

Globalization and Localisation
Globalisation – A case study of Whirlpool Corporation in India

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Abstract

The constantly changing World calls for new strategy, new thinking and new perceptions. The companies have adopted localization as well as globalisation strategy to achieve their objectives. Though localization strategy has succeeded in some cases globalisation strategy has been successfully adopted by most of the organizations. Ultimately, every strategy has had to face the acid test of the market and only some are able to survive in today's competitive era.

Globalization is vital for any enterprise to grow. Enterprises have evolved various mechanisms to globalize their business. The firms with synergies of R&D and leveraging of facilities at various locations have enhanced their competitive capabilities. Transfer of Technology brings in cost effectiveness in terms of material, labour and energy. It ensures better use of resources and saves the cost of independent development. Implementation of transfer of technology depends on a number of factors – cultural, commercial, technical and economical.

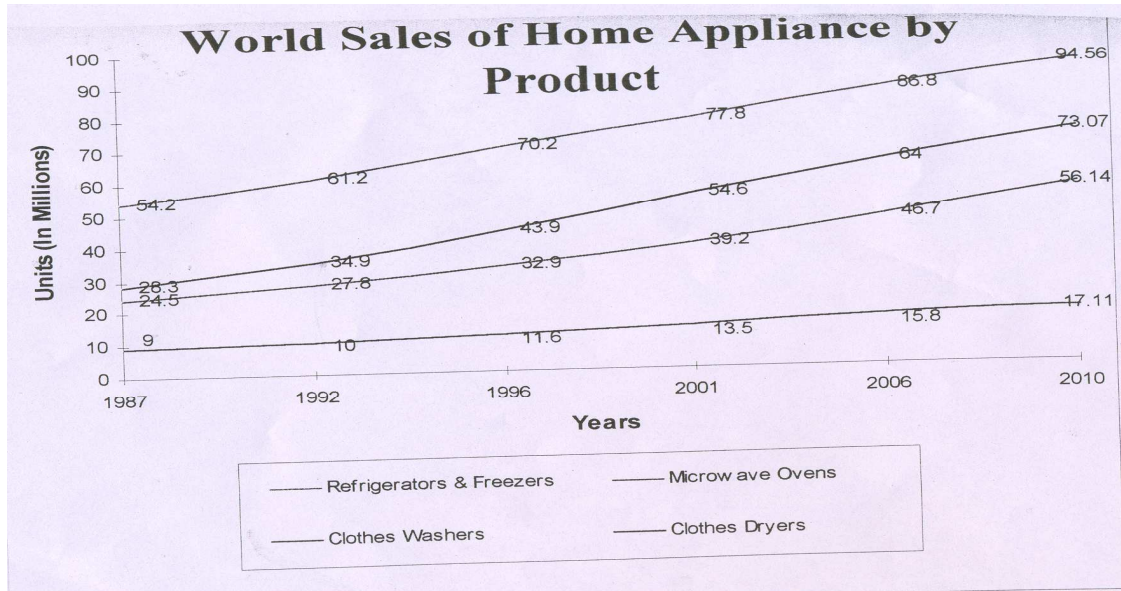
The home appliance industry is in a way, representative of this dynamic phenomenon. The industry has undergone drastic changes in the last two decades in new global environment. All the major global players entered the Indian market in 90's as their globalisation strategy.

Whirlpool Corporation USA entered the Indian market by acquiring Kelvinator of India and TVS. A full 'Integration plan' for transfer of technology allowed Whirlpool to achieve leverage in India at an optimum rate and manage complex changes. This model was replicated in China and Latin America where Whirlpool made acquisitions later on. This case study will discuss the factors leading to the strategic alliance and process adapted for transfer of technology as an integration process in globalization and the success achieved.

