

Case for Analysis
Managing Uncertainties in Procurement Costs
Whirlpool India



IDEATE



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Introduction

Whirlpool Corporation is a Fortune 500 company and a global manufacturer and marketer of major home appliances, with annual sales of approximately \$20 billion. Whirlpool entered the Indian market in the late 80s, and had entrenched itself as a formidable player in the Indian home appliances market by the mid 1990s. The product portfolio includes washing machines, refrigerator, microwave ovens and air conditioners and today, Whirlpool is one of the most recognized brand in home appliances in India and holds a market share of over 20%. With the durables market in India being one of the most competitive markets in the globe, the key to profitability for Whirlpool is its ability to manage its costs. This case presents the challenge faced by Whirlpool in managing its profitability when the prices of its key commodities went through significant variations in the related global markets.

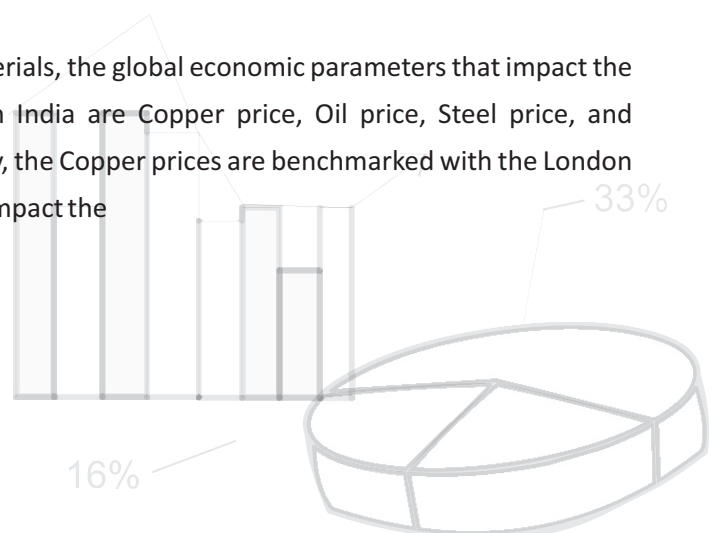
Major Materials in the Durable Goods

The three major raw materials that make most durable goods include Steel, Resins & Chemicals and Copper. While most of the parts used by Durable Goods manufacturers are purchased as finished goods from local suppliers in finished form, some of these materials are purchased directly from the suppliers of these materials across the globe to leverage economies of scale, and provided to local suppliers for further processing and assembly in their finished parts.

Significant proportions of the above commodities, used in the durable goods are imported. The prices of all these three are directly linked to global markets. Even when these are purchased from the domestic market, as the suppliers of these commodities apply the principle of Landed purchase price parity, any fluctuations in the price of these commodities in the global markets directly impact their domestic prices as well.

Key global economic parameters of relevance

Given the above commodities being the key materials, the global economic parameters that impact the profitability of Durable Goods manufacturer in India are Copper price, Oil price, Steel price, and exchange rate fluctuations of the Rupee. Globally, the Copper prices are benchmarked with the London Metal Exchange (LME) price. Oil price variations impact the



Steel price, and exchange rate fluctuations of the Rupee. Globally, the Copper prices are benchmarked with the London Metal Exchange (LME) price. Oil price variations impact the price of Resins & Chemicals. The exchange rate fluctuations impact the prices of all imported materials. While the prices in these markets were relatively stable in the years preceding 2007, the years of 2007 and 2008 saw wide fluctuations in the prices of these commodities, including fluctuations in the exchange rate between US Dollar and the Indian Rupee. These price fluctuations have a direct impact on the profitability of the durable goods manufacturers. Also the severe competition in the durable goods market has little or no choice for the manufacturers of these products to vary the prices significantly. So the prices of most of Whirlpool's products have not undergone any significant change during the period 2007 and 2008, even as the commodity prices fluctuated widely with dollar fluctuation. This put enormous pressure on the durable goods manufacturers to maintain their profitability estimates.

