CASE ANALYSIS

Newell Company: Corporate Strategy

CASE DETAILS

- Founded in early 1900's by Edgar Newell
- Newell is a manufacturer of low-tech, high-volume consumer goods. Major business was on Consumer Goods – Manufacture of basic home & hardware products Houseware, home decoration and office products and later they expanded to other markets
- Targeted at large retailers with high volume and low-cost products
- Company Goal - Increase sales and profitability by providing additional products and reliable services
- Company Strategy - To increase its product line through purchases rather than domestic growth
- In 1965 Daniel Ferguson named as Newell president who crafted growth by acquisition strategy
- It used acquisition as its corporate strategy to grow and diversify. The purchase increased the product offerings to the big retailers, and also increase the chances of global expansion. Major Acquisitions: Rubbermaid & Calphalon (During the time of CEO John McDonough)
- Went Public in 1972. The company entered foreign markets from 1994 onwards with Corning's acquisition of the houseware business in Europe, the Middle East and Africa.
- The company has consistently increased its market through strategy of acquisition. It conducts a process called 'Newellization' to align the corporate goals of the acquired companies with its own purpose.
- The company followed the philosophy "build on what we do best."

DEVELOPMENT TIMELINE

1902
Edgar A Newell bought a bankrupt company which manufactured brass Curtain rod

1917
Regular Supplier to Woolworth stores

1921
Leonard Ferguson Joined Newell

1937
Leonard Ferguson became full partner

1950
Dan Ferguson (son of Leonard and Stanford MBA) became CEO.
Revenue $10 mn
Limited product & No strategy

1966
Acquired small window shade manufacturer

1967
First Strategy for Newell – Focus as market for hardware and do-it-yourself products to volume merchandisers

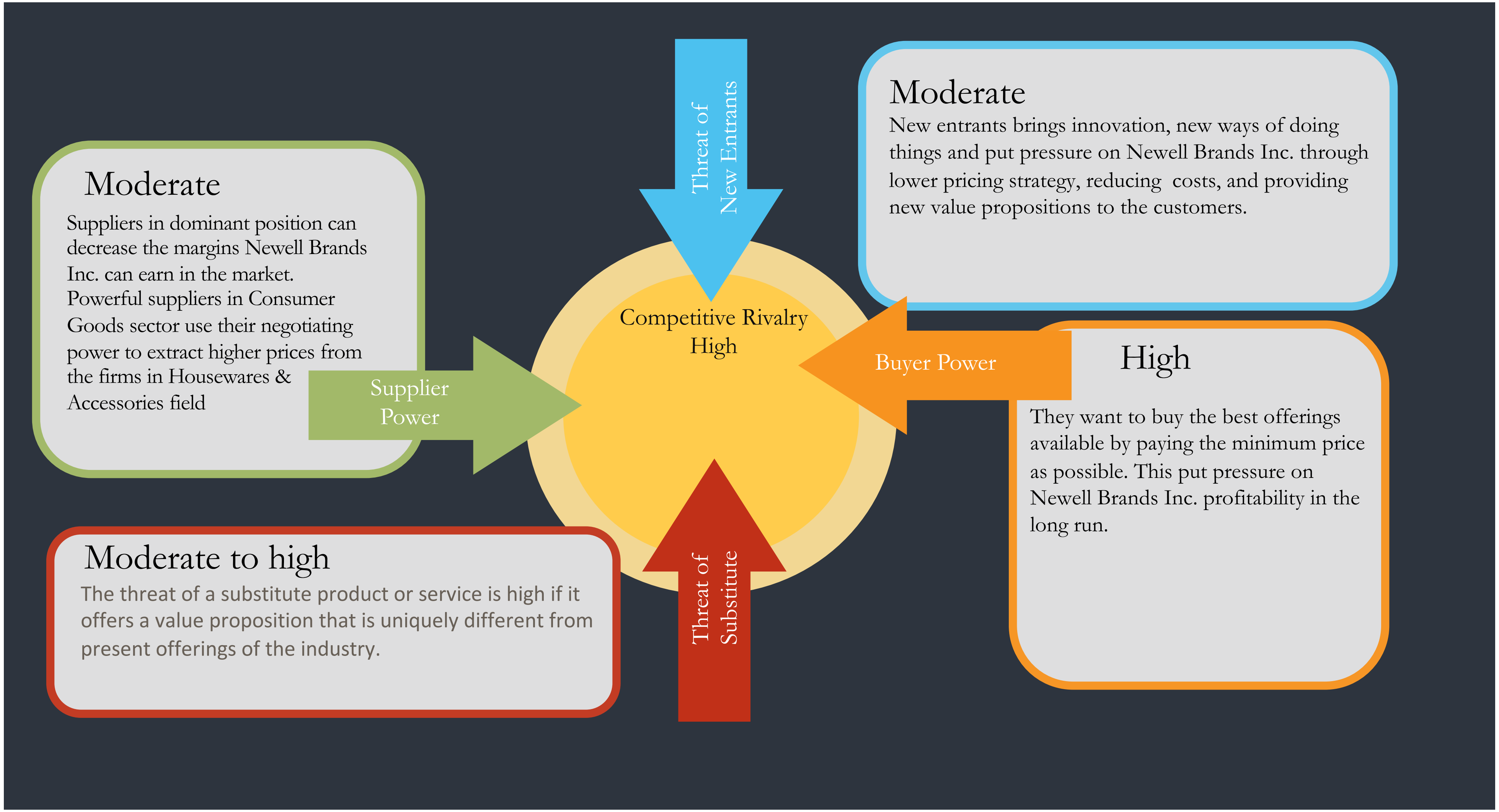
1969
Acquired Mirra Cote's Product Company's first non drapery hardware acquisition

