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**TITLE:** The Development of the UK  
DOMESTIC ELECTRICAL  
APPLIANCE INDUSTRY  
over the period 1963 to 1990

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**The Development of the UK DOMESTIC ELECTRICAL APPLIANCE  
INDUSTRY (the DEAI) over the period 1963 to 1990.**

The Thesis determined that the development of the DEAI was characterised by a contraction of the industry, a reduction in profitability, coupled with a massive growth in import penetration from 6% to almost 50% over the period. Much was self-induced by minimal investment in product development, coupled with a lack of understanding of the increasingly competitive UK market. In the distribution and retailing sectors there had been a rationalisation of wholesaler and retail chains.

The prime tool used in analysing the manner in which companies compete within the DEAI was the PORTER Five Force Model. The method employed calibrated the strength of each force thereby determining a "metric" which could be used in comparing each force over the 27 year period. In-so-doing it was found that the industry was highly competitive and that consumers had become more discerning in their selection of appliances. Importer's brands and their products had become more popular. The application of the Porter Model led to the conclusion that "Buyer Power" i.e. the power of the retailer's buyers had significantly increased. Additionally industry data indicated that the industry's profitability had also decreased, as predicted by the Porter theory.

Extensive interviews were carried out with industry decision makers which provided a basis of an industry view, which was used to benchmark the results achieved through the analysis using the Porter model.

During the course of the study it was suggested that the management within the industry had conformed to a set way of thinking or industry wide paradigm or "recipe". This assertion was confirmed during the analysis.

It was also clear that UK governments over the period had enacted legislation which caused the further contraction and instability within the DEAI.

Brian S.Wolfe.

# **PREFACE**

The writer would like to thank and acknowledge the help and advice given by a large number of people during the six years it has taken to compile this thesis. All of them gave willingly of their time and would be embarrassed if an reference was made to them personally.

However, I feel I must acknowledge the help, direction and support so thoughtfully and enthusiastically given by David Asch, Dean of the Open Business School, who took on the job of supervising my efforts over this long period of time.

It was somewhat of an experiment by the Open Business School to allow me to take on this task so late in my professional life, and In this connection, I also acknowledge the confidence shown in me by Professor Derek Pugh.

I hope they feel it was worth it, since everyone's efforts now have enabled me to add just a little to our understanding of the nature of competition in the U.K. Domestic Electrical Appliance Industry.

Finally, and most importantly, I would like to express my sincere thanks to my family, particularly my wife, Joy, who have had to endure my non-communication over numerous weekends and holidays for such a long time. Their support and forbearance was absolutely paramount - without it, I would have never completed the work.

27th January 1996

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# **GLOSSARY OF TERMS**

<b>BEAB</b>	<b>British Electrotechnical Approvals Board</b>
<b>AMDEA</b>	<b>Association of Manufacturers of Domestic Electrical Appliances.</b>
<b>DEAI</b>	<b>UK Domestic Electrical Appliances Industry.</b>
<b>EITB</b>	<b>Electrical Industries Training Board.</b>
<b>NEDC</b>	<b>National Economic Development Council.</b>
<b>VDE</b>	<b>Verband Deutscher Elektrotechniker (German Approvals Authority)</b>
<b>CENELEC</b>	<b>European Committee for Electrotechnical Standardisation (Translation from the French)</b>

*"An enterprise culture is one in which every individual understands that the world does not owe him or her a living" Peter Morgan, director general, Institute of Directors.*

## **1. INTRODUCTION**

### **1.1 Review of the UK Domestic Electrical Appliance Industry**

If a new building were to be planned commemorating the UK Domestic Electrical Appliance Industry, it would, in the opinion of the writer, have the above quotation inscribed on its cornerstone.

Having worked internationally, for both English and German companies, in the Domestic Electrical Appliance Industry (DEAI) for almost twenty years, it was always of concern to the writer that during the seventies and the eighties many overseas competitors, particularly those within continental Europe, introduced more and better featured products and enjoyed so much more success than their British counterparts. This comparison of product design was brought into stark reality when each year the Koeln Messe (The Cologne Exhibition), known as Domotechnica, was held annually (now bi-annually) and over eighty of the nations of the world exhibited their Domestic Electrical Products in ten large halls. For example, in February 1990 (Katalog Domotechnica '90) approximately 1,000 companies were present at the exhibition. The continental European companies were there in strength, as were the U.S and Japanese. Whilst the U.K. product design along with pricing had greatly improved during the eighties, we were still lagging behind in a number of areas, like built-in appliances for the emerging built-in kitchen market in oven design and associated features.

It was this concern that formed the genesis of this thesis. In addition, why were many European companies, in particular, successfully establishing themselves in the UK and beating the indigenous businesses like Hotpoint, English Electric, Morphy Richards and many others at their own game - in their home territory? This market penetration had taken place over a period of only ten years when the German, French and Italian manufacturers had established themselves as significant players in the UK market.

In order to better understand the DEAI, this work commenced with the study of the historical development of the industry over the period 1963 to 1990, when the U.K. went through a number of cycles of economic growth, which, in the opinion of the writer, stemmed from the almost continuous "stop go" policies of the governments of the day. It will be shown that, superimposed upon a highly competitive domestic market, after entry into the European Community, the home manufacturers came under even more intense competitive pressure and rivalry as the giant European companies such as Indesit, Ignis, AEG, Miele, Electrolux, Philips, etc., attacked the large and lucrative domestic electrical appliance market of the British Isles.

The DEAI, in practice, consists of two product sectors relevant to this thesis: White Goods (washing machines, dishwashers, refrigerators, freezers etc.), known as Major Domestic Appliances, and Small Domestic Appliances (irons, toasters etc.). Some commentators also include a third sector - Brown Goods (Radios, TV's, Video Recorders etc.) as part of the DEAI, but these latter products were excluded from this work since the method and location of manufacture, distribution and the marketing approach is often different to that of the white goods sector. The Monopolies and Mergers Commission MMC in 1990 estimated that the DEAI was divided, by value (based on 12 months ended 1989), 89% Major Domestic Appliances and the remainder Small Domestic Appliances. In retail sales value these product sectors amounted to £2,879 million and £368 million respectively. For the purposes of this work, the DEAI will be considered as a homogeneous White Goods industry of Major Domestic Appliances unless otherwise stated.



The DEAI in 1990 supported 39,000 jobs. - see table 4 on page 17. Thus from a national standpoint must be seen as a significant provider of employment. The industry also supported a large number of sub-contractors, although many of these are now located overseas - making components and sub-assemblies, such as printed circuit boards for Major Domestic Appliances and in the case of Small Domestic Appliances, complete product - for example irons, toasters, coffee machines and hair dryers. Additionally, the DEAI supports many jobs in the distributive trade and retailing networks providing the final step to the ultimate consumer. Consumers rely on the retail trade to stock the enormous range of products, to provide reliable information about them, to serve as a channel of communication back to the supplier, and to act as the main source of redress in the event of defective products. Retailers may also supply financial credit to potential customers. Retailing takes a variety of formats, including independent high street or local shops, retail chains, department stores, out-of-town retail parks, and mail order.

The MMC (1990) estimated that the total number of retail outlets, in 1989, selling mainly household electrical goods was 19,300, although as will be seen from table 1 below it is difficult to understand how Gas Showrooms would be included in the classification.

**Table 1.** (Taken from Table 3.17 of the MMC (1990) report)

<u>Type of Outlet</u>	<u>Number</u>	<u>%</u>
Dixons	351	4.1
Currys	590	6.8
Comet	371	4.3
Other Multiples	1300	15.1
Independents	5000	57.9
Electricity Showrooms	1023	11.8
All above Specialists	8635	100.0
Departmental Stores	200	
Gas Showrooms	740	
Catalogue Showrooms	250	
Rental Outlets	3700	
Others	5775	
<b>Total</b>	<b>19300</b>	

These organisations were businesses in Great Britain selling mainly household electrical goods and refrigerators, radio and television sets, audio equipment, VCR's, calculators and computers for domestic use, musical instruments, records, tapes and sheet music. Businesses mainly engaged in electrical contracting were excluded. Of the 19,300 outlets, 8,635 could be categorised as specialist electrical appliance outlets, which would include the major high street retailers like Dixons , Currys, Comet and Rumbelows.

The MMC recorded that these latter retailers, i.e. Currys, Rumbelows etc., together with other specialist multiples, are located in just over 28% of the 8635 distribution outlets, i.e. approximately 2400 outlets.

The MMC went on to state that these specialist retailers overall accounted for about 67% of £2879 million major electrical appliance sales; i.e. approximately £1900 million. Such organisations take bulk deliveries into their own warehouses and distribute product to their 2400 outlets themselves or via specialist transport companies , and often, as in the case of washing machines, dishwashers, refrigerators etc., direct to the ultimate consumer. This has caused the demise of the multitude of small electrical wholesalers that existed in the sixties and early seventies, with the exception of five or six specialist distributors, such as BDC, Edmundsons, Newey and Eyre, etc., who serve the remaining reduced number of small retailers. This trend was seen to have commenced some twenty years ago as announced in the Electrical and Electronic Trader (1972) under the headline "Multiple Retailers killing Independent Wholesalers".

The present day performance of Comet and Dixons is shown in tables 2 and 3, which indicates the size and growth of these two leading high street retailers, who buy direct from manufacturers and distribute product to their stores themselves. The independent wholesaler or distributor is left with no role to play with such retail chains.

**Table 2**

**COMET'S TRADING PERFORMANCE**

£ million	1985/86	1986/87	1987/88	1988/89	1989/90
Turnover	311.7	334.3	392.7	486.5	519.2
*Op.Profits	11.9	17.4	20.1	25.5	17.9
% Turnover	3.8	5.2	5.1	5.2	3.4

*\*Before Tax*

*Source: MMC/Kingfisher*

**Table 3**

**DIXON'S GROUP TRADING PERFORMANCE**

£ million	1984/85	1985/86	1986/87	1987/88	1988/89
Turnover	607	943	1111	1680	1755
*Op.Profits	40	78	103	103	78
% Turnover	6.6	8.3	9.3	6.1	4.4

*\* Before Tax*

*Source: MMC/Kingfisher*

Table 2 indicates that, in the five years ended 3 February 1989, Comet's performance showed a turnover increase year by year. Operating profits also increased in the first four years declining in the fifth year. A similar pattern of sales growth and eventual decline in operating profits was shown by Dixons. The growth in sales, brown and white goods, was fuelled by the boom in the U.K. economy in the mid to late eighties, whilst the downturn in profits signalled the onset of the depression as retailers struggled to maintain turnover, by cutting price and thereby margins, in the face of a declining market size.

Returning to distribution within the DEAI, a prospective market entrant could and still can gain almost instantaneous national distribution by simply winning an order from three of the large retailers like Comet, Currys and Rumbelows and thereby would gain access to approximately 2400 outlets. This retailing concentration is not repeated, in the writer's experience, anywhere else in the European Community. This represented and still represents, from the standpoint of imports, a very significant vulnerability for the U.K. DEAI - ease of market entry - where typically a company, like Breville, with their sandwich toaster, (see section 2), can enter the market, with a large advertising budget, and create a nationally known product and brand in a period of less than two years. On the other hand, a UK manufacturer might see this as an advantage - assuming he had the products to compete with the importers.

The Financial Times (1987) published an article "White Goods manufacturers spin back on optimism", where Terry Dodsworth in reviewing the eighties in retrospect stated: No wonder one of the industry's former managers, surveying the troubles of indigenous companies over the past few years, questions the strength of the British manufacturing revival. He says: "As far as I can see, what resurgence we have had up to now has been mainly foreign-led". It will be shown that this assertion certainly applied to the DEAI.

## ***1.2. Introduction to the Porter Framework***

Having established the nature and structure of the DEAI, it was considered appropriate to investigate the manner in which the companies within the DEAI interacted and competed against one another, in order to gain further insight into their individual profitability and potential profitability and thereby the profitability of the industry as a whole.

Much has been written about running businesses. For example, according to Whittington (1993) there are thirty seven books in print with the title "*Strategic Management*". Many have investigated industries as a whole, in a philosophical sense, but few have qualified their thinking from the stand point of competition and profitability, using as their basis of investigations the thinking of Michael E. Porter. Porter is one of the most prolific writers, in this context, and it was decided that the prime tool to be used in analysing the DEAI's profitability would be the "*Porter Five Force Framework*" (Porter 1980). This Framework has become, an important and acknowledged approach to the strategic and competitive analysis of industries. Its basis is a five force diagram, shown in figure1 (page 45), which, according to Porter, depicts the forces driving industry competition. Thus the "Bargaining Power of Suppliers, the Threat of Substitute products or services, the Bargaining Power of Buyers, the Threat of New Entrants, and the Rivalry amongst Existing Firms, are considered by Porter to be the driving forces behind the "Intensity of Competition" within an industry. Regarding the consideration of Substitutes, the assumptions regarding the options open to a potential user are complex. From the Porter Framework it might be assumed that a potential domestic user of a washing machine might view a suitable or perhaps affordable substitute as being a "laundrette". In the subsequent field work it became clear that by default the majority of the people in the industry would take the view that only substitutes that are practically similar in function would be considered by potential industry buyers. Thus, over the period being reviewed by this work, the only practical substitute for (say) a Washing Machine is another Washing Machine. To date in the development of domestic electrical appliances no practical substitute products have been developed. The assumption made is that the ultimate buyer i.e. the consumer, has already made the decision to use his "discretionary spend" to buy or replace a domestic electrical appliance.

