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Assignment I

Whirlpool Corporation's Global Strategy

Course coordinator: **Dr. Rose HC Wong**

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1. Introduction

As technology has dramatically been developed, home appliances have been produced in order to provide convenience to people's lives. The appliance industry has diversified into all parts of the world with a strong competition since the early twentieth century. Generally, there were four categories of appliance industry which are refrigeration, cooking, laundry and other appliances. In the late twentieth century, there were many appliance producers, but only few international companies were the main players such as AB Elextrolux, Whirlpool, General Electric Appliance and Maytag. The competition activities were different which depends on the locations. The three main regions with a strong competition in the world were the United States, Europe and Asia. The appliance industry is not really a global industry and it can be defined as a transnational industry, and all the international appliance producing companies have their own global strategies to improve the competitive advantage.

Whirlpool is a global company which expanded its market into all the main parts of the world with the future concepts. While its expansion, it encountered so many problems because of the weakness in labor and cost management, competition and overcapacity, and economic problems. To overcome the problems, Whirlpool has innovated the products to response the consumers' needs with high level of flexibility and other global strategies which are good experience and lessons for being a competitive global company with world wide operations and markets.

2. The Appliance Industry in the United States, Europe and Asia

During the twentieth century, most of the appliance industry's markets were the developed countries where there were about 120 million home appliances sold a year. Appliances were produced in different locations and designs in order to meet customers' needs in each region. The United States, Europe and Asia were the main regional markets for the appliance industry.

2.1. The Appliance Industry in the United States

Electrolux, Whirlpool, General Electric and Maytag were the main appliance producers in The United States during the 1980s. To be more competitive, these four main producers have concentrated on product quality and innovation, production efficiency, cost elimination, and economies of scale. They have designed their products referred to the brands segmentation and prices. The main appliance distributors In the United States were houses constructing companies, resellers and department stores. The appliance industry has well operated in the United States until the end of the 1990s then the customers were fully adopted with the appliances and most of producing companies' profit margins has continuously dropped; it was as at the maturity and decline stages of product life cycle theory.

2.2. The Appliance Industry in Europe

There was a remarkable change of competition in the appliance industry in Europe during about one-decade period of time. It was the dramatic decrease of producers from about 350 producers in the early 1980s to about 100 in the late 1980s. In early 1995, Electrolux was the leading company with 25 percent of market share and Bauknecht, Philips, and Bosche-Siemens owned the rest. There were different behaviors of more than 320 million European consumers, so, the companies have produced their products followed by local consumers' needs by country and region. All brands were generally sold together at same stores; therefore, consumers had many choices of buying an appliance at one shop. Some appliances were sold with kitchen packages.

2.3. The Appliance Industry in Asia

In the mid-1990s, appliance producers found the best market growth rate which was between 8 to 12 percent per year in the second-biggest appliance market in the world, Asia. Appliances were produced in smaller size to fit with the small Asian kitchens. The producers added values on the appliances by making them lightweight and movable which were more convenient for Asian consumers who sometimes store their appliances outside the kitchens. Furthermore, the consumers used appliances to decorate their living rooms such as refrigerators. Microwaves were popular among Asian consumers, but clothes dryers and dishwashers were not. It was a tradition in Asian countries that appliances were sold at small shops but it started to change in China and some Southeast Asia countries to have national distributors.

3. Is the Appliance Industry a Global Industry?

A global industry is the industry which uses global strategy by highly centralizing manufacturing, research and development activities then exports the standardized products to the world markets (Bartlett, Ghoshal & Birkinshaw, 2004).

Turning to the appliance industry, some companies bring their technologies and strategies into other countries in order to manufacture different segments of appliances with different designs and low production costs to meet local or regional consumers' needs. Some companies use economies of scale to reduce production costs as in the United States. Some produce appliances based on local consumers' preferences such as British consumers use washing machines more often than others in Europe, French people prefer self-cleaning ovens, and Asian consumers prefer small and movable appliances. Furthermore, Whitwam shows that Whirlpool was one of the world leading appliance producers that its products were manufactured in 11 countries and were supplied to more than 120 locations. The products were produced with a variety of design to meet the regional consumer preferences (Maruca, 1994).

Therefore, the appliance industry is not really a global industry, because all the appliances of one company sold in all main parts of the world are not the same such as appliances sold in Asian market have smaller size than the ones sold in European and the United States markets. Furthermore, Whirlpool established plants in Europe, the United States, Latin America and Asia with headquarters and a product development center in each region. As Beamish, Morrison, Inkpen & Rosenzweig mention that Whirlpool's Asian group established the Asian regional headquarters in Tokyo and a center of Asian marketing, technology and product development in Singapore (2003). This shows that there is no one standard for all of Whirlpool's appliances in the world markets.