1972
- Became Public Company
- Access of capital opened the door for acquisition & new product

1997
- Adopted 2-Pronged Strategy
- Thrived by aggression & discipline
- Manufacture low-technology, non-seasonal, noncyclical, non fashionable products
- Strategy for consolidation and centralization to achieve effectives
- Acquired 30 company in 20 years

- Revenues of 3.23 billion.
- Clients like Walmart which gave 15% of business, top 10 clients accounting for 40% business
- Through 1997, 10 year average return to investors 31% (Vs S&P 500 only 18%)

PORTER FIVE FORCES ANALYSIS



SWOT ANALYSIS

STRENGTHS

- The Newellization process
- Diversified product line and Range (Multi-product offering)
- Timely Delivery to Client by Newell Co.
- Corporate & Leadership team
- Acquisitions/Mergers

WEAKNESSES

- Decline in profitability
- The company has not being able to tackle the challenges present by the new entrants
- Limited success outside core business
- Operational efficiency

OPPORTUNITIES

- The company has the possibility of growth through acquisitions
- Expansion in International markets
- Innovative and premium products
- Decreasing the cost of transportation
- Focus on products with high margins

THREATS

- Delay in Newelization may increase the cost and impact the cost of acquisition of other company
- Online business
- Adapting to new technologies

VALUE CHAIN ANALYSIS

Firm Infrastructure

Extensive database development for effective marketing
Advanced information system to get deeper customer insights.

Human Resource Management

Attractive rewards to encourage creativity and maximize productivity
Personnel training for effective interaction and superior customer service

Technology

Quick new product development
Innovation integration in product designing
Innovative product features with patented technology

Procurement

Reliable transportation to ensure quick delivery
Procure high quality raw material and replacement parts.

Inbound Logistics

- Procure high quality inputs to offer high quality finished product
- Effective incoming input handling to reduce damage

Operations

- Flexible manufacturing system
- Wide product range and Improved product appearance
- Quick response to unique specifications
- Improved customer satisfaction through lower defect rate
- Improved product performance due to conformance to technical specifications

Outbound Logistics

- Effective handling and better shipping to reduce product damage
- Timely product delivery
- Flexible delivery capabilities
- Effective order processing procedure

Sales & Marketing

- High Quality Product at affordable price
- Acquired company which had higher market share and which add value to the company
- Sales force, advertising, promotional activities, pricing, channel selection, building relations with channel members, avoided false promises

Services

The company emphasized on the support activities to avoid damage of brand reputation and instead use it as a tool to spread positive word of mouth due to quick, timely and efficient support services.

NEWELL CORPORATE STRATEGY

- Newell acquired bankrupt brass curtain rod assets in 1902
- Early Success – People moving out of cities to the first suburbs and demand for extensive windows
- The consolidation trend in retail business was identified
- Growth by Acquisition
- Centralized administration at the corporate level
- Focused mostly on the products that supply to mass retailers
- Concentrated on producing low cost/high volume products and selling them to large retailers
- One of their objective was to expand the company by increasing the profit and optimizing newly acquired companies' operations
- With their new Newellization process, they added great value to the business in its portfolio’s.
- Expanding their business/market to other continents
- Centralizing administrative functions such as data processing, EDI, accounting
- Serving the mass retail industry – Maintaining standards, Supply on time
- Uniform salary across all divisions, bonus to employees according to division performance, providing Stock options, Transfers & Promotions

DOES NEWELL HAVE A SUCCESSFUL CORPORATE-LEVEL STRATEGY? HOW COMPANY IS ADDING VALUE WITH ITS BUSINESS PORTFOLIO?