Porter's (1980) view, in general, was that in industries where the Intensity of competition is very high, the profit potential of that industry is low. He cited industries, in this connection such as tyres, paper and steel where no one makes spectacular returns. On the other hand he mentioned industries like cosmetics, and toiletries where high returns are common, since manufacturers and retailers have been able to maintain relatively high retail prices. The argument in these latter industries today is not so strong, due to the advent of discount drug stores and the referral of leading perfume suppliers, like Estée Lauder, Chanel etc., to the Office of Fair Trading by certain discount stores, like Superdrug in 1993, will certainly change the competitive nature of this particular industry sector.

Porter (1990) stated, that the most competitive industries in all the European nations were those where capable national rivals were pressurising each other to advance. He cited examples of industries such as: German cars and chemicals; Swiss pharmaceuticals, heating controls; Swedish heavy trucks, paper products and machinery; Italian clothing and factory automation equipment, as being examples of where the intense domestic competition has brought about world-class products that are successfully sold all over the world. In contrast, he considered, that collaboration was a sign of decline, and government intervention was a method of preserving uncompetitive rivals. Porter did make the observation that in highly competitive industries it is often the case that competition is so intense that no one makes a profit and little money is left to develop product. Thus such an industry would go into decline.

However, based on the first part of the Porter theory above, it might be anticipated that, the outcome of the intensely competitive DEAI would be an industry composed of at least number of very successful companies producing high quality world-beating products, that sold throughout the world. It will be shown that this is not the case. Rather the DEAI falls in to the category of Porter's latter intensely competitive industry, where competition is so tough that with one or two notable exceptions, no one makes a profit.

In deciding how best to use the Porter Five Force Framework as a basis for analysis, it will be shown that with one exception, McNamee and McHugh (1989), no objective analysis of an industry using the Porter Framework was located. The previous analyses were almost always based on very subjective approaches which did not provide a measurable result that could be properly used as basis of assessment, as was required in this work.

The development of the industry was thus analysed on the basis of the Porter Framework using firstly the outcome of a review of secondary sources and interviews with prominent and key members of the industry, which were used to provide the metrics for the assessment of the industry forces.

The size and profitability of the industry has declined in the period under review. Based on the Porter thesis, in its simplified form above, the companies making up the DEAI must have either been fundamentally less robust in their rivalry within the UK market or, as was found to be the case, members of a highly competitive industry where almost no one makes profits. An exception would be a company where the management has had the vision to radically change their strategic approach to the market. Hotpoint was such a company, and it will be argued that it was the vision of Chaim Schreiber and subsequent expertise of Jeff Samson (successive managing directors of Hotpoint) that brought about this change. Up to that point in time, in the late seventies and early eighties, most members of the DEAI appeared to be approaching the business in a similar manner. As Richard Gibson, the Managing Director of Zanussi (UK) and previously Marketing Director of Hotpoint, put it in one of the interviews during 1990, "If you could provide a scenario where the retailer lost any hassle in the sale and felt supported at all levels, as part of a marketing package, and [he] had an opportunity to earn a reasonable profit, then you actually have a winning formula against the background where things were being traded [solely] at a price". In the view of the writer, the Hotpoint approach represented a break out from the industry mind-set, traditional thought process or paradigm prevailing at the time.

### **1.3. The Industry Paradigm**

in going through the inevitable iterations of thought during the course of this work, it became clear that the strategic decisions that had been taken by the companies within the DEAI over the past twenty to thirty years seemed , with one or two notable exceptions, like Hotpoint, to have led the industry in a downward spiral of reducing profitability. This was against a background of growth, particularly in the mid-eighties, in other industries elsewhere within the UK. Thus it became apparent that the conduct of the management of the industry may have conformed to a particular “method of doing things” which had, over the years, become an in-built *paradigm* (Johnson. 1988) or *recipe* (Grinyer and Spender 1979). This thesis, in section 6, attempts to answer this question in providing a view as whether this “thinking process” had contributed to the executive actions, within the DEAI, that had taken place over the period - to the detriment of the industry as a whole.



## **1.4. Summary**

The main emphasis of the work was thus divided into three areas of investigation:

1. Review of the history over the period 1963 to 1990.
2. Analysis of the drivers affecting the performance of the DEAI using the Porter Five Force Framework as a tool.
3. Study of the industry in order to understand the "thought processes" and "mind-set" behind the management decisions of the time.

The above studies were supplemented with a review of the relevant literature and interviews with key industry decision makers, which are recorded in sections 3 and 5; and in appendices I and II.

## ***2 .The Development of the UK Domestic Appliances Industry***

### ***2.1. The Sixties and Early Seventies and the Lead Up to Common Market Entry***

"I have been quite clear for a long time that government action of the late sixties and through the seventies has been the chief factor in allowing our industry to become dominated by importers. I can recall, we would sit around a table on budget days, listening to the Chancellor, and at the end of the speech we would be faced with either closing a factory or trying to work out how to double our production". (Jim Collis, Director General of AMDEA - January, 1991). The statistics referenced in this thesis are, in part, based on industry (AMDEA) figures and Official Government Statistics, as shown in the table 4. The writer did find some differences between the two sources of data. However, a comment was made in the (NEDC 1979) paper that, attempts to resolve the statistical discrepancies, i.e. between government and industry figures, were to be undertaken. In a letter dated 8<sup>th</sup> March 1989 to the writer, AMDEA stated that, in reviewing Government Business Statistics, "We believe it is incorrect to compare f.o.b. prices with UK manufacturer's ex-factory prices, and we normally add a nominal 15% to the import prices to cover importer's costs". These comments allowed some resolution of the differences which were not considered large enough, for the purposes of this work, to investigate further.

Table 4

Table 4 - UK Domestic Electrical Appliance Industry 1963 - 1990

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	
Years Em	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	
A. Total value of UK markets	137	126	124	126	130	161	180	195	236	308	416	447	613	678	793	897	985	1064	1180	1235	1526	1710	1852	2044	2199	2510	2162	2195	
B. Lees Imports	8.1	8.9	8.8	11.6	17.1	23.8	19.4	26.2	33.9	48.1	96.6	109	132	160	221	250	280	326	428	467	601	734	834	830	941	1061	1019	942	
C. (A-B)	129	117	115	115	113	137	161	169	202	260	320	338	481	518	572	647	705	738	752	768	925	976	1018	1114	1258	1449	1143	1253	
D. Add Exports	36.6	35.1	* 37	* 39	* 41	* 43	45.7	46.4	* 48	* 50	* 52	* 54	* 56	58	105	* 135	* 170	198	163	152	158	164	190	201	282	367	410	456	
E. Total UK Mfg. (C+D)	165	152	152	154	154	180	207	215	250	310	372	392	537	576	677	782	875	936	915	920	1083	1140	1208	1315	1540	1816	1553	1709	
F. % B/A	6%	7%	7%	9%	13%	15%	11%	13%	14%	16%	23%	24%	22%	24%	28%	28%	28%	31%	36%	38%	39%	43%	46%	45%	43%	43%	47%	43%	
G. Employment (000's)	66.6							62.7		61.5	64.8	71.8	63.3	60.2						42.2	41.7	43.1	42.0	41.3					
Price Index	25						30							70							36.9#	37.9#	37.5#	39.1#	38.1#			39.9#	36.9

## Notes:

- Sources:  
Employment: Employment in Electrical Appliances for domestic use; Business Monitor (p368)  
# Annual Census of Production (BA946)  
AMDEA Statistics 1961 - 1990  
Custom & Excise Figures  
Government Statistics - Business Monitor PQ3460  
Corley (1966)  
NEDC (1971 and 1979)

2 \* Estimate

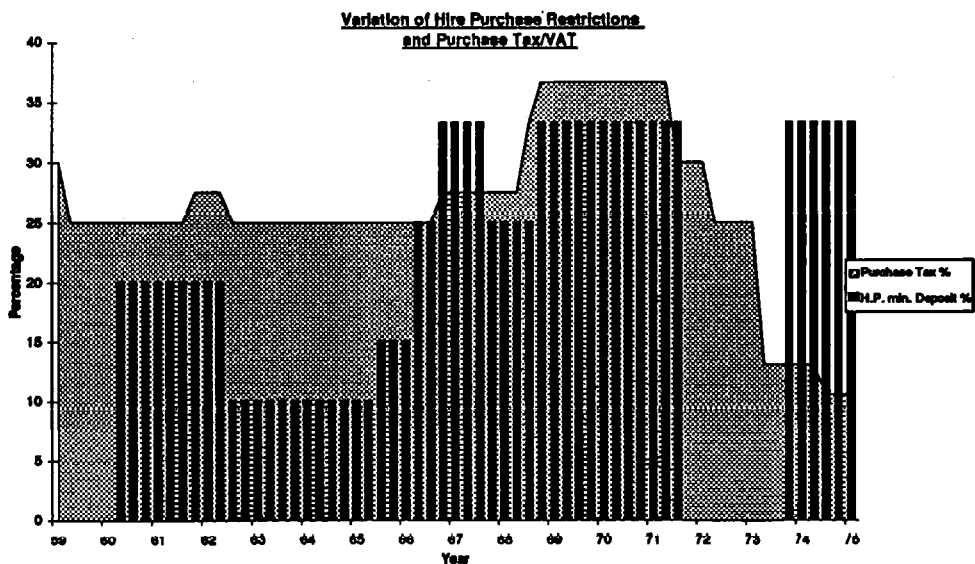
3 At prices applicable in year shown

4 Approximate index of wholesaler prices based on 1987 = 100

A report by Hoover Ltd (1974) noted that the number of persons employed in the industry was 67,000 in 1964 and the industry output was £140 million. It is shown in Table 4, that employment in the industry decreased substantially over the years 1963 - 1990 to approximately 37,000. This 40% reduction was probably, in part, a result of rationalisation and improvements in efficiency but a key factor was clearly import penetration of up to 47%, as shown in Table 4, which cut severely into the UK manufacturers share of the UK market. By taking into account the price index the U.K. manufacturer's share in 1987 was worth only £300 million at 1963 prices, i.e. only twice the output in 1963. With large efficiency improvements over the period, it is not surprising that a significant proportion of the UK manufacturing capacity had been discarded.

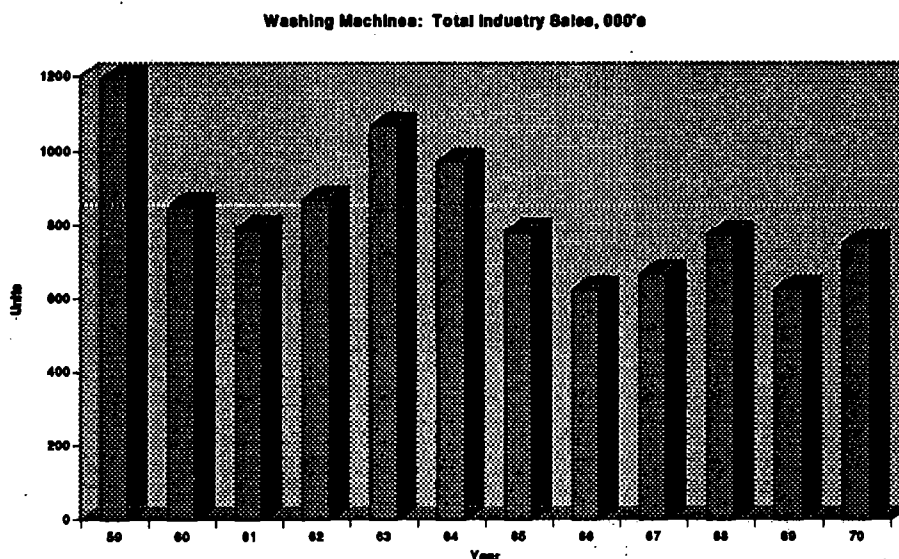
Over the period 1960 - 74 the minimum H.P. deposit varied from zero to a maximum of 33 1/3% and Purchase Tax between 25 and 30%, ending up with VAT at 10% and 8% in 1973 and 74 respectively - See Graph 1 - which prevented the establishment of credible product development programmes and the associated investment in new manufacturing techniques and plant. Thus companies were unable to properly plan product development programmes and the design of British appliances started to lag behind those of the European competitors.

Graph 1



A measure of the industry's performance can be assessed from the sales of washing machines. Throughout a period of improving standards of living, the above controls were instrumental in bringing about a reduction in the domestic washing machine market from over 1 million units in the late fifties and early sixties to a level of less than 700,000 by 1970.

Graph 2



In an EITB report (Senker, 1984), it was noted that in the late 50's, Italian washing machines cost about 10% more to make than German or British equivalents. By 1963, their costs had drawn level with British costs and by 1965, they had secured a 20% cost advantage. Italian washing machines first appeared on the British market in 1964. They retailed at 20 to 30% below British prices. In the same report, it was illustrated that in 1966, Italian manufactured washing machines alone accounted for 63% (by volume) of the UK washing machine market, rising 80% in 1970 - this level of penetration being maintained well into the eighties - see

Table 8 - page 34.

It is thus argued that, as a consequence, UK manufacturing costs per unit rose rapidly above those in other major European countries, which at the time could develop their exports on the back of steady buoyant home markets. On the other hand, by reference to Table 4, in the UK imports of domestic electrical appliances rose from £8 million in 1963 to over £26 million by 1970. By comparison 1987 imports were £900 million. These increasing imports, see Graph 3, developed over a period where the total UK home market was not large enough to sustain the home based manufacturing capacity.