Impact of Exchange rate fluctuations

Between Jan 05 to Jan 07, the rupee was trading consistently in the range of Rs. 44 to Rs. 46 per USD (US Dollars). Between Jan 07 to Jan 09, the rupee value touched a trough of almost Rs. 40 and peaked to Rs. 52. The wide fluctuation observed in this period is depicted in the attached chart.

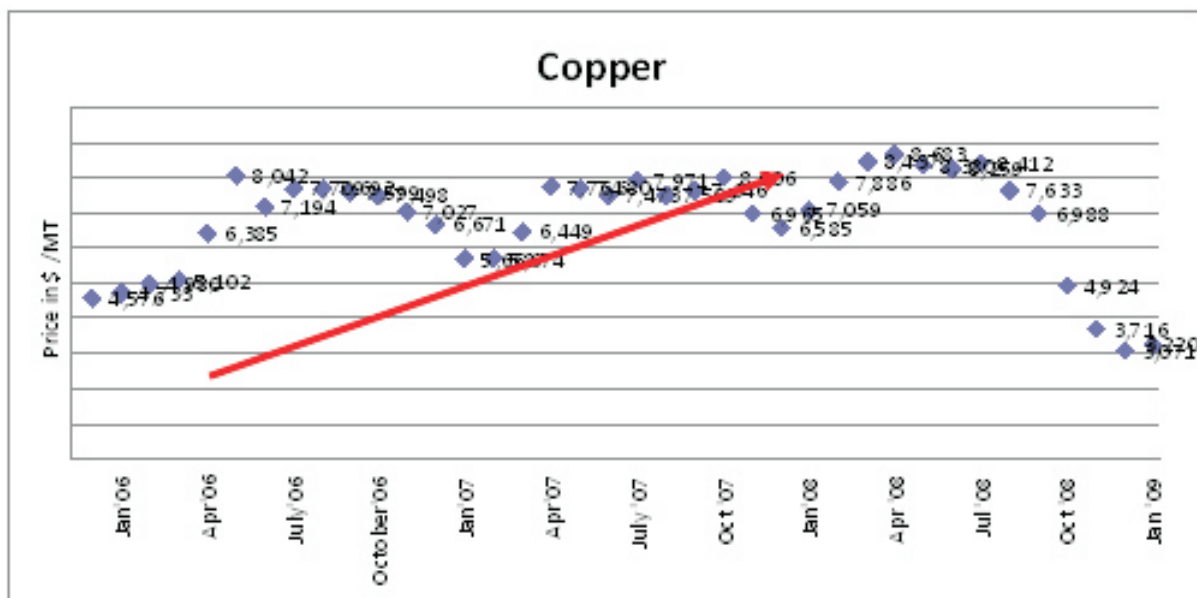


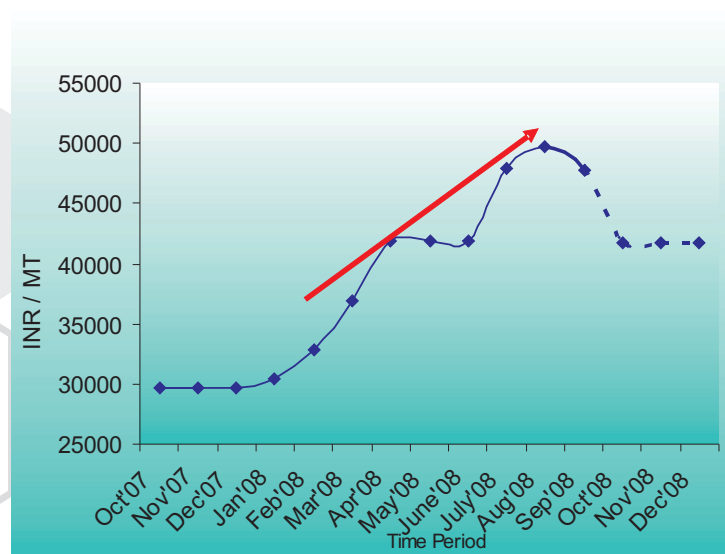
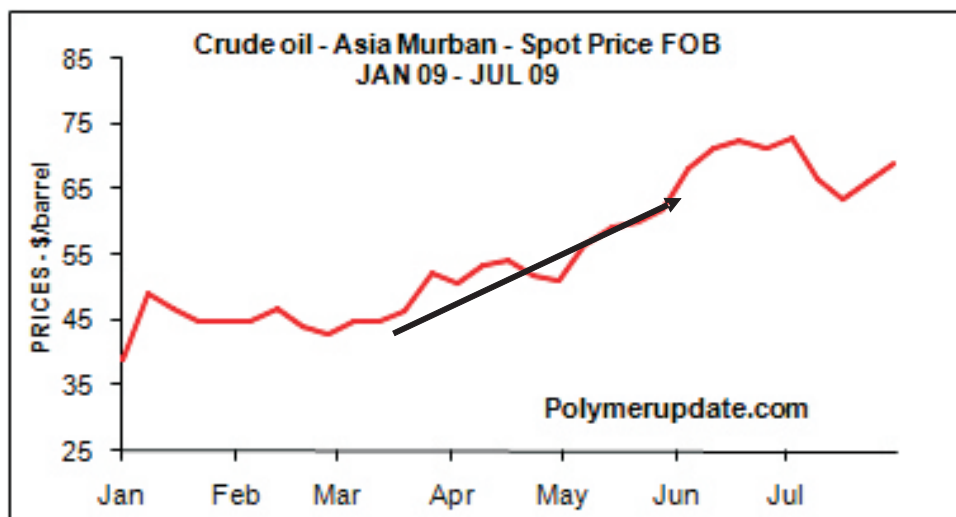
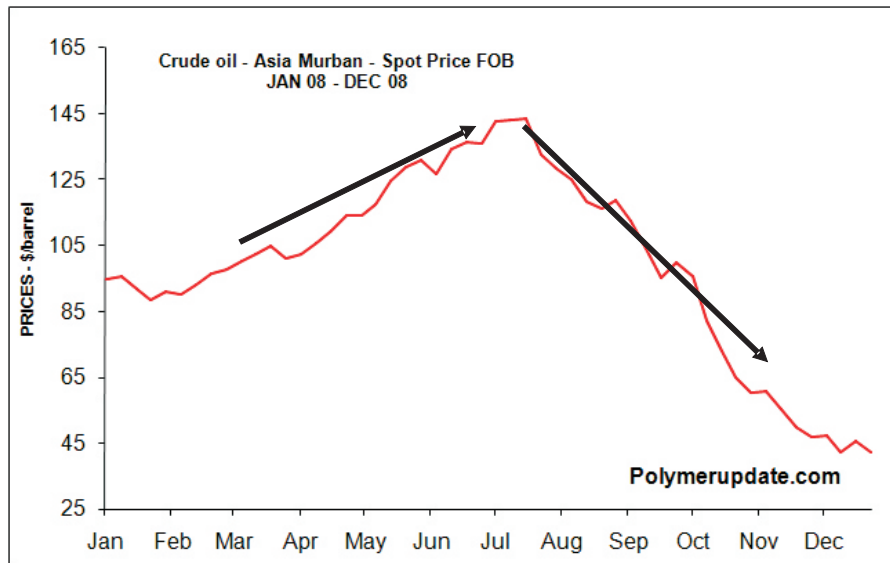
With as high as 35% of the material purchased being imported, such variations in the exchange rates impact the profitability projections significantly. While the higher valuation of rupee did provide a positive flip to the profitability estimates initially, the estimated negative impact of the Rupee fall in 2008 was as high as 12% on the profitability estimates. As the sustainability of the durable goods business is driven by low margins

and high volumes, the need for ensuring adherence to the business plan for both volume and profitability becomes even more critical. Such uncertainties in the exchange rate fluctuations impact the adherence to the business plan estimates, and thus impact the predictability of managing the business.