Yes, Newell does have a successful corporate strategy and it does add value to the businesses within its portfolio. Newell's corporate strategy can be summarized as follows

- **Newell focussed on low technology , high volume staple products** in home/hardware furnishings and office products. The company targeted its growth first by going public and selling 100% Newell family ownership . The access to the capital permitted Newell to aggressively add products by acquisition
- The companies **acquired were all well-known brands and often claim a #1 or #2 position in terms of market share** but were financially poorly manages and were underperforming.
- **The acquired company undergoes Newellization** wherein operating **processes are streamlined** and centralized controlled mechanism for sales/marketing,, accounting and IT-based sales and order processing system and flexible manufacturing system
- **Newell adds great value to the businesses within its portfolio** by implementing their "Newellization" process. This aggressive process began immediately after the acquisition is finalized- which at times could start anywhere before 18 months to 6 months. **During this "Newellization" period, the new acquired company gets revamped and realigned to fit Newell's business**. They add value by implementing 3 critical categories of standard Newell systems into the new company:
    - Integrated financial system
    - Sales and order processing system
    - Flexible manufacturing system
- The company focussed on high service quality (e.g. use of EDI and POS data along with reliability of JIT delivery) which helped them in

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- The company focussed on high service quality (e.g. use of EDI and POS data along with reliability of JIT delivery) which helped them in commanding premium on pricing.
- Managed to **create economies of scale and entry barriers based on "critical mass"**.
- Newell also capitalizes on economies of scope by leveraging relationships with discount retailers to get shelf space and favourable terms and conditions for products of other subsidiaries in its portfolio, too.
- The company has centralized training program, management meetings, and transfer of managers which contributed to best practice of knowledge sharing
- The biggest testimony of successful strategy is company revenue grew **from $350 million in 1986 to $3.2 billion in 1997**

EVALUATE DECISION TO ACQUIRE CALPHALON?

Pros	Cons
• Learn the expertise in developing pull strategies and building strong connections to the end consumer • Broadened Newell's access to the department and specialty store markets and extended the company's cookware product line to the top of the market. • Decision to keep Calphalon lines in department and specialty stores enabled WearEver, to remain the number one mass merchandiser brand within the Newell lines.	• "Newellization" may erode Calphalon's premium service and destroy the barrier of entry for premium competitors at high end retailers.

Evaluation Criteria	
Enhance the common resources	No
Enhance the brand equity "Newell"	Yes
Consistent with strategy of volume merchandizing	No
Does it provide opportunity for "Newelization"	No
Product cannibalization	Yes
Opportunity for Global expansion	No
Add Shelf Space	No
Staple /Fashionable	Fashionable

- Although Calphalon acquisition will create value to Newell, it potentially can create considerable challenges.
- Acquisition doesn't fit with the philosophy of acquisition of Newell and doesn't bring much of benefit on table for Newell
- Overall, we don't think Calphalon is a smart Acquisition.

EVALUATE DECISION TO ACQUIRE RUBBERMAID?

Pros	Cons
• Rubbermaid and its brand name can enhance Newell's opportunities for globalization and internal growth • It will facilitate Newell needs to buy or develop stronger brands which will further increase market power of Newell's primary customers • Companies with market capitalization of $10 billion commanded higher price/earnings multiples. The acquisition will help in achieving this goal	• Rubbermaid is 75% of the size of Newell's (in term of revenue), the sheer size means that "Newellization" process will take than the standard 6 month period, which means Newell will be forced to invest more time and resources • This may leave less time to focus on new acquisitions.

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Product cannibalization	No
Opportunity for Global expansion	Yes
Add Shelf Space	Yes
Staple /Fashionable	Staple

- The acquisition meet the Newell need of enhancement of globalization and need of strong brand.
- Apart from that it meet all the philosophy of Newell acquisition
- Overall it's a smart acquisition

RISK AND HOW TO AVOID IT

RISKS

Rubbermaid's size is much larger than any other Newell company. Due to this making the process of Newellization may take longer and it may take away focus on other activities.

Reputation of Newell may damage by acquiring Rubbermaid

Inefficient Rubbermaid operations may damage Newell and its Newellization process

How to Avoid Risk

Newell could have ignored Rubbermaid and focused on acquiring other companies

Newell should have stick to their business principles by acquiring small and medium companies which they have done in the past

THANK YOU