Graph 3

**HOW THE UK BECAME A NET IMPORTER OF DOMESTIC ELECTRICAL APPLIANCES.**

**LIST OF THE LEADING 20 ELECTRICAL APPLIANCES**

	63	65	66	67	68	69	70	71	72	73
<b>WASHING MACHINES</b>										
AUTOMATICS	---	---	xxx	xxx	xxx	---	---	---	xxx	xxx
TWIN TUBS	---	---	---	---	---	---	---	---	---	---
STANDARDS	---	---	---	---	---	---	---	---	---	---
<b>SPIN DRYERS</b>	xxx	xxx	xxx	xxx	xxx	xxx	---	xxx	xxx	xxx
TUMBLE DRYERS	---	---	---	---	---	---	---	---	---	---
<b>COOKERS</b>										
REFRIGERATORS	---	---	---	xxx	xxx	xxx	xxx	xxx	xxx	xxx
FREEZERS	---	---	---	xxx	xxx	xxx	xxx	xxx	xxx	xxx
DISHWASHERS	---	---	---	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>VACUUM CLEANERS</b>										
UPRIGHTS	---	---	---	---	---	---	---	---	---	---
SUCTIONS	---	---	---	---	---	---	---	---	---	---
HAND/STICK	---	---	---	---	---	---	xxx	xxx	xxx	xxx
<b>IRONS</b>										
STEAM	---	---	---	---	---	---	---	---	---	---
DRY	---	---	---	---	---	---	---	---	xxx	xxx
<b>HAIRDRYERS</b>										
TOASTERS	---	---	---	xxx	xxx	xxx	xxx	xxx	xxx	xxx
MIXERS	---	---	---	xxx	xxx	xxx	xxx	xxx	xxx	xxx
HEATERS	---	---	---	---	---	---	---	---	---	---
SHAVERS	---	---	---	xxx	xxx	xxx	xxx	xxx	xxx	xxx
BLANKETS	---	---	---	---	---	---	---	---	---	---
<b>No. OF APPLIANCES WITH NET IMPORTS</b>	1	1	3	9	8	7	8	9	11	11

'xxx' YEAR WHEN IMPORT VOLUME TO UK EXCEEDS EXPORT FROM UK  
 ' ' DATA NOT AVAILABLE  
 '----' EXPORT VOLUME EXCEEDS IMPORTS

Source: Hoover

Whilst effects of lower priced better quality and more modern imported products on their own created enormous competitive pressure on the industry's products, it is considered that the rapid changes in the distribution of domestic electrical appliances, following the removal of Price Maintenance in the Resale Prices Act 1964, were a key factor in the decline of the home manufacturing base. One outcome was to drive retail store buyers to seek the most competitively priced and featured products - which for the most part were continental imported appliances.

In Table 5-2 a comparison is made of the change in the UK import penetration between 1972 and 1981 in the UK in ten manufacturing product sectors. Based on this information Table 5-1 shows a comparison of the product sectors exhibiting an increase in import penetration. The percentage increase in electrical appliances along with the increase in that of electrical equipment represents the highest score in this analysis over the period 1972 to 1981.

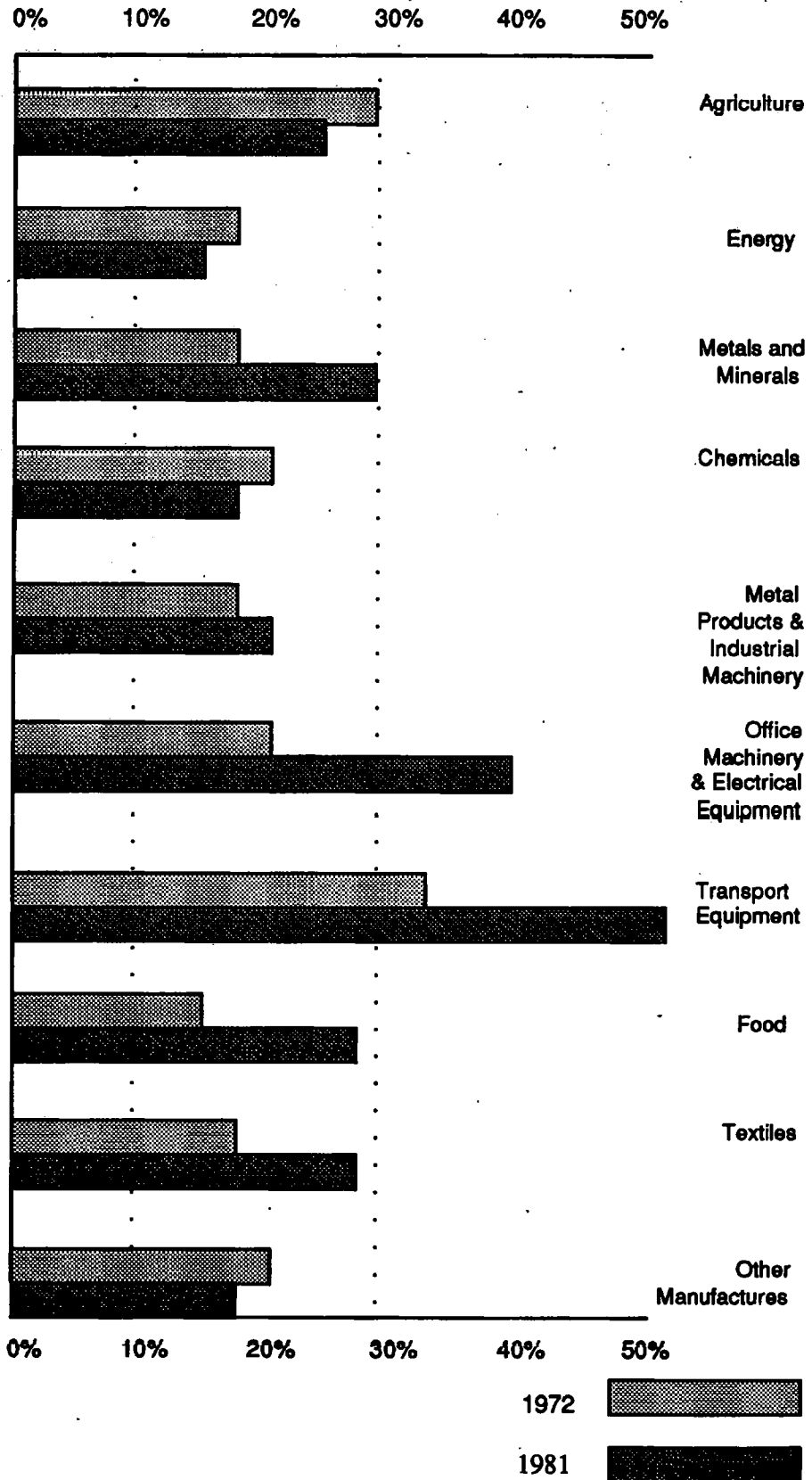
**Table 5-1 Comparison of Import Penetration over period 1972 - 1981**

Product Sectors	% increase
Metals/minerals	67
Metals/Ind machinery	11
Transport Equip.	56
Food	40
Textiles	55
Elect. Equipment	100
Elect. Appliances - taken from Table 4	125

Whilst it can be concluded that the UK industry as a whole, in the period under review, was suffering under the pressure of increasing import penetration, in particular the electrical industry and in particular the DEAI (125% increase) suffered the most from the growth imported goods.

**Table 5-2**

**UK TRADE IMPORT PENETRATION (IMPORTS AS A PERCENTAGE OF THE HOME MARKET) BY SECTOR BETWEEN 1972 AND 1981**



Source: NEDC (1985) - British Industrial Performance



According to Corley (1966), fundamentally some of the consumer purchasing power in the sixties was diverted from expenditure on domestic electrical appliances into competing outlets. These included personal savings, entertainment outside the home, foreign travel and leisure time products of all kinds, from motor cars to record players and DIY equipment. Together these represented 13% of consumers expenditure in 1959 and 15% in 1960, rising to 17% in 1963.

Baden Fuller and Stopford (1988) noted that in the 1960's, the Italian producers Zanussi, Zoppas, Indesit, Ignis (IRE) and Candy captured a large share of the European Market by providing a low-cost, well designed ranges of appliances aimed at the mass market. Furthermore, in the late 1970's and early 1980's more than one third of the European consumption of major appliances was produced by Italian manufacturers. Similarly, it was noted by Green (1987), that the West German manufacturers exported a substantial part of their output to Austria, Switzerland and the rest of Northern Europe.

This latter point can be further substantiated by the writer, who was responsible for establishing the UK based operation for the Bauknecht Group of West Germany over the period 1973 to 1980. It was proudly quoted by the company, at that time, that over 50% of the group's output was exported. This was all the more remarkable since the majority of the appliances e.g. washing machines, refrigerators, freezers, dishwashers, were relatively expensive in comparison with the Italian products referred to above.

It is suggested that the core of the problem of the high import penetration in the U.K. lay with lack of resources allocated by UK manufacturers to development of new manufacturing techniques and products, coupled with the high overheads carried by certain manufacturers as late as 1980 - relics of the sixties when the DEAI capacity was erroneously built up without any strategic planning. In the writer's own experience Hotpoint and Morphy Richards were examples of this in-built management failure during the seventies to act to radically reduce overhead, see Section 2.

Moreover, the German designed products were far in advance from a technical and design standpoint - since it was a feature of the Bauknecht strategy that R & D was given a high priority at budget/planning time. It is clear that more than ten years before Corley (1966), foresaw this scenario when he stated, "At the moment industry seems to have little enough income, even by the low standards of such expenditure in the past, to devote to research and development and to product development generally. Too many appliance firms are making many and an excessive variety of frameworks. Consequently firms, as a whole, tend to have a great deal of spare capacity; in an attempt to fill this, they go in for heavy advertising and other sales promotion. Such a concentration of efforts on sales activities rather than on production and development may not matter very much with smaller products, but with major appliances it seems to be contrary to the long-term interests of buyers and makers alike".

Corley went on to comment on the low profitability of the industry as a whole with general rises in retail prices over the period 1959 to 1964 being 15% compared with a fall in domestic appliance prices over the same period of 4%.

This argument is supported by reference to Table 5, derived from Central Statistical Office Data, where the Retail Price Index (RPI) and Index of Wholesale Prices (IWP) is recorded over the period 1963 to 1970.

**Table 6 - Retail Price Indices and Index of Wholesale Prices (Domestic Electrical)**

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
RPI	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
IWP	100.0	100.4	100.9	102.4	103.1	104.2	104.4	109.8	120.0	124.9

	1973	1974	1975	1976	1977	1978	1979	1980
RPI	100.0	108.5	134.8	157.1	182.0	197.1	223.5	263.7
IWP	126.6	142.0	174.0	199.1	241.5	268.3	296.8	339.5

	1981	1982	1983	1984	1985	1986	1987	1988
RPI	295.0	320.4	335.1	351.8	373.2	385.2	402.0	421.7
IWP	359.5	370.3	381.4	393.2	411.9	422.0	431.5	453.0

n.a. - Not available.

From Table 6 it was noted that the RPI increase, 1973 to 1986 was 4.22 times, whilst the IWP over the same period was 3.58 times. On the assumption that retailers selling prices were keeping pace with the RPI, their selling prices were increasing faster than their buying prices. Thus their margins were increasing. This came about not because of any radical improvement in manufacturing costs but because of competitive pressure by retailers on their suppliers. This implied decrease in industry wide manufacturing profitability as described later in this thesis appeared to be a characteristic of the DEAI, although a few notable exceptions did exist.

The one exception was Hotpoint, (see Table 10), where (Green, 1987) over the period 1981 - 1986, it was shown that the Hotpoint profits increased from £9.4 million (9.3% of sales) in 1981/82, to £24.5 pounds (24.5% of sales) in 1985/86.

The natural outcome had to be the rationalisation of the industry, where either certain companies closed or amalgamations took place. The large number of brands that existed in the sixties and seventies but no longer exist now would include: Astral, Rolls Razor, ACME, English Electric, Philco, Bendix, (The Bendix name was reintroduced (September 1989) by Tricity but has since dropped out again).

A specific example was Pressed Steel Ltd. who withdrew from the refrigeration market in 1964, whilst a rationalisation agreement was being negotiated between English Electric (a name that has now also been discarded) and EMI - covering EMI's subsidiary Morphy Richards (Astral). The deal was that Morphy Richards would make all refrigerators for both companies at it's Dundee plant and English Electric would make both kinds of washing machines at their Liverpool factory.

Subsequently this agreement was aborted and it was anyway only a partial remedy to the industry's problems. In fact neither factory exists as part of the industry today.

This type of agreement failed in the opinion of the writer because it was, at the time, commercially unworkable. The companies were essentially in competition and some inherent mistrust must have existed which took precedence over the obvious industrial logic. Unfortunately the British electrical appliance industry, at that time, had not reached the same degree of sophistication of their European counterparts where such agreements between competitors were becoming more commonplace. For example, Philips and Bauknecht reached an agreement in the late sixties/early seventies which led the construction of a new dishwasher factory that would manufacture dishwashers under both brands.

The factory was eventually located at Neunkirchen in the Saar region of Germany and still exists today (1995). Unfortunately, in the UK, these cooperation arrangements were found to be no substitute for a full takeover or merger, which was illustrated subsequently by the takeover of English Electric by GEC, which was encouraged by the government of the day. It is pointed out, in section 3, that according to Porter, collaboration is a sign of decline.

It is the view of the writer that generalisation in this manner is not always applicable, particularly in the case of a new and emerging market, where there is a higher level of technical and financial risk. Thus, in the above case of Bauknecht and Philips, both companies considered that the then embryonic European dishwasher market would eventually grow, but the key question was when. They decided to jointly (50/50) invest in the new factory, and to pool their R & D resources. Bauknecht took the management responsibility for running the new venture. It is, however noted that subsequently Philips took over the Bauknecht Group in 1982 when the latter group as a whole got into financial difficulty, and in-so-doing gained total control of the Neunkirchen factory.

The emergence of up-to-date designed and competitively priced imports on the UK market forced the large and traditional British manufacturers to find ways of competing. Their solution, often, was to purchase these European appliances having their own brand names and style affixed to the products. This became known as "Stencil Branding" in the trade. Stencil Branding further exacerbated the overcapacity in the industry. Additionally, towards the end of the sixties many foreign manufacturers (mainly European) decided to establish roots in the UK by setting up sales offices in advance of the UK's predicted entry into the EEC.