Metal Price Trends

Even while the exchange rates fluctuated, the prices of all other commodities such as Copper, Steel and Oil fluctuated significantly during the same period. The copper prices gradually increased from about US\$ 4500 per tonne in Jan 06 to as high as US\$ 8500 in Jul 08 before tumbling to a low of about US\$ 3000 per tonne in Jan 09. The oil prices rose to a high of about \$145 per barrel in Jul 08 from about \$80 in Jan 08 before nose diving to \$40 in Jan 09. The oil prices have been steadily increasing since then and seem to be around \$70 to \$75 per barrel currently. Steel prices also shot up from a stable Rs. 30000/- per MT in Jan 08 to about Rs. 50000/- per MT in Sep 08, before reaching around Rs. 42000/- per MT.



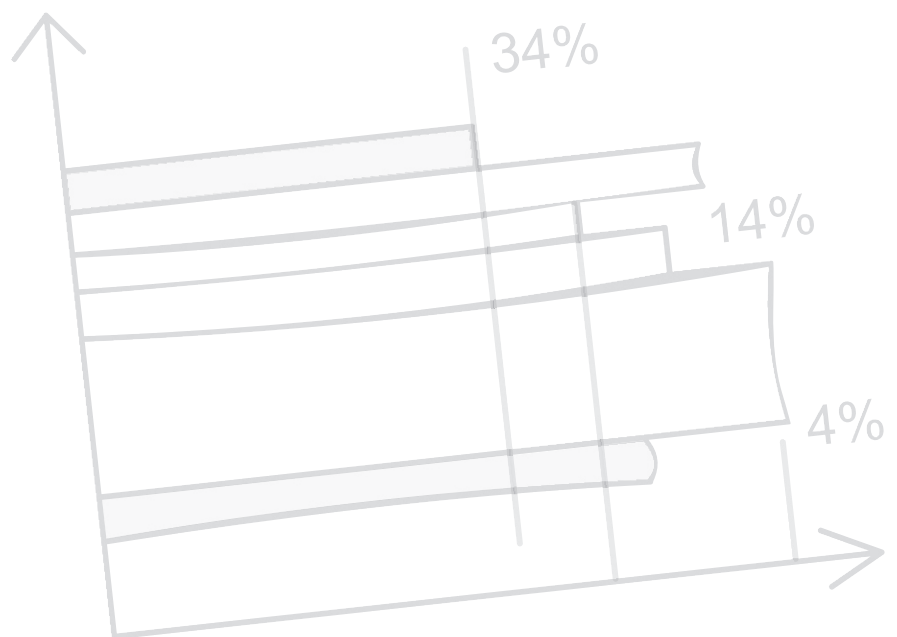


While the parts suppliers to durable goods manufacturers do absorb some of these profitability impacts in the short run, in the long run these are typically passed on to the durable goods manufacturer, who in turn cannot pass on such impacts to their ultimate

Customers due to the play of the competitive market. Rigid price protections with suppliers of durable goods manufacturers do not work as they negatively impact the sustainability of such partnerships in the long run. The part suppliers protect their interests by clearly differentiating the material price and the processing price; giving price guarantee only for the processing price, and linking the material price to the actual market price.

The Challenge of “Managing Market Fluctuations”

The fluctuations seen in the past couple of years calls for a prudent supply chain strategy on the parts of the durable goods manufacturer such as Whirlpool. Left unmanaged, their profitability and perhaps even their mere sustenance might come to depend upon completely external factors. Thus, the challenge for the durable goods manufacturers is to manage their supply chain processes and dealings in such a manner that any market fluctuations do not significantly impact the profitability projections of the business, and do not derail their overall business plans.



Trigger Questions for Analysis

Phase I

Given this situation, what strategies should Whirlpool adopt to stay ahead of competition? What are those basic steps required to mitigate such challenges, and what other advanced steps would help convert such a threat into an opportunity? What are the other potential risks that Whirlpool is likely to face by adopting these strategies, and do they mitigate these risks in such an eventuality?

Phase II

Simulate an assumed business plan and demonstrate the business impact of such strategies in generating competitive advantage during the period of price fluctuations given in the case.

{In the first phase, the second phase question and related references should not be circulated}

For further details:

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