Home Appliance Industry

The industry has undergone drastic changes in the last two decades in the new global environment. All the major appliance manufacturers entered the vast markets of India and China. After liberalization, leading global players targeted India along with China as a key investment opportunity in all areas, including the home appliance industry. GE, Electrolux, National and Whirlpool set up manufacturing facilities to make refrigerators, washing machines and air conditioners. They realized that volumes and profits were only sustainable in a growing market and in developing countries with high population growth rates and rapidly expanding incomes.

The home appliance market was saturated with a penetration rate of 99.50 per cent in Europe and USA. The emerging markets of Asia presented ideal opportunities. There are millions of aspirants in the emerging markets. The demand potential is projected to be 240 million units in 2010 from 180 million in 2006. In fact, 80 million units were added between 1994-2004 in Asia and Latin America against a paltry 10 million in Europe. Graph I shows the world sales of home appliance by product.



Graph I: World Sales of Home Appliance by Product

Globalization- A two way process

In earlier years, globalization was mainly concentrated in the flow of investment and technology from Western countries to emerging markets. There had been consolidation to achieve economies of scale. Product synergies and strong brand presence companies needed bigger markets to sell their products. They also needed a spurt in international business to offset the effects of recession in one country. These factors prompted them to globalize their business via joint ventures, strategic alliances and mergers and acquisitions.

The practice of globalization has changed in the last few years. Emerging countries like China and India are looking for alliances and acquisitions beyond their borders. In India, ambitious and daring steps are being taken by the Indian Inc and companies in India are looking to be global players. Hindalco-Novelis, Tata Steel-Corus, Wipro-Infocrossing, United Spirits-Whyte and Mackay are some of the major acquisitions by the Indian corporate abroad.

German and UK based bio-tech companies are setting up R&D Laboratories in India as cost cutting measures to combat recession. Several companies like Germany’s Biobase GmbH, UK’s Oxygen Health Case and Crystech Pharma are setting up R&D Labs in India because of cost arbitrage and availability of talent.

Whirlpool Corporation USA (A Study of Globalisation through Integration Process)

Whirlpool is a Fortune 500 company, with an annual turnover of USD 12 billion and a worldwide employee force of 70000. It has manufacturing facilities in 13 countries and marketing net work in 130 countries. Due to growth constraints in the mature US market, Whirlpool began to think globally under CEO David Whitwam in 1988.

Whirlpool acquired a majority stake in NV Phillips’ European appliance business in 1991 with an investment of USD 1 billion. It acquired refrigerator, washing machine and air conditioners manufacturing units in China. It entered into a JV for washing machines with TVS in 1991 which later merged with Whirlpool of India.

It acquired a majority stake in Kelvinator of India Ltd in 1995, a diversified company and the largest manufacturer of refrigerators and deep freezers with a market share of 40 %. Kelvinator has been earlier discussing alliance with Electrolux AB of Sweden, which failed due to issues related to management control.

With the acquisition of TVS and Kelvinator, there was a need for world-class products and manufacturing facilities to meet enhanced customer expectations. This needed acquisitions of R&D facilities and transfer of technology from the parent company...Whirlpool Corporation. This was achieved by an integration process

Transfer of Technology and Best Practices (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. Only a full integration plan would allow Whirlpool to achieve global leverage in India at an optimum rate. A successful integration would also manage complex changes. It was also necessary to transfer best practices across all the business, with lightning speed.

An 'India Integration Project' was setup with experts from both sides to formulate a long term vision for India with the following elements to form 'One Whirlpool organisation'

- Cultural Diversity and Harmony
- Shared Values
- World Class Financial Reporting
- World Class Process and Best Practices
- Integrate within the Global Whirlpool Network
- Open Communications-all Directions
- Create Significant value for the Shareholders

Integration Process

The integration teams were set up and work items identified for each key function. It included recommendations regarding direction of desired results, timelines and accountabilities with respect to all key business functions and process. The agenda and work items for the following functions were identified for action.