The trade reaction, at the time, was that new unknown brands like AEG, Siemens, Braun, Moulinex, Beekay, Zanussi etc. would never survive. Subsequent events have shown this assumption to be far from the truth as these and many other European manufacturers have now become household names in the UK. Thus the UK became a net importer of the high volume sector of the Domestic Electrical Appliances market and this situation has not changed since 1972.

The views of the electrical appliance industry in the early 70's can be best summarised by the statement made by Hoover (1974) to Government: "In the past the appliance industry has not asked for special case treatment and we are not asking for it now. However, what we have argued on many occasions before and what we are arguing still is that what our industry needs is the creation and fostering of conditions and a climate conducive to consistent growth. In this context, the re-imposition of a strangling 33 1/3% minimum hire purchase deposit since last December together with the Government's thinking of introducing a multi-tier VAT system - with more than just a possibility of including once again even washing machines and cleaners among the "luxuries" - cannot be consistent with this aim, and does not help to build up any real confidence in our industry, which must be the pre-requisite of long-term planning and forward looking new investment".

It is suggested that in the period from 1964 onwards up until 1973 when the UK entered the Common Market, the electrical appliance industry was used, in part, by each successive government as an economic regulator. The industry suffered badly in terms of its inability to enter into long term product development programmes and thereby did not make adequate capital investment in new products, production techniques and the latest quality procedures. The result of the national stop - go policies was the weakening of the country's international competitive position. Thus the UK market became a "soft option" for most European manufacturers, in particular, to penetrate with their often more superior and keenly priced products.

## ***2.2. The Late Seventies***

The 1970's were years of mixed fortunes for the country as a whole but they were bad years for the industry.

Suffice to say that the growth in import penetration during the 1970's is clearly evident in table 4. The concern of industry, government and unions was expressed by the NEDC (1979), in that the Sector Working Party (SWP) had recognised the need for industry commitment to import substitution and increased attention to exporting.

Whilst this was a very laudable aim, it is suggested that it was naive to expect that any real improvement in import penetration would occur without proper investment in both R&D and cost reducing manufacturing techniques along with large cuts in overheads throughout the industry.

The SWP itself recognised that marketing implications could not be ignored, whereby it was unlikely that a manufacturer would invest heavily to supply a developing market, when well designed, high quality and well priced goods were already available from factories abroad.

On the other hand, the SWP did comment on the part the retailers could play in fostering import substitution, but their motivation would still be driven by "hard-nosed" economics, rather than some patriotic tendency. It was clear at that time that consumers buy only what is put in front of them on the retailer's shelves.

In an London Business School report (1986), it was concluded that: "retailers buying decisions are made on economic factors rather than on a Buy British policy. The Buy British policy is held by a very limited number of retailers and the policy is applicable when economic conditions are almost the same among offers by British and foreign companies".

Thus it was really a pious hope that British manufacturers could really influence any latent patriotic tendency by the majority of retailers to change their buying policies to support the home based suppliers. The retailers attitude really only stems from the non-patriotism of the general public - unlike their counterparts, in the writer's experience, in countries such as West Germany, France and Japan where preference is always given to their own nationally built products.

Finally, the SWP (1984) stated that "Price competition in the UK is now so fierce that margins on some appliances (e.g. automatic washing machines) may be too low to encourage the amount of investment and production required to reduce import penetration to levels envisaged in the objectives". This is really "déjà vu". These comments were made by Corley (1966) some fifteen years before.

The domestic appliance industry reached the end of the 1970's in a very weak position. The SWP (1984) concluded that it viewed the following conditions or changes essential to the medium and long-term prosperity and development of the industry:

- (a) A fiscal background in which domestic appliances are not discriminated against compared with most other durables;
- (b) An increased and concerted effort to tackle the problem of imports which have one-third of the UK market;
- (c) Urgent moves to ensure that the industry's products make the fullest use of micro-electronic technology, particularly in the home laundry sector, so as to remain relevant to changing consumer requirements both at home and abroad;
- (d) Greater effectiveness of the industry's export efforts, partly through enhanced Government support schemes;
- (e) Improvements in the sector's productivity in order to compete more effectively at home and abroad;

Thus the high import penetration must lead to the conclusion that these foreign manufactured products must have had features in terms of price, performance, quality and features to have attracted firstly the UK retailer buyers and secondly the consumers to buy in such large numbers. In fact at the time the industry's strategy centered upon "cut-price" and thus profitability suffered.

The industry's health may be further illustrated by the personal experience of the writer when he took over Morphy Richards Ltd, in 1980, (then part of GEC) as Managing Director. The company, in 1979, had achieved sales of toasters and irons of £10 million .



However by the end of 1979 the company finished goods stock had risen to £10 million and the profit/loss account showed a £1 million deficit. The company under the previous management had clearly continued to manufacture product throughout 1979 in the face of the deteriorating economic situation. One of the GEC senior executives passed a remark at the time that "The previous MD must have been the only man in Europe who thought we were going to have a boom in 1980".

Other key factors that were: The company employed 1000 people (the recalculated 1980 requirement, having due regard to potential sales and stock was 380) and no new products had been developed since the late 60's. Morphy Richards had throughout the late sixties and seventies continued to manufacture and sell their traditional irons and toasters without realising that during the intervening period European companies like Rowenta and Tefal had become firmly established at the top of the market with their well priced highly featured products.

The strategy was clear. The workforce was cut back to 380 people, a crash product development programme was started and the sales force restructured.

By the end of the 1980/81 financial year in March, 1981 the company was running at a profit and this continued in the following year.

### ***2.3. The Eighties - The Lead-Up to 1992***

The start of the 80's proved to be a difficult time for the industry as a whole. The index of output of the Consumer Goods Industries showed the following trend for the years 1979 to 1983:

Table 7

Year	1979	1980	1981	1982	1983
Index of output	104.8	96.8	93.3	92.8	95.7

(1985 = 100)

*Ref: Central Statistical Office*

There were a few bright spots but almost without exception they were based on new product innovation coupled with a radical reorganisation of the relevant business. Probably one of the most publicised companies at the time was Breville Europe plc, who came to the stock market in September 1982 and whose shares were twenty eight times over subscribed. This company had developed the "Toasted Sandwich Maker" and had introduced this into the UK in 1978. The product was developed in Australia and manufactured in Hong Kong.

Over the previous four years, up to September 1982, the company had spent approximately £4 million on advertising and when they came to the market the sales were £18 million, at 1982 prices. The one caveat in some people's minds was that really this company only had one product. In spite of the economic gloom at that time, this company had been successful. The fact that three years later it was taken over by Valor plc in a state of poor profitability and still a one-product company, showed that the operation of the company in the intervening period had either been very unfortunate or lacking the confidence of the then Breville shareholders to develop the company further.

With the reversal of and the subsequent improvement in the economic fortunes of the UK from 1983 onwards, the comment made in an ICC report (1988) is considered to be apt: "The last five or six years have been exciting ones for electrical retailing in the UK. Product innovation and corporate activity have kept the market lively and have led to rapidly growing profits for some retailers. Is the party now over?" (The advent of the imposition of high interest rates in 1989 showed that the party was really over).

The product led buoyancy of the electrical durables market has created some dramatic increases in sales, particularly of brown goods over the past few years. The article goes on to list products that have shown significant sales growth such as video recorders, personal computers and more importantly for the white goods market, microwave ovens and dishwashers.

It should also be noted at this point that much of the profitable success of the retail sector was not matched by a similar performance by the manufacturers.

A measure of the domestic electrical appliance industry's well being can be assessed from the performance of the major appliance sector. As has already been stated this sector represents almost 90% of the DEAI market.

Senker (1984), reported that trade deliveries of washing machines over the period 1980-82 were as shown in Table 8.

Table 8

(000)	Home Market	Imports	%	Ex Italy	% of Imports
1980	992	478	48	400	84
1981	902	599	66	483	81
1982	996	646	65	525	81

The considerable import penetration, as in earlier years, was typical of the industry at that time. It was also clear from Table 4, that import penetration had not abated. Much of the industry's problems centered still on over-capacity.

Senker (1984) stated, "A major problem facing the industry (Domestic Appliance Industry) throughout Europe appears to be over-production and over-capacity. There are over 400 companies involved in the manufacture of white goods in Europe. In the US, a similar sized market, there are only 100 manufacturers. Further, four major US firms (Whirlpool, General Electric, White and Westinghouse) account for over 80% of domestic production. In Europe, there are at least seven major companies.

The top three, Electrolux, Zanussi, Philips, together probably account for less than 50% of the market. It has been suggested that only six or so are likely to survive as volume manufacturers in the future: and that smaller competitors will eventually be forced out for lack of volume and the capital necessary for product and process innovation.

This prediction, in the intervening period, would appear to have been proved to be correct, with several companies either ceasing to trade or becoming absorbed into more successful and often larger groups. For example, at the time of concluding this thesis, Electrolux have now taken over Zanussi, and Whirlpool (USA) have taken over the Philips Domestic Electrical Appliance business. Note also, 50% of Hotpoint is now owned by GE of America the other half being owned by GEC.

A comparison may be made with Table 9, which was extracted from Baden-Fuller and Stopford (1988) and the analysis above made by Senker (1984). The table shows the leading European appliance producers with approximate market shares.

**Table 9** Leading European Domestic Electrical Appliance Manufacturers

<u>Global Players</u>	<u>All Appliances</u> <u>% Market Share</u>
Electrolux-Zanussi	15
Philips-IRE-Bauknecht	13
<u>Exporters</u>	
Bosch-Siemens	8
AEG	4
Indesit	4
Ariston-Merloni	3
Candy	3
Miele	3
Hoover	2
<u>National Players</u>	
Thomson	6
Hotpoint	3
LEC	2
Thorn* (Tricity)	2
Creda**	1
Others mainly national	30

\* Part of Electrolux

\*\* Part of Hotpoint

It may be seen that the leading European players had been rationalised down to 12 companies, with probably only four groups i.e. Electrolux, Philips, Bosch-Siemens and AEG, really being major international players in terms of distribution and turnover.

The Inter Company Comparison (1988) report comments that, since 1980, Electrolux has acquired about 20 companies of national repute and divested itself of 10. Among its acquisitions were Arthur Martin(France), Zanussi, Tricity and Bendix. It now has 450 subsidiaries and some 140,000 employees spread among 40 countries. About seven major firms have about 75% of the European market for white goods and about 300 other firms vie with each other for the remaining 25%.

Baden Fuller and Stopford (1988) noted that in the UK Hotpoint and Hoover had 25 and 30% respectively of the UK washing Machine market, whilst Thomson had 41% of the French market. This, it is suggested, would lead to the conclusion that within the international appliance market, the UK and French washing machine markets provide a clear illustration of the barriers to market entry. The height of the barrier, more particularly in France, goes a long way in explaining why it is more difficult to create an international brand presence in an overseas national market.

The above illustrates the rationalisation of the European industry that took place over the ten years ended 1988. It also demonstrates the very strong hold that companies like Hotpoint and Thomson have in their own national markets.

In Electrical Retailing (1988), the writers made a recommendation that "US manufacturers should also aggressively market US produced small household appliances in the largely unsaturated European market". These authors were clearly unaware of the entry barriers that existed and still exist within the European market, not to mention the distinct probability that the US designed appliances, in general, would probably have been unsuited to European tastes.

In "Marketing" (June, 1987), the statement was made that the White Goods industry world wide still suffers from huge over-capacity. The mid-80's consumer boom has given it breathing space but, given the likelihood of a downturn, design innovation as well as cost cutting become increasingly important, as industry is faced with the challenge of having to do something positive for its survival.

## ***2.4 Changes in Distribution***

In addition to the very significant rationalisation within the manufacturing sector, the 80's heralded the consolidation of the retail sector with major chains being formed out of the smaller independent groups that had built up during the 60's and 70's.

Typically new enlarged groups were formed such as: Dixons/Currys, Comet (part of Kingfisher), Rumbelows (part of Thorn), in addition to the very successful Argos chain of "catalogue stores". The existing Mail Order houses such as BMOC (GUS), Littlewoods, Empire etc. continued as before, whilst other stores successfully entered the electrical appliance market, for example, Boots, Asda etc.

These companies were typical of a new breed of company incorporating sophisticated management data collection (EPOS) and buying techniques. These organisations became powerful buyers operating what may be described as "Retail Price Pointing" whereby the retailer selects retail prices that are considered to be competitive in the market. The retailer specifies the margin that he wishes to make and then stipulates a buying price to the would be supplier. If the supplier is unable or unwilling to meet the stipulation then he loses the order. This would be undoubtedly identified in the Porter Framework as "Bargaining Power of Buyers".

Grant (1987) makes the statement: "A major feature of the "retailing revolution" in the UK of the past two decades, has been the replacement of manufacture's dominance of distribution channels by that of the retail chains". He goes on to comment that the finding by the Monopolies and Mergers Commission in it's "Discounts to Retailers Report" (1981) was that the power of the large retailers has, on balance, been favourable to the consumers interests. However the continuing disquiet over the growing power of the large retailers resulted in the

Office of Fair Trading (OFT) initiating a fact finding investigation to look into the exercise of power by the large retail organisations. The OFT's report, "Competition in Retailing" did little to clarify the key issues with regard to the consequences of retailer buying power or the desirability of government intervention to either curtail or regulate discriminatory discounts.

It is the writer's view that the buying power of certain retailers in the highly competitive and virtually stagnant market environment within the UK electrical appliance industry, placed an overbearing buying advantage in the hands of retailers like Dixons/Currys, Argos, Rumbelows, Woolworths/Comet and British Mail Order. The result was the downward spiral of manufacturer's margins and profits, accompanied with high import penetration.