However, we can assume that the appliance industry is a transnational industry; because it has a plant and a technology and product development center in each region in order to gain more competitive advantage in all regional markets and meet national and regional preferences. These are the processes of the global-scale efficiency, world wide innovation and national responsiveness strategies. As Bartlett et al. mention that the characteristics of the transnational industry are national responsiveness, global efficiency and world wide innovation (2004).

4. The Assumptions about the Future that Whirlpool Made

Firstly, Competitive advantage would be a key component to effectively manage the business through the difficult markets and economic environments in different parts in the world. Selling products with global brands in different countries is not sufficient to gain long-term competitive advantage in the world market. Whitwam, the CEO of the Whirlpool corporation said that to gain long-term competitive advantage, the company had to integrate the geographical businesses then establish regional technology centers with financial reporting system and distribution strategy in order to eliminate costs and have the best operative capabilities worldwide (Maruca, 1994).

Secondly, the regional integration such as joint ventures and distribution channel including the lower cost structure would bring a company a good position in the regional market in terms of future growth and profitability. As while Whirlpool faced some difficulties in China and India, Whitwam was still confident to say that Whirlpool would be well positioned for future growth and profitability because of its focus on joint ventures in China, strong sales subsidiaries in India and Asia, and lower cost system (as cited in Beamish, et al., 2003).

Thirdly, technology development, brand segmentation, operational efficiency would lead companies to capture the markets by producing the most innovative products with lower costs. This was also related to the study of consumers' lifestyles and technology requirements. Whitwam also believed that long-term customer loyalty was the only way for a firm to be an integrated international company by producing products and services which response to customers' needs (as cited in Beamish, et al., 2003).

Fourthly, Platform of technology would bring company two or three year ahead of its competitors and contribute to saving design and components costs. As Beamish et al. point that “Whitwam believed that the platform of technology would bring a 200 million dollars annual saving in design and components costs at the time it was completely implemented in the year 2000” (2003, p. 592).

Lastly, the final users would be very important that the company would have to design products refers to what they would want. The company should have good relationships with stakeholders, especially, suppliers which would provide convenience to all plants’ improvement. Therefore, products would meet consumers’ satisfaction. As Whitwam points that he would move his refrigerators away from the traditional approach and design them based on what the end users want, and he would develop close relationships with the related organizations (Maruca, 1994).

Totally, Whirlpool assumed that competitive advantage, consumers’ satisfaction, regional integration, brand segmentation, operational efficiency, product innovation, and platform of technology would be the main tools for a company to be the true global company and well positioned in the global market.

5. Causes of Whirlpool’s Problems

The main causes of the problems that Whirlpool has encountered are geographical conditions, the lack of human resource; economic problems, the decrease of consumer demand; and overestimation.

5.1. Geographical Conditions and the Lack of Human Resource

These happened in Asia because of the geographical conditions such as insufficient distribution channel and telecommunication networks. Whirlpool found itself a victim of losing 70 million and 62 million dollars in 1996 and 1997 in China. It faced a huge difficulty in distributing products to the country areas in China because of the very long distances from cities to country sides, including the poor roads system. It also faced some problems with telecommunication and skilled labor for the factories because China was an undeveloped country. Whirlpool also found some problems of overcapacity and trading conditions in India.

5.2. Economic Problems and the Decrease of Consumer Demand

The economy was a main factor that has directly affected on consumer's perception and leaded to the decrease of consumer demand. During the economic problem happening in Brazil in 1998, Whirlpool's sales fell by 25 percent as 1 billion dollars because of the inflation. There was a strong reaction from Brazilian consumers to this economic problem. They were worried about their jobs would be cut and the decrease of purchasing power that they could not afford to buy the appliances, especially they would probably pay in longer period for the purchase on credit. As Antonio da Silva, a maintenance worker said that "I'm afraid to pay over many months because you don't know if interest rates or inflation will rise again" (as cited in Beamish et al, 2003, p. 599). As a result, the consumer demand dropped.

5.3. Overestimation

With the huge population of China, Whirlpool estimated that China was a big market and it was a good opportunity for the company to operate by using economies of scale. Actually, there was only about 120 million people were able to purchase home appliances and it was not the Chinese culture to change the appliances that were still usable. Furthermore, Beamish et al. show that many local companies were established and there was a strong encouragement from the government on Chinese products consumption, so, Chinese companies have absorbed a remarkable market share from the foreign competitors (2003). These show that Whirlpool found business operational difficulties in China because of its overestimation and misunderstanding about consumers' behavior including an unexpected issue which was the change of government policy.