- Human Resources and Communication
- Sales/Distribution/Consumer Sources
- Marketing / Brand Succession
- Legal
- Product
- Manufacturing and Technology
- Procurement and Supply Chain
- Finance, Accounting and Business Analysis

The above process was completed under the guidance of experts from Kelvinator and Whirlpool. Thus Whirlpool took advantage of the synergies of the two companies. Whirlpool, with its integration process could identify the roles of trade partners, distributors and stake holders.

Critical Execution Priorities to Deliver the Strategy

The following priorities were decided for the implementation of integration strategy

- Establish Whirlpool as the brand of choice, and grow market share
- Best in class quality
- Achieve 3-5% cost advantage
- Sales and distribution superiority
- Consumer service superiority
- Superior talent

Analysis of Integration Process of Case Study in SAP-LAP Framework

The whirlpool case study and integration process was analyzed applying the Situation-Actor-Process (SAP) framework (Sushil, 2001) to bring out the finer issues. The basic components that define the dynamic interplay in the flexible systems management paradigm are Situation, Actor and Process. In this study, the actor is taken as the organisation under study and forms a part of the situation as well as the process. The actor using internal and external flexibility scans the situation and subsequently guides and evolves the process. The situation and roles played by various people have been described. The process deals with the strategies and practices carried out by the organizations. The SAP analysis is carried out for three phases of integration process Annexure I.

- Pre-acquisition
- Negotiations and acquisition
- Post-acquisition and integration

The SAP analysis of post-acquisition and integration which formed part of technology transfer is described here under.

The case study has been synthesized by applying the Learning-Actor-Process (LAP) synthesis. The learning, suggested actions and the expected performance were used to develop a suitable framework of strategy.

Post Acquisition and Integration

Situation

- After the takeover, Whirlpool faced the mammoth task of rebuilding the organization.
- Kelvinator had suffered losses due to a prolonged labor crisis
- The manufacturing facilities and the product needed to be upgraded to meet competition.
- Kelvinator had a diversified product profile: refrigerators, cash registers, mopeds and plastics.
- The 'Whirlpool' brand was to be launched, since 'Kelvinator' brand would revert to Electrolux after 18 months.

Actor

- Whirlpool - Set up an integration project with experts from key areas. The team was to direct, lead and coordinate to ensure compliance of the integration process.

- The 'India Integration Project' with experts from both sides was to formulate a long-term vision for India.
- Trade partner, distributor and supplier - Roles were identified for optimum results.

Process

- Non-core units like cash registers, mopeds and Steriware divested.
- Large investment made to upgrade plant and equipment.
- New HR and communication systems developed
- Formulated a five-year strategic plan to meet long-term objectives.
- The goal of the integration plan was to help Whirlpool achieve global leverage in India at an accelerated rate.

LAP (Learning – Action – Performance) Synthesis

Key Learning

- Whirlpool had earlier acquired NV Phillip's European appliance business. It had a dual brand strategy, where 'Whirlpool' and 'Phillips' brand names were used together for two years. Whirlpool had to build the 'Whirlpool' brand from scratch in India; it should have negotiated to retain the 'Kelvinator' brand, value and loyalty.
- Competitor Godrej, BPL and Videocon introduced new models. It became necessary for Whirlpool to upgrade products and introduce no frost models. It took a long time to upgrade its product range.
- Although a short-term business plan was important, a long-term strategic plan was essential to meet the objectives.

Suggested Actions

- A major blitz was needed for the launch of the Whirlpool brand.
- A five-year strategic plan was crucial for long-term strategy.
- An integrated plan was essential to leverage global advantages in India at an optimum rate.
- A global non-CFC refrigerator plant had to be set up to meet the conditions of the Montreal protocol.
- Customer care and after-sales service needed utmost attention.