Whilst it might be argued that UK's poor manufacturing performance and product development was the main reason, it is considered that the downturn of profits in the manufacturing sector was a direct result of the increasing "Buyer Power" in the hands of the large retailers. Whether this has been in the best interests of the consumer and the UK industry, as a whole, is open to question. There is no doubt that lack of profitability within the industry resulted in reductions in product promotion, advertising, development and the numbers of people employed.

The argument can be made that the pressure of competition, in the interest of consumer choice and lower prices, brought about considerable unemployment in the DEAI, see Table 4. It is open to some debate as to whether the achievement of attractive lower "going prices" in the shops without any significant value being added in the UK, is a convincing economic national strategy.

Grant (1987) goes on to comment that, "several manufacturers have made attempts to counteract this trend by imposing some form of retail price maintenance". Probably the most successful company at employing a covert form of RPM was Hotpoint and whilst its success in terms of profits - The Hotpoint Story, Green (1987) and Table 10 - was outstanding, it is the view of the writer that success was in a great measure due to its distribution policy.

**Table 10****Hotpoint's Financial Performance, 1981-1986**

	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
Turnover(£m)	101.4	114.9	134.2	163.2	196.2
PBIT (£m)	9.4	10.6	14.3	18.2	24.5
Profit Margin	9.3%	9.3%	10.7%	11.2%	12.5%

This was based on the establishment of Hotpoint Centres throughout the UK where, retailers had to stock exclusively the full range of Hotpoint appliances and were incentivised accordingly. Large retail chains had to conform to a selling price policy to achieve their preferential discounts. Thus some order was restored to the Hotpoint marketplace. Hotpoint did not supply any wholesaler who would not conform to their marketing strategy.

On this latter point, Comet, in the early eighties, did try to bring Hotpoint to court in an effort to contest and expose Hotpoint's distribution policy, on the basis it was anti-competitive, but the case never got to court. Thus has the power of the retailers acted in the best interests of the industry and society as a whole? In a free enterprise society it is difficult, if not impossible, to effectively legislate to provide a counter to the buying power of large retailers. It is the view of the writer that industry's response has to be directed towards improvements in efficiency, product innovation and improving marketing skills. The adoption of some legislative measure can only be effective for the duration of its enactment, since if such legislation was repealed, market forces would take control once more.

Furthermore, whether the buying power of retailers acts in the best interests of the consumer cannot be assessed without some further research.

However in Table 11, on page 40 it is shown that retail prices over the period 1985 - 89 have, in seven cases out of twelve, actually reduced, when the index of wholesale prices (table 6) over the period 1985 - 87 increased by 5%.



**Table 11****COMPARISON of ARGOS RETAIL SELLING PRICES  
OVER the PERIOD 1985 - 1989**

Category	Model	Make	1985 ARGOS RSP	1989 ARGOS RSP	ARGOS Retail Index %
Jug Kettle	Corded Slimline Water Level	Phillips	17.45	14.45	-6
		Swan	16.95	12.75	-25
		Haden	15.99	14.75	-8
Food Processor	2800 UK9 Gourmet	Magimix	89.95	88.95	-1
		Braun	45.99	48.95	+7
		Kenwood	59.95	67.95	+13
Deep Fryer	Fat Masterfry	Moulinex	35.95	39.95	+7
Toasted Sandwich Maker	SG6 SG101	Breville	19.95	18.95	-5
		Breville	24.95	25.95	+4
Steam Iron		Morphy Richards	13.99	16.45	+17
Toasters	2-slice	Morphy Richards	15.45	14.45	-5
	4-slice	Morphy Richards	20.95	19.75	-6

This would indicate a squeeze on manufacturer's margins since the retailer margin has remained at a minimum of 25% (without VAT) rising to 33% in some cases. Thus for the manufacturer this would imply constant or reduced selling prices against a background of increasing costs. Such a trend in reduction of profits is substantiated by the reduction in industry profits referred to below (ICC (1988) report).

## **2.5. Government Influence**

In addition to changes in industry structure already discussed, the effect of government and European Community actions will now be considered.

The entry of the UK into the EEC in 1973 changed many aspects of the industry's business. Suddenly the large UK market became open to direct attack from European firms many with bases already established in the UK.

The UK's unique ease of distribution, probably five national retailers offering instant national distribution, is not repeated anywhere else in the EC. The government were reticent about imposing mandatory conformance with BEAB technical standards on imported goods which further allowed easy flow of these goods into the UK. Add to this (as already described) these products were of competitive price and design, it is little wonder that imports grew. With reference to Table 4 on page 17, the industry changed from one employing 66,600 people in 1963, selling about £140 million with an import penetration of 6%, to one employing 40,000 people with sales of almost £2.5 billion in 1988, and an import penetration of over 40%.

It might be argued that the industry bought its demise upon itself by not taking preventative actions like, for example, more imaginative product development, creative marketing strategies and earlier increases in efficiency throughout the industry. It must also be questioned, in retrospect, whether successive governments could have assisted, in some measure, with some legislation that could have given the DEAI some respite to allow it to organise itself to withstand the flow of imports. In an interview with Bryan Quilter (1989), one time Chairman of the Electrical Appliances Economic Development Committee, he suggested that over the past 20 years, it was most unlikely that any government gave any consideration to establishing a specific policy for the electrical appliance industry. The stop-go policies of various governments had, without doubt, damaged the industry.

Overseas, Thomas (1987) stated that experience in other countries suggests four features which favour success in the use of government intervention in order to promote industrial strategy:

- (1) Identification of main sectors of development and not necessarily national champion firms.
- (2) Consequent acknowledgment that other sectors must be allowed to contract - possible exception defence.

- (3) Sustained support over a period of time.
- (4) Development of appropriate "decentralised" decision taking on investment and industrial policy.

Whilst no detailed investigation has been made, it is suggested that the discussions held with Bryan Quilter led the writer to the conclusion that successive governments are unlikely to have been able, for organisational establishment and political reasons, to have adopted a policy making strategy in order to have brought about a philosophical approach anywhere close to the four points stated above.

Thus it is not surprising that the UK Electrical Domestic Appliance Industry was irreparably damaged in the morass of pseudo industrial/political decisions that have been made over the years.

## ***2.6. Current Government Policy***

A conservative government has been in power since 1979 and the DEAI has made representations to government on many occasions to the writer's personal knowledge. On one such time, prior to Spain's accession to the EEC c.1984, representations were made by AMDEA to the then Minister for Trade & Industry, Paul Channon. At that time electrical appliances imported into the UK from Spain were subject to a 7% import tariff. By contrast UK products exported to Spain had to get over a 30% import tariff. It was requested that consideration be given to negotiating a more rapid reduction in reducing the Spanish import barrier faster than the normal "roll-off" period of ten years. In fact a seven year roll-off was agreed, although in the industry's view this still gave the Spanish domestic appliance industry an unfair advantage. The tariff is now down to zero. Thus given the right circumstances some pressure can successfully be exerted.

It is a matter for conjecture as to whether government representations were made with sufficient force in earlier years, since it is most likely that the priorities of the larger and more influential industries, like the automotive and aviation sectors, would have taken preference. Any consideration of some policy remotely similar to any of the criteria outlined by Thomas (op.cit) was also not in evidence.

### **3. Literature Review**

In industries throughout the world, including now the countries of ex-communist block, businesses are competing to market their services or products to customers who are becoming more demanding, in terms of high manufacturing quality standards, world-class design, top class service before and after sale, and best in class value for money.

Whilst the marketing emphasis may have changed over the years in the DEAI, it was apparent that Corley (1966) perceived an industry which had been protected up until 1964 by Resale Price Maintenance and a virtual dominance of U.K. brands with little foreign competition from imports - see also Table 4. The DEAI thus had a fairly comfortable time.

This scenario changed in the late sixties and seventies. By then most retailers were concentrating on getting goods on the shelves at the lowest price. British manufacturers could not compete. Hence the rapid growth in low-priced, Italian manufactured washing machines, (Senker 1984), was driven by this demand in the late sixties and seventies. Senker (op.cit), reported that the British washing machine industry attempted to reduce these imports in 1978 by reducing prices and thereby accepting severe reductions in profit margins. Senker also reported that the relative currency movements between the U.K. and Continental Europe in 1980 increased the landed cost of U.K. products by 9.6% whereas the Italian washing machines were landed 4% cheaper than in the previous year.

Senker commented further on the cost structure of the DEAI, together with other industries, where a highly competitive industry existed and where there were too many goods chasing too few customers. The structure of the DEAI changed little in the eighties.

The above brief synopsis reiterates the highly competitive nature of the DEAI and the external and internal forces that act upon it. Porter's 1980 framework, has provided a method of analysing an industry thereby providing an insight into the competitive nature of an industry.

### **3.1. Discussion of the Porter Framework**

The main topic of this thesis seeks answers to the question: What happened within the DEAI to cause its decline in the UK over the past thirty years when for the larger part of the period the industry's major European competitors were enjoying increasing prosperity?

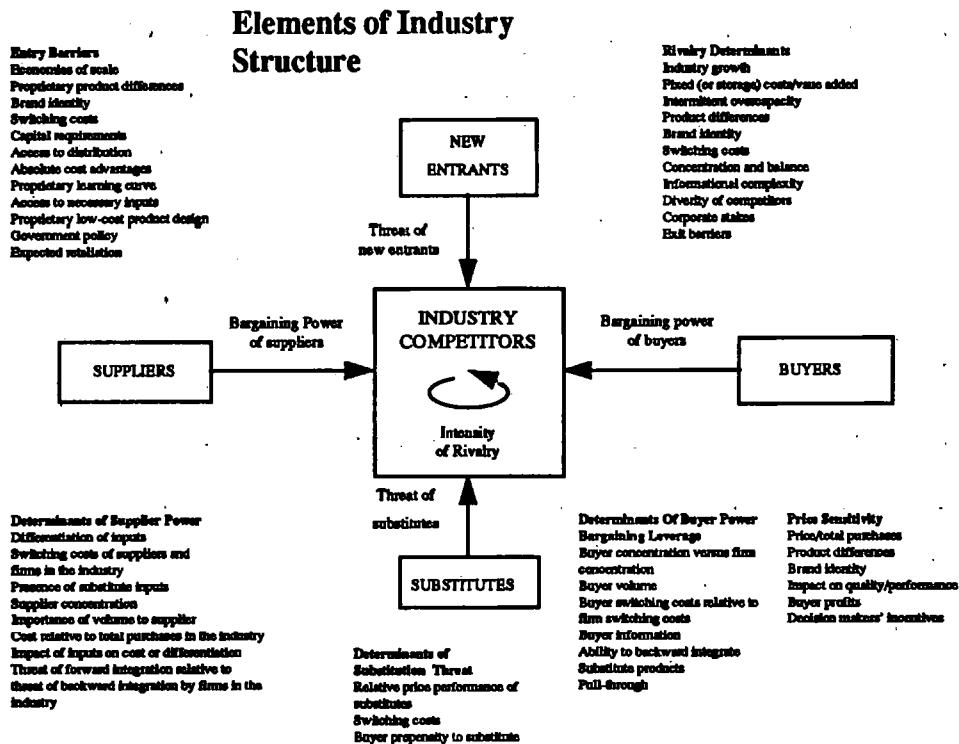
Porter (1979) stated that, "the essence of strategy formulation is coping with competition".

This thesis seeks to show that there is a link between these two statements. In seeking an in depth response to the question posed above, it was necessary to determine an optimum and practical approach to the analysis of the DEAI. The development of the industry, reviewed in section 2, would indicate that the issue to be addressed was, how and within what context the industry had declined over the thirty year period. It has been suggested above that the prime reason for the decline was the inability of the DEAI to cope with intensity of competition that became endemic in the seventies and eighties. Porter's (1980) fundamental premise was that the intensity of competition in an industry is neither a matter of coincidence nor bad luck. Rather, competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors.

The intensity of competition or the collective strength of the forces acting on an industry was considered by Porter to determine the ultimate profit potential of an industry. It was this statement that gave the writer the clue as to how to analyse the industry. Porter cited five basic competitive forces as acting on an industry, see Figure 1. The five forces are:

1. The Bargaining Power of Suppliers.
2. The Threat of New Entrants.
3. The Bargaining Power of Buyers.
4. The Threat of Substitutes.
5. The Intensity of Rivalry (between the players of the industry).

**Figure 1**



Included in Figure 1 are expanded definitions of the five forces according to Quinn, Mintzberg and James (1988).

It may be seen in Figure 1 that Suppliers - in this case suppliers of raw materials and components - have to consider a range of factors in dealing with particular industries. Notably a supplier is continually attempting to ensure that his product or service is different from his competitors. Thus any supplier (i.e. manufacturer) of specialised silicon chip devices would continually have to assess whether his product or service could compete, in offering his product to the DEAI manufacturers, with the established names like Motorola, Toshiba, Intel, Texas etc., and thereby carve out a part of the market for himself. Each of these semiconductor manufacturers attempt to keep one step ahead of its rivals by continual innovation and often by some form of differentiating feature, like a unique interface, that would tie its customers (by creating an excessive cost of switching suppliers) to its chips for the life of the equipment into which their products have been incorporated. On the other hand the demand for these devices might far exceed supply and thus these suppliers' bargaining power might under these circumstances be considerably higher.

In the case of New Entrants, a typical case might include the company Rowenta who came to the U.K. market in the late seventies. At that time Rowenta was, as is known in the trade, a "No-Name". However Rowenta had clearly carefully calculated their entry costs and recognised that the key to market penetration is to obtain "distribution" and then advertise as effectively as possible. With high quality and performance products coupled with a well thought out advertising campaign, Rowenta overhauled Morphy Richards, the acknowledged market leader, in less than three years.