6. Lessons Learnt From The Whirlpool Experience

The whirlpool experience has mainly shown how to be a global company with a global competitive advantage. According to Whirlpool experience, there are many contributing strategies such as:

Regional Integration

This is a process to integrate the businesses in the same regions then establish product development centers and regional manufacturing centers in the suitable locations in the regions. The product development centers are located in the places where there is advanced expertise. And the regional manufacturing centers are located in the places where there are sufficient skill labors and are convenient for distributing products to all markets in the region. This provides companies the world wide innovation, production and transportation costs reduction, and improvement of efficiency with large-scale operations.

National Preferences and localization

It is a study of local consumers' needs, behaviors and lifestyles. It refers to the different designs made in order to satisfy consumers and to meet the government regulations. Environment and economic conditions such as inflation and standard living of people are also focused. There are researches on consumption traditions and future consumers' trends in order to design products to meet the future consumers' concepts. These are the tools for producing products to meet local consumers' satisfaction and for avoiding from market overestimation and unexpected issues such as change of environment and government policies.

Technology platform and standardization

While products are manufactured with different design in order to supply in different locations, the basic technology and manufacturing processes can be similar or standardized. It is more preferential for some locations that have similar national preferences, because the same technology can be used and products can be standardized. So, companies can use economies of scale to eliminate design and production costs in these production areas.

Well-prepared management to go global

This mainly focuses on human resource management and cross-border business teams. It talks about the establishment of management trainee's teams to introduce employees the vision and objectives of the company's globalization processes. Employees are aware of globalization and their interests on the creation of the global organization are encouraged. The company gives more responsibilities to encourage their commitment, innovation and initiatives to globalize the company. Cross-border business teams are in charge of doing researches and studying on strengths, weaknesses, threats and opportunities of company then finding solutions to solve problems.

7. Recommendations

Whirlpool has faced many problems in the appliance industry in all its regional markets except the United States market; this means its business performance in the United States was very well. To overcome the problems Whirlpool should have some solutions such as:

Pre-enter research team establishment:

This team is responsible to do research and study on the threats and opportunities of the company in the new targeted markets. The research and study should deeply focus on the local consumers' needs and behaviors, labors, environment, national endowments, government regulation, economics, geography, communication systems, infrastructures, affordability of purchase of people and potential existing competitors. So, the company can be well-prepared before entering the new markets and is able to avoid overestimation and to prevent the unexpected issues as the company has experienced in China and India.

Product quality strengthening:

Company should improve the quality of products produced by the company's Asian operations in order to have competitive advantage over Chinese and other competitors' products in Chinese market in terms of longer consuming period. These high quality products will be more attractive when the consumers find the different quality and maturity between Whirlpool's products and other products.

New brand creation:

Company can create a new specific brand by establishing a new plant or making a joint venture with a local Chinese producer. This new specific product is technologically and conceptually designed in a main purpose to compete with some potential competitors' products which own the majority of market share. It will require special trendy design with high level of flexibility and highly attractive advertisement and promotions. It should include value added such as environmental focus, warranty, and after-sale services. This new product should be sold in a competitive price. The high technology is a main contribution to Whirlpool's competitive advantage in China, because Chinese products are poor quality. So, the company can produce appliances that require less energy by using high technology then it will be more competitive than Chinese appliances in terms of after-purchase exspense.

Special training program:

There should be a special training program developed in order to provide skills to workers who work at the factories in other locations. The training program should focus on the specific skills and take a short time. The company can send staff from local businesses to attend short training courses at the regional technology center for being qualified in the jobs which require higher qualification and skills. Such as in China, there is a huge population but it is lack of qualified workers, so Chinese workers at Whirlpool's factories can be trained through this special training program.

Adding values on existing brands:

The company can add values on the products such as making them to be multi-functional appliances which causes consumers feel gain more benefits of purchasing them. In addition, the company should focus on the high technology that make the appliances consumption requires less energy, so it can help consumers save on energy expense. Another way is to develop marketing programs including attractive promotions in order to introduce the products and their benefits. Furthermore, company can establish after-sale service and warranty programs to make products more valued. This is a solution for overcoming a kind of problems that the company faced in Brazil. In spite of being afraid to pay for purchasing appliances, Brazilian can feel that the appliances are necessary for their life. It is also a way to maintain the existing customers and keep products competitive.

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