Performance

Performance Achieved:

- Whirlpool Corporation acquired plants in Europe, Asia and Latin America, and integrated operations globally to increase in turnover and profitability.
- Whirlpool is successfully leading the Indian appliance market by focusing on excellence in manufacturing, marketing and customer care.
- Whirlpool Corporation set up a Global 'No-Frost Factory' and an Asia R&D Center in Pune.
- It successfully launched and built the 'Whirlpool' brand in India.
- The company has moved from red to black for the last three years and is now the number One Appliance Company in India.
- It has upgraded plant and equipment, improved profitability and reduced redundant manpower.

- Whirlpool of India was to pay royalty to Whirlpool Corporation for a period of seven years, starting 1996. Whirlpool Corporation, in order to assist the Indian Company, consented to defer this payment till 2005. This deferment has resulted in an annual saving of Rs 20 crore.

Expected Performance:

- To make forays into other products, including microwave ovens and air conditioners.
- To locate the most-effective manufacturing and R&D facilities in India. Whirlpool Corporation may close some units in Europe and North America and shift these to India.
- Global uniformity of products for a common platform for procurement and product development to keep the design and manufacturing costs low.
- It became the largest exporter of white goods from India. Will plan to make India its global sourcing base for some of its products.

Achievements of Whirlpool of India Ltd. – A Success Story

Towards Whirlpool's global strategy, Whirlpool of India set up refrigerator factories at Faridabad and Pune and a washing machine factory at Pondicherry.

Whirlpool of India's important achievements:

- Merger of Kelvinator of India and TVS and formation of one company as Whirlpool of India.
- Obtained ISO 9002 certification for WWM (Whirlpool Washing Machines Ltd.)
- First Indian Home Appliance Company to receive ISO 14000 – the International Environment friendly certification
- Became the largest investor in the Major Domestic appliance industry in India.
- Factory Master Plan process completed. 20% increase in productivity level.
- Successful reduction of manpower (3000 employees via well managed VRS
- Divestment of non – core units achieved. Complement manufacturing divested to Tecumseh.
- Procurement process and goals set by establishing a complete supply chain.
- Manufacturing and Technology issues solved and new products developed. Two door no frost refrigerators developed in new Pune Plant.
- Modern plant and equipment installed for up gradation of technology.
- A new marketing set-up established with 4000 strong dealer network.
- Brand transfer plan – Kelvinator, TVS to Whirlpool initiated. Achieved 54% brand awareness with potential buyers.
- India's first CFC free refrigerator plant set up in Pune. Steps taken to convert Faridabad Plant to CFC technology.
- Established Whirlpool of India as a leading export base- 20% of production earmarked for Export to South East Asia and South Africa.
- Introduced Microwave Ovens and Air Conditioners in the Indian market.

Whirlpool of India became No.1 Refrigerator brand in India. It became a profit making company from a loss making one, as indicated in the financial data given in Table 1. It made a profit of Rs 86 Million in 2009 & exported products worth Rs 200 Million. It received the prestigious NDTV Profit Business Award for Best Consumer Durable Company in 2008.

Challenges

- Market Competition – Threat from Korean Chaebals.
- Over Capacity- Local and Global
- Govt. Policies – Second generation Reforms
- W.T.O. stipulations and global competition
- Labour laws and flexible labour policy
- Need for out sourcing and up gradation and innovation
- Need for flexibility and speed
- Free trade agreement(FTA)

Observations and Conclusion

Rapid strategic change is necessary for most appliance companies in the new global environment. Whirlpool Corporation, USA entered the Indian market with acquisition of Kelvinator of India and a JV with TVS and implemented the successful integration process which was later adopted as a model for other emerging markets such as China and Latin America where Whirlpool made acquisitions later on.