In the DEAI it will become apparent that the retail store buyers, particularly of the high street chains, exert a disproportionately high influence on what is sold in the DEAI. They have much bargaining leverage and can influence, almost overnight, the price at which a product will be sold in their retail stores.

Whilst substitutes for domestic electrical appliances can be envisaged and this is discussed later in this thesis, the issue to be considered is whether there are satisfactory substitutes for some of the appliances since certain products like washing machines, with a 98% plus penetration into U.K. homes would seem to be universally accepted and the consumers have little propensity to purchase substitutes. However, looking at an allied aspect of home laundry, various types of iron, ironing technique and non-iron textiles are offered to the consumer in order to lessen the "chore" of ironing. On the other hand as stated earlier, Corley (1966) commented that there was evidence, at that time, that consumers were spending their disposable income on leisure activities like holidays, rather than on electrical appliances. It might be argued that the washing machine and dishwasher have over the last thirty years risen in priority in the consumer's buying decisions and become more of a necessity rather than a desirable item to own. However the point is made that there are potentially a range of substitutes that have to be considered when analysing any particular industry.

Finally there is the stark and unequivocal highly competitive nature of the DEAI. Porter (1980) was of the opinion that in a highly intensive and competitive industry nobody makes significant profits.

The Porter Framework was seen as being particularly applicable to analysing the performance of the DEAI. However in applying this approach to the industry as depicted in figure 1, care would have to be taken in framing the investigative part of the work to ensure that an over simplistic approach was not taken and that inconsistencies in the industry structure were properly recognised.

Porter (1979), foresaw such inconsistencies when he pointed out that the profitability of a particular company is partly determined by the structure within an industry, including barriers to entry and variations in competitive strategies. Many times within specific industries there are strategic groups with sufficient differentiation to affect performance and competitive position.

On the subject of entry barriers, he cites the case that it might be easier for a firm to enter a strategic group characterised by private label manufacturers, rather than a group characterised by, large companies with nationally advertised brands. The topic of "Stencil Branding" will be discussed in more detail later in this section.

### ***3.1.1. Porter's Generic Strategies.***

In addition to describing the above framework, Porter (1980) postulated three generic competitive strategies which were, as he put it, "three potentially successful approaches to out-performing other firms in an industry", which were further analysed by Miller and Friesen (1986). The generic strategies were:

- Differentiation - aims at creating a product or service that is somewhat unique.
- Overall cost leadership - aims at making a company become lowest cost producer in an industry
- Focus - caters to a specialised segment of the market. Porter explained that the "focus strategy rests on the premise that a firm is able to save its strategic market more effectively than its competitors who are competing more broadly".



Porter suggested that it is rare for a firm to adopt more than one approach since implementing any of these generic strategies usually requires total commitment and supporting organisational arrangements which become diluted if there is more than one primary target. Porter's view was that if a company failed to develop its strategy in at least one of the above directions it would be "stuck in the middle" in an extremely poor strategic situation. A firm stuck in the middle is almost guaranteed low profitability.

However Miller and Friesen (op.cit) found that clusters (or groups) of businesses in the consumer durables industry pursued combinations of Porter's differentiation and cost leadership strategies, together with those that did not - who were probably poor performers.

They also commented that "although some industrial and capital industries may exhibit relatively pure types [of generic strategies], we do not feel convinced that this would be true for consumer durable industries". Their conclusions were not definitive in that groups (or clusters) of business units that showed some success exhibited distinct competences in one or more of Porter's Generic Strategies. Those that failed exhibited many weaknesses and no strengths.

Bowman (1992) also commented that empirical investigations into Porter's generic strategies have been somewhat inconclusive.

In determining that a company will adopt a policy of cost leadership, in the Porter sense - i.e. low cost - the directors, and more particularly the shareholders, must be totally committed to the associated investment in R & D and most importantly to give the company time to change its strategy. This is often not the case where companies, driven by the necessity to achieve short-term stock market success, fail to invest or allow time for such investment to come to fruition.

Whittington (1989) described the strategy of Hotpoint - albeit under the pseudonym of Exemplar - when Chaim Schreiber (alias Stone) pursued a growth policy during the period of recession at the beginning of the eighties by investing in Hotpoint's refrigeration factory at Peterborough and building a new washing machine factory at Kinmel Park in North Wales. This was a competitive cost differentiation strategy which paid off as Hotpoint's profits grew during the late eighties - Baden-Fuller and Stopford (1988) and (1992) - also Table 10 on page 39. The rumour at the time of the investment was that Schreiber initiated these programmes without the full knowledge of Lord Weinstock. Hotpoint was owned 63% by GEC and 37% by Schreiber and that entitled Schreiber, in his view, to make the investment on his own. The writer was with GEC at the time - as MD of Morphy Richards, and indeed today is managing director of one of the GEC telecommunications subsidiaries. In the writer's view Lord Weinstock would not have sanctioned the Kinmel investment, at that time. Green (1987) confirms this view and reported that, "in the second quarter of 1980 Hotpoint lost £3million". As a result of this the go-ahead for Kinmel was delayed until the following year.

The general GEC attitude, according to Green, was that with all the excess capacity in Europe, why spend nearly £20million to add to that. Schreiber insisted that the Kinmel expansion go ahead because of his 37% stake in the company and was reported to have said that he would sign the go-ahead with or without Weinstock's (the GEC managing director) approval. It is unlikely that Schreiber could have *forced* Weinstock to give his approval. However the new factory was built and was a great success. Perhaps the writer may take the opportunity of asking Lord Weinstock - on a good day - what really happened!

Bowman (op cit) commented that there are important differences in the way in which researchers have interpreted Porter's cost leadership strategy. It is not proposed to discuss these further but suffice to say that the pragmatic Schreiber approach in the case of Hotpoint worked well for the benefit of the shareholders - without any confusion.

The Porter differentiation strategy has been used with some success within the DEAI, in the case of the old Electricity Boards - now privatised into the regional electricity companies. There were fourteen Electricity Boards located throughout the UK whose primary role was, in principle, to generate and distribute electricity. However each board had, over the years, opened a large number of retail shops selling electrical appliances which, it was intended, would use an additional large amount of electricity - thus boosting their electricity distribution business. Examples of such appliances were: Electric Heaters and Blankets, Storage Radiators, Water Heaters etc. However, the Boards started to extend their range of products into Washing Machines, Refrigerators, Freezers and then into the full range of appliances - including latterly "brown goods" - thus competing directly with established retailers in this sector.

The electricity boards had to procure supplies of product and whilst they claimed to always "Buy British", they did as time went on, start to purchase product from overseas. The electricity boards invariably branded their products under a common private label known as the ELECTRA brand, this created product differentiation.

Thus a manufacturer, sometimes from overseas, could negotiate one contract at centre (The Electricity Council), which would cover all the annual requirements of the fourteen electricity boards - something in excess of 1400 stores - total national coverage. In this manner, and in order to create differentiation, the penetration of the UK Domestic Electrical Appliance Industry by foreign importers received a boost from an unlikely source.

### **3.1.2. Application of Porter's Competitive Strategy to an Industry.**

In a more general sense, by applying the Porter Framework to the DEAI it can be visualised that the major retailers like Currys, Dixons, Rumbelows, together with the mail order and catalogue stores like BMOC, Argos and Littlewoods are able to exert their buying strength (or Power) to force potential suppliers to provide product that is very keenly priced and value for money. At the same time all the potential manufacturers (Suppliers) are attempting to convince (Rivalry) the retailer's buyers (Buyers) that their product package is the best. There may also be a New Entrant (like Breville - 1978 ) offering a new competitive product.

Porter (1980) pointed out that many industries, in the course of their evolutionary process, pass through periods of rapid growth and then flatten off into a time of slow or no growth. Such an era is commonly known as *industry maturity*. The DEAI is a mature industry. Porter postulated that in a mature industry that some of the following tendencies would be evident:

- Slow growth means more competition for market share
- Firms in the industry are increasingly selling to experienced repeat buyers
- Competition shifts toward greater emphasis on cost and service
- The industry has its manufacturing capacity and personnel "capped"
- Key functions like marketing, selling, distribution and research methods undergo change
- New product and services are harder to locate
- International competition increases
- Industry profits decrease - often permanently
- Dealer's margins decrease but their power increases

It will be shown that criteria are reflected in the industry performance and characteristics of the DEAI over the period 1969 to 1990.

It is relevant at this stage to state that INSEAD - CEDEP (1989) agreed with this view of the DEAI but took a broader view of the situation in a European context. It was recorded that the overall market for household appliances in Europe was characterised by low or, in some instances, even negative growth. This was consistent with Porter's view of a mature market. There were significant differences in the demand for washing machines and microwave ovens. The former showed decreases in annual demand (0.4% between 1978 and 1983), whilst the latter, being a newer product, exhibited 40% growth in the same period. Similarly, whilst demand in the U.K. and Holland was stagnant, Spain registered a large growth.

Another issue that required careful consideration was Porter's assumption that the environment in which companies operate is common to all the industry's players, and a company's profit performance is primarily dependent upon the "Intensity of Competition". Some recent work by Peters (1992) and Whittington (1993) suggests that Porter's main thesis, of assuming the effect of the pervading industrial environment on internal competition as being small compared to the internal competitive forces, should be viewed with some caution. Peters cites the case of IBM, who had in Peter's own words (1982) "stayed close to the customer" for some years. However the customer changed and IBM didn't. The industry environment had changed but IBM had still retained its apparently "large battleship" approach to its customers, who were now preferring a manufacturers' front line that incorporated a "fleet of nimble destroyers".

Whittington (1993) also questioned the current validity of the "orthodox" strategic planning methods, which assumed predictable environments, similar competitors and rational managers. He stated that in practice environments are turbulent, international competitors are very different and managers are chronically unable to focus on the bottom line.

A similar view was expressed by Drucker (1989), who commented that the "new realities", in terms of the world's economy, are different from the issues on which many people still fix their ideas and on which they base their future planning. Implying that we live in changing times and peoples customary view of issues needs to be revisited.

Rumelt (1991) also questioned the traditional view of an industry that made the assumption that the businesses making up an industry were homogeneous, other than in terms of size. Additionally, he examined the implicit assumption that the most important market imperfections arise out of the collective circumstances and behaviour of the firms within an industry. He argued that businesses within an industry behave differently and probably do not conform to an industry pattern or recipe. Thus Rumelt's arguments cast some doubt as to the accuracy of Porter's fundamental assumption of treating an industry as consisting of a number of firms who react to outside influences, or forces, in a similar manner.

Baden-Fuller and Stopford (1992) also questioned the principle that the fortunes of all firms in an industry must necessarily follow the same pattern as the fortunes of the industry as a whole. Their research revealed that in the early 1980's many previously profitable players in the European Electrical Domestic Appliance market found themselves in difficulties and the problems extended to the UK where Hoover, the largest UK firm, also found itself in trouble. Managers in many of the poorly performing companies blamed industry forces for their malaise. However, Baden-Fuller and Stopford (1992.) described how at Hotpoint, the Managing Director, Chaim Schreiber, refused to accept the verdict that it was "someone else's fault that the industry was doing badly". As has already been described, Schreiber confounded the industry experts of the time (1980 - 82) and indeed his shareholder GEC, by investing in new products and machinery and Hotpoint thereby became one of the first European firms to set itself the task of transformation.

Hotpoint's outstanding profit performance in the 1980's is shown in Table 13 of this thesis. In this latter case an individual company had countered a trend by its own actions which supports Baden- Fuller's and Stopford's thesis that it is "The firm that matters, not the industry". This view might also run counter to the homogeneous view of an industry postulated by Porter.

Porter (1990) also commented on the manner in which companies compete on the world stage. This is very relevant in the case of the DEAI in the UK since it is shown in section 2 that the industry has been constantly attacked on its home ground since the late sixties - even before the UK entered the European Community.

Porter (1990) stated that companies gain advantage against the world's best competitors because of pressure and challenge. They benefit from having strong domestic rivals, aggressive home based suppliers, and demanding local customers. Ultimately nations succeed in particular industries because their home environment is the most forward looking, dynamic and challenging. Finally, demanding buyers in the domestic market can pressure companies to innovate faster.

The profitability of the UK industry under in the international and domestic environment described by Porter (1990) investigated in this work, would support the view that the competitive performance of the UK manufacturers, particularly during the fifteen years commencing in 1970 was extremely weak which resulted in the rapid increase in import penetration and loss of profitability within the UK based manufacturers - as predicted by Porter.

It could have been that the UK companies failed to properly plan their reaction and strategy to combat the changing and more competitive nature of the DEAI. Porter (1979) commented that the crucial strengths and weaknesses from a strategic standpoint are the company's posture against "substitutes" and the sources of "entry barriers".

It is the writer's view that UK industry failed as a whole and individually to properly analyse how they build a defence against these strengthening competitive forces and in so doing failed to defend their position against the threat of the importers particularly from continental Europe.

Porter (1990), further supported the view that the UK had lost its competitive advantage in industry, emphasising that in his view the UK had been losing its international trading edge since World War II.

### ***3.1.3. Introduction to the Porter Five Force Framework.***

One of the prime objectives of this work was to investigate the competitive nature of the DEAI using the Porter Framework as the basis of the analysis. Whilst much of the literature written on competitive strategies within industries makes copious references to the Porter, most the work uses Porter to support the authors' views in a qualitative context. Typical examples are Quinn, Mintzberg and James (1988), Baden-Fuller and Stopford (1988), Whittington (1989), but they with others did not extend their work, by using a method of metric analysis as will be shown in this thesis and in Wolfe and Asch (1992). One paper was found where the authors McNamee and McHugh (1989) - see paragraph 3.2 - took the fundamental Porter Framework and using a series of metrics analysed an industry to ascertain whether the framework can be actually employed to establish the nature or profitability of an industry. Wolfe and Asch (op.cit.) in a more general sense concluded that analysis of the DEAI using the Porter Framework was both applicable and relevant.



