poor execution of market strategy, Whirlpool's venture into the Chinese market was not a successful one. The added factor of fierce competition in the Chinese market and its dominance by domestic firms like the Haier group, forced Whirlpool to re-evaluate its strategy. In 1998, it withdrew from the refrigerator and air conditioning joint ventures. Whirlpool's considerable investment in China has not yielded any returns and though the corporation has sustained losses (in order to expand market presence), it has not succeeded in penetrating the market to any significant degree (*China Economic Review,* 23 October., 1998).

The Chinese and the Indian appliance market had been growing rapidly in the last five years. Growing volumes in the Asian market is becoming difficult due to intense competition. The biggest challenge faced by appliance makers in Asia is the proliferation of low-cost products being manufactured in China and Korea, mainly LG, Samsung and Haier.

Indian Perspective

In India, the era of economic liberalization ushered in after 1991 created an opportunity that has been exploited by Whirlpool. The Indian economy changed from a regime of industrial licensing and controls to a de-licensed one and the investment climate from an unfriendly one to a friendly environment. This meant that existing companies with foreign equity were allowed to raise their equity to 51 per cent, subject to prescribed guidelines.

Strategy Drivers

Whirlpool found a land of opportunities in India with the Indian middle class of 250 millions representing one of the largest consumer markets in the world with low penetration rates. It observed the following sweeping trends in India:

- Increased purchasing power
- Working women phenomenon
- Nucleus family structure emerging from a joint family structure
- Gate crashing of technology – catching up with the rest of the world
- Proliferation of brands, exposure to foreign brands through electronic media
- Change in traditional paradigm (spend time to save money) to neo-Indian paradigm (spend more money to save time)

Given Whirlpool's aim to have a strong foothold in the Indian market through the inorganic growth route, it got into strategic alliance with Kelvinator of India limited for manufacturing and marketing its products. It entered into strategic alliance with TVS for distribution of the washing machines.

In February 1995, Whirlpool acquired Kelvinator of India Limited by buying out 51 per cent of its equity holding. But the acquisition was not a hostile one and by all means it was ensured that the changeover was smooth. After taking over the erstwhile company, the Managing Director of Kelvinator was allowed to continue for a span of one year during the crucial post-merger period.

Kelvinator of India Limited at that point (before being acquired by Whirlpool) was the market leader in the Indian refrigerator market (with a market share of 40 per cent) and having a turnover of Rs 350 crore. It had the widest channel network in the home appliance industry and a very prominent brand. But as mentioned above, they couldn't buy the 'Kelvinator' brand and it fell in the hands of Electrolux.

After the collapse of the Electrolux negotiation, the management at Kelvinator realized that it still required an infusion of foreign technology to stay in the field. Providentially, Whirlpool arrived as a possible alternative just as the Electrolux discussions were reaching an impasse. There was a time tightrope to walk for a short period, in which Kelvinator was in contact with both international majors, but once the Electrolux deal fell through, Whirlpool presented an attractive prospect.

The reasons for Whirlpool's attractiveness for Kelvinator were clear: Whirlpool was a leader in the global appliance industry. It had a global presence and a strong engineering, financial and management base. It also had a vision for a strong Asian strategy. Further, Kelvinator and Whirlpool shared common values and vision:

Kelvinator	*Whirlpool*
? *Trust*	? *Commitment to good*
? *Quality*	? *Quality as a quest*
? *Ethics*	? *Business with integrity*
? *Service*	? *Customer focus*

Integration Project

With the acquisition of Kelvinator of India and TVS by Whirlpool, the values and synergies associated with fully integrating these companies into Whirlpool became obvious. A full and prompt integration plan was needed. Only full assimilation would allow Whirlpool to achieve global leverage in India at an optimum rate. A successful integration would also manage complex changes.

'Integration' was considered essential for achieving Whirlpool's business objectives and long-term plan for India.The teams, which was to direct, lead and coordinate the efforts to complete the integration process, had Stan Kinnett as Project Manager and Shyam Sethi as Co-Project Manager. The 'India Integration Project' was set up with experts from both the sides to formulate a long-term vision for India. It had the following critical elements:

Whirlpool Organization

- Cultural diversity and harmony
- Shared values
- World class human resources
- World class financial reporting
- World class processes and best practices
- Integrate within the global Whirlpool network
- Open communications - All directions
- Create significant value for the shareholders

Achievements - Whirlpool of India Ltd

Towards achievement of Whirlpool's global strategy, Whirlpool of India (WOI) set up refrigerator factories in Faridabad and Pune and a washing machine factory in Pondicherry. The corporation's major achievements were:

- Amalgamation of Kelvinator of India and TVS into one company called 'Whirlpool of India'
- Obtaining ISO 9002 certification for WWM (Whirlpool Washing Machines Ltd)
- Becoming the largest investor in the domestic appliance industry in India
- Successful completion of the factory master plan process, with a hundred per cent increase in productivity
- Successful reduction of manpower (3,000 employees), via a well-managed VRS
- Divestment of non-core units
- Procurement process and goals set by establishing a competitive supply chain
- Manufacturing and technology issues solved and new products developed
- Modern plant and equipment installed for upgrading of technology
- New marketing set-up established, with 4,000-strong dealer network
- Achieved 54 per cent brand awareness among potential buyers
- India's first CFC-free refrigerator plant set up in Pune
- First Indian home appliance company to receive ISO 14,000 - the International environment-friendly certification

- Established Whirlpool of India as a leading export base for markets in Asia, Middle East and South Africa. It is now the largest exporter of white goods from India exporting products to 52 countries.
- Established a strong presence in the microwave oven and air conditioner segments
- Established global commonalization of products to keep design and manufacturing costs low.

Whirlpool of India became the No. 1 refrigerator brand in India. It became a profit making company from a loss making one by reducing overheads, voluntary reduction of workforce and stringent application of quality control measures. Whirlpool of India has major challenges ahead to retain its leadership position and attain growth.

Challenges

- Despite 7 per cent growth in GDP, market demand has not increased like in China.
- Over capacity –local and global. There will be keen competition and price was resulting in the erosion of profit margins.
- Market competition, major threat from Korean Chaebols, LG and Samsung
- New entrants Haier and TCL from China
- Margins depleting; parent company cannot finance operations indefinitely
- Cost reduction
  - Need for global procurement
  - Need for outsourcing and supply chain management
  - Need for technology upgradation and innovation
  - Need for flexibility and speed
- Government policy - Second generation reforms
- Labor laws and flexible labor policy
- WTO stipulations and global competition
- Free Trade Agreement (FTA) signed with Thailand in September 2004 poses setback to industry

  The company, having recently undergone considerable restructuring is now much more streamlined, efficient and global in approach. This should help speed up innovation, improve operations and aid profit margins.

Conclusion

The case study of the two leading global appliance players, indicates that though the entry strategy is a key lever of global strategy, integration process plays a vital role for the success of globalization.