Global players, however, faced several problems as they did not analyze the local conditions properly. Many companies were grossly overboard in their estimates of the depth and size of the market: it was later realized that 'the great middle class' lacks purchasing power in emerging markets. They went into the markets with what may be called an imperialistic mind set, and assumed that the big emerging markets were new markets for their old products' (Prahalad and Lieberthal, 1998). To be successful, a global process needs a complex blend of local sensitivity and global knowledge. It has to follow the philosophy **'Think Global - act local'**

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Table 1: Financial Data for the Period 1996-2009 (Rs in Million)

Period ended	Dec 1996	Mar 1997	Dec 1998	Dec 1999	Dec 2000	Dec 2001	Dec 2002	Mar 2008	Mar 2009
No. of Months	15	15	9	12	12	12	12	12	12
Gross Sales	7,877	6,684	6,335	9,824	10,428	10,971	12,236	16,860	18,060
Excise Duty	1,282	1,066	864	1,163	1,244	1,103	1,266	1,730	1,600
Net Sales	6,595	5,618	5,470	8,661	9,184	9,868	10,970	15,130	16,460
Total Income	6,650	5,684	5,555	8,870	9,461	10,056	11,212	15,740	17,300
Cost of material and Manufacturing Expenses	3,535	2,791	2,949	4,447	4,881	5,469	6,106	10,510	11,140
Employee cost	674	802	489	790	770	775	865	1,220	1,360
Power, Fuel and Water	132	95	67	99	118	116	99	140	130
Administrative and Selling Exp.	1,277	1,438	799	1,147	2,679	2,755	3,290	3,040	3,250
Total Expenditure	6,883	6,500	5,427	8,066	8,344	9,064	10,325	14,910	15,850
PBIDT	(233)	(817)	128	805	1,117	1,011	887	830	1,420
Interest and fin. Charges	285	496	485	585	577	477	390	170	170
PBDT	(518)	(1,313)	(357)	220	541	533	497	660	1,250
Depreciation	142	253	342	367	342	391	412	370	390
PBT (Net Profit)	(659)	(1,565)	(700)	(147)	199	293	85	290	860

Source: Company Balance Sheets

Annexure I

Dynamic SAP Analysis Whirlpool Corporation, USA

	Phase I (Pre Acquisition)	Phase II (Negotiations and Acquisitions)	Phase III (Post Acquisition – Integration Project)
Situation	<ul style="list-style-type: none"> Domestic market for appliance industry saturated; low potential for future market. Higher potential in emerging markets of Asia/Latin America. Government opening doors to multinationals. 	<ul style="list-style-type: none"> Whirlpool acquired 53 per cent stake in NV Phillips' European appliance business. Formed JVs in China, Mexico and other countries. 	<ul style="list-style-type: none"> Mammoth task of rebuilding organization Kelvinator financial position weak due to losses during prolonged labor problem Kelvinator products outdated, needed up gradation 'Whirlpool' brand launched
Actor	<ul style="list-style-type: none"> Whirlpool Corp, world leader in domestic appliances, with a strategy to go global. Emerging market players looking towards the USA and Europe for JVs. 	<ul style="list-style-type: none"> Started negotiations with Kelvinator after negotiations between Electrolux and Kelvinator failed. Kelvinator -considered Whirlpool a better partner. Whirlpool- keen on a foothold in Indian appliance market. Proposed a JV Jamshed Desai, the promoter of Kelvinator-insisted on an active role in the management of the JV. Government of India, set norms for MNCs for acquiring domestic companies. 	<ul style="list-style-type: none"> Whirlpool set up an integration project with experts from all key functions. India Integration Project and a five year strategic plan formulated. Role of trade partners, distributors, suppliers identified.
Process	<ul style="list-style-type: none"> Whirlpool formulated a policy in 1987 to globalize in order to remain the leader in the appliance industry Commissioned a survey of Asian markets by Boston Consulting Group. Formed a core team to identify partners in new markets for strategic alliances 	<ul style="list-style-type: none"> Kelvinator executives visited Whirlpool establishments. Due diligence carried out by Whirlpool. Negotiated for purchase of preferential shares @ Rs.180 to get 51 per cent equity. 	<ul style="list-style-type: none"> Non-core units like cash registers, mopeds and compressors divested. Large investments made to upgrade plant and equipment. New communications and HRD systems adapted.