### **3.2. The McNamee and McHugh Work**

McNamee and McHugh (1989) set out to test the theoretical expectations derived from an application of the Porter Framework in the context of the Northern Ireland clothing industry. The study used three measures (metrics) to assess competitiveness within the industry and interviews were held with 77 out of 101 companies within the region. The metrics used were: net profit before tax, sales per employee and sales per pound of assets. An attempt was made to correlate these metrics with industrial competitiveness. Only two of Porter's "five fundamental competitive forces" - the power of buyers and the power of suppliers - were considered.

Whilst not expressly explained it was assumed by the writer that the clothing manufacturers were selling to retailers or clothing distributors.

The objectives of the work were (1) to check the validity of Porter's theories in a sector of European industry (2) to provide the industry and government with guidelines on how competitiveness might be improved and (3) to develop a general method for analysing competitiveness which could be used in other industrial sectors.

It was noted that McNamee and McHugh took a similar view to the writer in that, in spite of the widespread knowledge of Porter's theories on competitiveness, there was little information published on testing of these theories in a European context. They commented that discussion of Porter's work with managers often reveals a perceived difficulty in applying Porter's concepts to their particular industry.

It is not intended to fully analyse the methods employed by McNamee and McHugh, but the conclusions reached and some of the methods employed are discussed.

(a) Use of Published Accounts.

Specifically MacNamee and McHugh (1989) used published annual accounts and interviews within the Northern Ireland clothing industry as the basis of their work. Whilst this approach did reveal results which supported the Porter Framework, the writer considered that to use annual accounts as a sole measure of company performance and profitability could in some cases be open to error. This view derives from personal experience in dealing with shareholders and auditors at the fiscal year end in both large and small industrial concerns. It has been announced that audit procedures have been tightened in the past three to four years. Moreover, some of the leading accounting practices, such as Stoy Haywood, reference Polly Peck International, and latterly Coopers & Lybrand, The Mail on Sunday: 5.6.94, regarding the same company, have received large amounts of adverse publicity regarding the apparent lack of thoroughness in their audit processes. Thus the writer is of the view that the following cautionary observations as applied to the treatment of accounts at the fiscal year end should be taken into consideration in any research undertaken that uses published accounts as its sole source of company financial performance data.

For example, in small companies where the shareholders are often the "working directors", the adjustment of year end profits is more often a function of the directors' personal tax position rather than a true reflection of the particular company's performance during the fiscal year under review. This arises primarily because the valuation of stock, debtors and other key factors of the business is so dependent upon the directors' opinion. In the smaller and specialised company the auditors just cannot have the expertise to absolutely value the key trading factors and thus have to rely on the directors to provide their view on these issues. In larger companies, the industrial concern is often a subsidiary of a larger group whose wishes as to the year end treatment have to be taken into account in reaching the published result. However in these companies, additional cross checks often exist resulting from internal audit procedures, thus directors of such companies are more likely to form a more balanced view on the subject of valuation of assets and liabilities.

On the broader issue of the accuracy of published accounts, Smith (1992) commented on the preparation of company annual accounts. In particular he observed that, "much of the apparent growth in profits which had occurred in the 1980's was a result of, accounting sleight of hand, rather than genuine economic growth", and he set out to expose the main techniques involved. Additionally, as late as 19th December 1993, the Sunday Times stated, "In 1991, the executives of Fisons manipulated the company's accounts- albeit legally- so that millions were added to sales and profits. The effect of this was to boost the share price which in turn allowed the executives collectively to make £5.3 million on sale of share options". The obvious question as to whether such "manipulations were in the best interests of the shareholders is not the subject of this thesis, but it is believed that such examples serve to support the writer's view that the use of published accounts as the sole source of company performance data makes any conclusions based solely on such information suspect. It is more prudent to verify such information with data from another independent source.

Since the majority of the businesses considered in the MacNamee and McHugh work were small companies and based in part on the use of published accounts, their conclusions are only used as an indicator of the issues involved.

(b) The Power of the Buyers.

McNamee and McHugh stated that according to Porter (1980), the more powerful buyers are in relation to a particular industry, the more adversely will the industry's profitability be influenced. They concluded that buyers *do* influence competitiveness. Most buyers of large multiples used "price-markdowns" as a selling strategy which would affect supplier profitability, since buyers would be looking for a lower price from the supplier to maintain the retailer's margin when selling prices were reduced. In this manner the profitability of the industry concerned would be adversely influenced by the actions of buyers.

However they do unusually suggest that when buyers are experiencing a period of increasing profitability they will tend to be less demanding in the terms they agree with their suppliers. Whilst it is recognised that a buyer's attitude will be dependent on the particular corporate strategy of his company at the time, it is the view of the writer that the suggestion made by McNamee and McHugh is very suspect, if not naïve. The work associated with this thesis together with the writer's industrial experience would indicate that any retail buyer is invariably driven by hard-nosed economics related to maximising his profit margin and shows little concern for the well being of his suppliers. The work at London Business School (1986) reached a similar conclusion regarding the attitude of retailer's buyers.

(c) The Power of Suppliers.

McNamee and McHugh stated that Porter asserts that the more powerful suppliers are in relation to a particular industry then the more adversely will the industry's profitability be influenced. In summary the findings indicated that for this industry: a manufacturer's larger size relative to its suppliers confers a competitive advantage; it is preferable for a manufacturer to forge strong links with a small number of suppliers; price may not be the over-riding criterion in supplier selection - rather service/delivery/availability may have a stronger influence.

McNamee and McHugh concluded that the work of Michael Porter was a worthwhile and practical methodology for investigating sectorial and individual firm competitiveness.

The work of McNamee and McHugh does, in the view of the writer in spite of the criticisms expressed above, validate the use of the Porter work as applied to analysing a sector of an industry. Thus where a whole industry is being considered it was inferred that the conclusions reached by McNamee and McHugh would broadly support the continuation of this thesis.

In addition to the analysis of company accounts their work was also based on interviews with members of particular companies within the industry. In this thesis, the method employed included detailed interviews with key and senior members of the industry who did not represent particular companies. Thus a broader based and possibly more authoritative view of the DEAI would be obtained without the risk that a particular company's opinion might unduly sway the final conclusions.

### ***3.3. Observations on "Industry Recipes".***

Much of the field work associated with this thesis was based on interviews with members of the DEAI. Many were and still are decision makers and it was of interest to ascertain whether these key players in the industry may have, without realising it, tended to make strategic judgments, which were unconsciously based on historic in-built rules. These rules may have stimulated management's response to particular industry issues, that had occurred in the DEAI over the past 30 years. It was noted that in Baden-Fuller and Stopford (1988), where they reported on Green (1987), widely varying beliefs and aspirations were evident in a detailed study of the executives in the DEAI. Green reported that in the poorly performing businesses of the time, a common thread, in the responses by these managers, had been to attribute the blame on anyone but themselves.

Grinyer and Spender(1979), referred to empirical evidence supporting the view that significant patterns of managerial belief exist at the industry level and referred to these as a "recipe". They observed that the existence of patterns of belief in an industry would account for the relative ease with which executives can move within an industry compared with their greater difficulty in switching industries.

Spender (1989), suggested that managers do adopt a way of looking at their situations that is widely shared within their industry. He called this pattern of judgements the industry's "recipe", which was consistent with his views, with Grinyer, referred to ten years before. He argued that the recipe was an unintended consequence of managers' need to communicate, because of their uncertainties, by word and example within the industry.

He warned that the recipe is an industry level concept and cannot be applied to a particular firm without creative amendment.

Johnson (1987) , in a more generalised sense seems to support such a view, since he stated that the emphasis on past experience and the inclination to build new decisions on past understanding through that experience, is a characteristic of managers who espouse new theories of how they would behave in a certain situation - but who in practice act according to pre-determined patterns: i.e. theories in use. This supports the writer's view that a part of the DEAI's poor performance was a result of such a recycling of the problem within the bounds of the existing decision culture and practice. Similarly Johnson (1992) raised the question of a "paradigm" or "company culture" which brings about almost a uniform reaction to a particular industrial situation, whether the solution to the particular problem as determined by the company "paradigm" provides the right solution or not.

Additionally, Rumelt (1991) argued that businesses within an industry often behave differently and do not conform to an industry pattern or recipe.

In retrospect, the writer can recall the company culture when he took over as Managing Director at Morphy Richards in 1980. The view was that Morphy Richards was undisputed UK brand leader and their irons and toasters would sell by "just putting the product on the shelves". This was indeed partially true, since research at the time revealed that the Morphy Richards brand was so strong that many people thought Morphy Richards made many other products, including refrigerators (as they did in the late sixties), radios (the research triggered the introduction of a Morphy Richards radio cassette product, that still sells today), washing machines, etc.

However, the absolutely key issue was that the company had failed to detect, and had ignored, was that a number of brands from continental Europe had entered the country , for example Rowenta and Tefal, with highly featured products that now commanded the high price, high margin sector of the market.

The management at Morphy Richards together with many others in the distribution trade wrongly assessed the strength of these products and their brands. Thus over the years 1980 to 1982 Morphy Richards had to rapidly invest in the development of new more competitive products, rather than be left in the low featured, low price and low margin sector of the market.

The DEAI also learnt a lesson. The "good old English brand names" would not, "as of right", command a leading position in the market. The people of the UK were becoming more familiar with these foreign sounding brand names - identifying them as being synonymous with quality, reliability and good performance. The preference to "Buy British" was not as strong in the UK as perhaps previously thought.

Porac, Thomas and Baden - Fuller (1989) also argued that one important link between group level (i.e. industry) and firm level competitive phenomena, are the mental frameworks used by the key decision makers to interpret the task environment of their organisation.

This issue will also be explored further later in this thesis where several of the interviewees comment upon their perception of the DEAI during the periods of change throughout the period under review.

# **4. Methodology**

## **4.1. Introduction**

The prime objective of this work has been to investigate the performance of the DEAI, in its broadest sense over a thirty year period, with the intent of determining the major issues related to the decline in the fortunes of the industry over that period.

At the commencement of the work leading to the preparation of this thesis the writer had worked in the DEAI for fifteen years, which included five years as Managing Director of Morphy Richards Ltd., and at the time was Managing Director of Dreamland Electrical Appliances Group Ltd., which incorporated Breville Appliances Ltd. Additionally the writer had served on several industry trade committees and on one of the working parties of NEDO.

Thus, as a result of these senior industry appointments, the writer was able to gain access easily to key industry executives and thereby gain authoritative views which greatly assisted in the investigative phase of this work. Greiner and Bhambri (1989) commented upon the importance and difficulties of getting to the CEO in any organisation, but this was not a problem to the writer.

Buchanan, Boddy and McCalman (1988) commented in addition that it was very important "to get to the CEO", if the best information was to be obtained in an interview. They also took the view that if you had contacts - use them.

In order to more thoroughly understand the interdependencies within industry itself, it was decided to study the development of the DEAI over a thirty year period. Thus the first part of the work concentrated upon reviewing the history and development of the DEAI over the period 1963 to 1990.



It was considered that the period split logically into three: the sixties - covering the lead up to common market entry; the seventies - covering entry into the EC; and the years during and immediately following the Thatcher era of the eighties - commencing with the economic depression the beginning of the eighties, followed by the economic boom years of the mid-eighties and then the start of the economic downturn at the end of the decade.

It was found that little had been written and published about the DEAI, particularly in the earlier part of the years under investigation, and thus other than the book by Corley (1966), much of the material was obtained from secondary sources such as industry and trade papers together with government sponsored bodies like the NEDC. An interview was carried out with the Chairman of the NEDO Domestic Electrical Appliance Sector Working Party - Brian Quilter; the writer was a member of the sector working party during the years 1981 to 1985. Other organisations like the EITB, HMSO and the Central Statistical Office also provided information. Additionally the trade association AMDEA was very helpful in providing supplementary unpublished trade data and background. Further information was gleaned from newspapers and journals of the time, together with papers published by various workers - principally Sebastian Green (1987), Baden - Fuller and Stopford (1988) at the London Business School. Much of this early work was assisted by the writer's knowledge of the industry and knowing where to locate sources of information.

Secondly, a review of the relevant literature was carried out so that a better understanding of the spectrum of study surrounding the competitive nature of industry could be assessed and recorded in this thesis.

Thirdly, the key issue to be resolved was, how best to carry out a study of the DEAI, which would be as close as possible to a quantitative study, with the objective of performing an in-depth investigation of the industry drivers responsible for the course of decline that had taken place.

Fourthly, the results were analysed and the conclusions drawn are recorded in section 7.

In the review of the literature it became clear that much had been written and discussed on the topic of an industry's performance, profitability and the competitive nature of the companies within the industry. Eventually the writer came to the conclusion that the most respected source of ideas and thought on the topic was Michael E. Porter and reference has been made to much of his basic philosophy throughout this thesis. It was also decided to employ the Porter Framework as the basic tool for the analysis of the DEAI.

#### ***4.2. Analysis of DEAI using the Porter Framework***

In considering the methodology to be employed with the Porter Framework, the conclusion was reached that other than the McNamee and McHugh work (1989), little had been recorded that attempted to quantify the nature of the Porter forces acting on an industry and relate them to the industry's profitability, since most of the work centered on general philosophical arguments and was not related to a particular industry or industry sector. Thus it was decided to consider alternative methods of applying the Porter Framework to a study of the DEAI.

McNamee and McHugh (1989) considered two aspects of the Porter (1980) industry framework, the Power of Buyers and the Power of Suppliers. They reached a conclusion, as predicted by Porter, that an industry's profitability is influenced by: (1) the Power of Buyers and (2) the Power of Suppliers, although as has already been commented upon (paragraph 3.2), their work was limited to the consideration of only two of the Porter forces and necessarily was limited in its scope.

This thesis is equally concerned with (a) the profitability of the DEAI over a period of thirty years, and (b) what had been the industry drivers throughout that period. However at the time the key issue to be assessed was how best to approach the analysis, taking into account the necessity of considering all aspects of industrial competition. MacNamee and McHugh had used published annual accounts and interviews within the Northern Ireland clothing industry, as the basis of their work. Whilst this approach did reveal results which supported the Porter Framework, it has already been noted that the sole use of annual accounts as the measure of company profitability performance could be flawed.

It has been already commented upon in the literature review, that many of the previous analyses using the Porter Framework were of a qualitative and empirical nature and thus the challenge to be addressed was how could the Porter Framework be used to more quantitatively evaluate the competitive nature of the DEAI over the thirty years under investigation.

Pettigrew (1990) commented upon the conduct of empirical research which included, in his case, inquiries into competitiveness and strategic change. He went on to say that the analytical cornerstone of his research was the view that theoretically sound and practically useful research on change should explore contexts, content, and process of change together with their interconnections through time. He used the phrase "catching reality in flight" as being the focus of his objectives, which coincides with the theme of this study.

Pettigrew also commented, in detail, upon the issues of Data Collection and Degree of Personal Involvement. He clearly does not advocate the use of questionnaires without personal involvement. He favours interviews since they can provide depth, subtlety, and personal feeling.

In relation to writing up the results of a study, he made the observation that "there is no ideal time to write up research". This has been the writer's experience in this thesis. However a line had to be drawn and the comment and results represent the best considered and pragmatic view that could be taken at the time of writing this thesis.

It was decided to use a numeric approach directed at assessing the various criteria which would determine the strength of a particular Porter industry driver, e.g. Power of Buyers, over the period being investigated. A score of 0 to 4 was assigned to these drivers, dependent upon their perceived strength. Thus a theoretical, and thereby necessarily subjective, assessment of the Porter's Five Force Framework was personally carried out by the writer in the three time periods: The sixties, the seventies and the eighties.

In applying the Porter Framework to the DEAI, A view had to be taken as to whether the industry's products could be considered to be homogeneous since, although Porter makes no specific reference to this factor, it must be noted that the DEAI splits into two product sectors whose characteristics might differ when analysed from the standpoint of the Porter Framework, thus causing a bias in the results dependent upon the relative size of each product group. For example, appliances such as Toasters, Irons, Coffee Machines, etc., are easily and cheaply carried in large volume, whereas Washing Machines, Dishwashers and Refrigerators are considerably more bulky and cost a great deal more to transport. With this in mind, a manufacturer's propensity to set up overseas manufacture or to source, for example, a refrigerator from, say, the Far East would be much less than from within the E.C. Factors like this, it is suggested, would bias the internal competitive forces.

The small appliance market is only about 15% of the whole (by value) and considerably less in relation to profitability, which, it was considered, was not material in terms of the accuracy of this analysis. Thus in spite of the differences in the industrial characteristics of these two market sectors the appliance market has been considered as one homogenous major appliance market.

It was planned to validate the conclusions reached from the above assessment by direct discussion with key senior members of the industry.

An Agenda for discussion with the interviewees was prepared together with a questionnaire, see Appendix II. A pilot test done with members of the academic staff of the Open Business School and certain changes were made. The questionnaire was designed to test the recipients views on the structure and interactive forces within the DEAI over the period under review.

A key consideration was that the method of expressing the questions should be comprehensible to an industrialist and not couched in phraseology more suited to an academic environment.

The respondents were selected on the following basis: They should be industry decision makers; they should have been in the industry for at least 10 years; they should have a track record of success in their part of the industry. The selections were also made such that all key parts of the DEAI were represented i.e. a manufacturer, a major high street retailer, a major mail order house, the leading trade journal, and the industry trade association AMDEA.

Since some of the questions were necessarily academic in nature, it was decided that rather than just sending the document to the senior members of the industry, it would be better if they were approached personally by the writer (Ref. Pettigrew op. cit.) and the questions would be asked, in depth, as part of the interview process. The main issue was to get the potential interviewees to focus their thoughts on the time periods being considered, since a person's natural tendency is to deal with current events very lucidly and experience difficulty in analysing and arranging thoughts on circumstances that happened up to twenty years before.

The interview plan was sent together with a letter covering the intent and procedure to be adopted at the interview was sent to each interviewee. Copies of the questionnaire, the interview plan and the letter are included in Appendix III.

The persons interviewed together with the dates of the interviews were as follows:

1. Mr. Jim Collis, Director General - AMDEA - 8.1.91.
2. Mr. Richard Gibson, Managing Director, Zanussi UK Ltd. - 19.11.90.
3. Mr. Nick Lightowler, Buying Director, The Dixons Group. - 7.11.90.
4. Mr. Jack Aland, Associate Director, Littlewoods Ltd. - 26.6.90.
5. Mr. Derek Smith, Editor, ERT - 6.11.90

The records of these interviews are contained in Appendix I.

A further check response, with an additional industry executive Mr. Ken Hopkins, ex Commercial Manager, South Eastern Electricity Board - 22.2.93., was done by post, using the questionnaire only. This response is included in Appendix III and was used to check the results shown in paragraph 5.1.

### **4.3. *Distribution***

It became clear at an early stage that import penetration had rapidly increased during the seventies, ref. Table 4 page 17, and thus it was decided to look more thoroughly at the whole distribution chain within the DEAL.

The Monopolies and Mergers Commission (1990), stated that Specialist Electrical Retailers, which would include outlets like Currys Dixons, Comet and Rumbelows, accounted for about 67% of the major ( large) kitchen appliance sales. This situation may be contrasted with the large number of wholesalers and retailers that existed in the sixties. Grant (1987) commented that in the mid-sixties manufacturers held a pre-eminent position in distribution channels.

They were the source of product innovation and development, they controlled physical distribution to wholesalers and retailers, they were responsible for all product advertising, they exerted a strong influence over retailers' stocking policy and they controlled the retailers' margins by setting retail prices. Grant (op.cit.) went on to comment on the "retailing revolution" that had taken place over the twenty years up to the mid-eighties had seen the replacement of manufacturers' dominance by that of the retail chains.

Segal - Horn (1987) also referred to the "retailing revolution" and the growth of retailer buying power. Also mentioned was the availability of new management systems, as a result of the development of Information Technology, that have enabled retailers to take more control of the running of their businesses often encroaching into areas previously seen as the domain of the manufacturer. Segal - Horn also commented that, "boundaries have become more permeable between businesses, sectors, products, and services".

This enormous and relatively rapid change in the balance of distribution power, over only twenty years, will be shown to have been a major contributor to the rapid increase in import penetration - a prime factor in the decline of the DEAI.

#### ***4.4. Management Behaviour***

During the research it became apparent that aspects of management's behaviour in the DEAI may have conformed to some in-built tradition, culture or "recipe". It was decided to investigate this aspect further. Work by Mintzberg (1978), Grinyer and Spender (1979), Quinn (1980), Spender (1989), Porac, Thomas and Baden Fuller (1989), Johnson (1987), (1988) and (1992), Faulkner and Johnson (1992), were of assistance in further exploring this issue.

Faulkner and Johnson (1992) reported on some research they had done by working with teams of senior managers in debates about the strategy of their organisations. They recognised that the work of Porter (1980) had been one of the

prime influences in setting the agenda for management consideration of competitive strategy over the past decade.

However the question arose in the writer's mind as to whether the top management within the DEAI were really in touch with "what was happening on the street", leaving their key strategic decisions to be largely influenced by "following what the industry is doing". For example, in the seventies and early eighties there was much talk about, we can't compete with the Italians in getting manufacturing costs down in order to compete with the "low Italian prices" offered for washing machines and refrigerators. Thus we must buy in the latest washing machine from Zanussi or Indesit or the less well known Italian or Spanish manufacturers, and brand it with our own brand. The outcome was lack of investment in the UK in product development and manufacturing. Chaim Schreiber, see Baden Fuller and Stopford (1988) and Whittington (1989), made it his policy to push back imports - which he successfully accomplished, contrary to popular industry thinking. He installed a new refrigerator line at Hotpoint's factory at Peterborough and built a new washing machine factory Kinmel Park, North Wales. It has to be questioned whether it was certain that the businesses within the DEAI were under the real control and direction of their boards of directors. Like the writer, Faulkner and Johnson (1992) question the traditional notion that strategy formulation and its execution is vested solely with the board of directors. They confirmed that there is a good deal of evidence that has emerged showing that this is not the case in many organisations in that strategic decisions are taken and implemented further down the organisation. Such decisions could, in the case of the DEAI, have been driven by an industry driven perception or recipe - see Grinyer and Spender (1979).

Whittington (1993) referred to what he called the adherents of the traditional approach as Classicists, who operated in a "top-down" organisation. This structure allowed top management to be removed from the routine day-to-day running of an organisation, leaving them time to concentrate exclusively on the strategic direction of the enterprise.



In the writer's opinion this method of running businesses is inapplicable in today's fast moving industrial scene. Boards of Directors will rapidly become totally isolated and will be prone to make key strategic decisions based on "old information" - if they choose to remove themselves too far from the day-to-day running of their enterprise. It was the case, in the view of the writer, that the directors of businesses within the DEAI were, in many cases far removed from the reality of what was happening and made decisions based upon second-hand information which was the result of what their "people had heard on the street".

The issue to be addressed in the case of the DEAI relates to the operation of its constituent businesses. Was there an industry recipe that implied that UK Ltd. produced the best products and anyway these foreigners know nothing about our market i.e. were the executives of the time so convinced that they were doing the right thing whilst the industry unbeknown to them was suffering under the growing strength of the major high street retailers and rapidly increasing import penetration.

Faulkner and Johnson (1992) pointed out that work by others has indicated evidence of management action that stems from two sources of thought: "espoused strategies", based on the results of the formalised strategic planning process, and which often become unrealised and "realised strategies" which emerge out of opportunistic entrepreneurial thought within a business. Thus Faulkner and Johnson were warning against not taking executive's responses just at their face value and similarly it had to be ensured that the respondents really understood the questions being posed.

Additionally, in assessing responses from managers on the development of a business or industry, as part of this work, much care had to be taken to determine whether such views were the result of an in-built culture or "industry recipe" reference Grinyer and Spender (1979). Similarly the conclusion reached after reviewing the work of the referenced authors indicated that care would have to be exercised in ensuring that answers to the field research were properly "filtered" such any conclusions were not biased by what might be an "industry recipe". This issue will be further discussed following the review of the field work in section 5.

## **5. Analysis of Results**

### **5.1. Application of the Porter Framework**

The Elements of Industry Structure are taken from Porter (1979) and (1980). See figure 1. These elements or *forces* were assigned values on a scale of 0 to 4 dependent upon their perceived strength, as described in Table 13 of Appendix II in the three time periods under review. The five *forces* of the Porter Framework were themselves analysed and each of the resulting parts assessed to determine their contribution to the overall strength of the particular *force*. A number of methods of combining or adding these parts were assessed, in order to establish the resultant "size" or influence of a particular *force*. Methods such as simple addition, averaging, representation of the parts as vectors and vector addition were also tried, the objective being to achieve a meaningful and practical answer - which provided insight into shifts in the nature of competition - in the industry. The conclusion reached was that the sum of the individual parts of a *force* should be assessed in each time period, since these figures accentuate correctly the magnitude of any squewness in the resulting comparison of the resulting *forces*. Such a bias would be distorted by averaging - since different numbers of criteria were considered in the analysis of each force.

Thus in tables in Appendix II, the three periods under review are assessed from the standpoint of the Porter Framework on the basis of the following scaling shown in tables 14 to 20 in Appendix II and the summary of the results is shown in Table 12. The conclusions that were derived from a direct analysis of Table 12 are shown in the following paragraphs.

Additionally in Appendix III the analysis was validated by the independent completion of a questionnaire by a top executive from the South Eastern Electricity Board. A summary of the results is shown in Section 8 of this submission. This compares favourably with that in Table 12.

The figures should not be assessed as absolute numbers, i.e. as quantifying exactly any one of the Porter criteria, since the numbers themselves are based on subjective judgements. The figures, however, do serve to indicate a trend in the industry's characteristics when compared against each decade to decade.

	1963-70	1971-80	1981-90
Entry barriers	14	10	5
Supplier Power	14	13	12
Buyer Power	4	10	12
Price Sensitivity	8	9	10
Substitution Threat	9	12	14
Rivalry	17	15	14

**SUMMARY - Table 12**

Referring to Table 12, it could be concluded that:

- (a) Entry barriers have reduced - which would be consistent with the significant increase in import penetration - see Table 4.
- (b) Supplier Power has altered little. However, in practical terms, the supplier's power has become less dominant with the increasingly competitive nature of the market, with more UK manufacturers and importers chasing market share in a substantially static market.  
(Reference AGB/AMDEA statistics)
- (c) Buyer Power has greatly increased. A major contributory factor was the consolidation of major retailers into large powerful groupings such as Currys/Dixons, Rumbelows, Boots/Underwoods, ARGOS, ASDA etc. Also included would be Mail Order companies like BMOC (British Mail Order Corp - part of GUS), and Littlewoods.

- (d) Whilst the the metrics under "Price Sensitivity" in Table 12 would indicate only a small increase over the period of thirty years , i.e. a range of 8 to 10, the price "in the shops" has remained a determining factor in the UK retailer's selection of product to stock. This reflects the consumer's increased awareness of price, as a key decider in their "decision to purchase" as a result of the higher profile of this topic in consumer orientated TV programmes, such as those pioneered by Esther Rantzen and others. It was felt by the writer and several of the interviewees, that the change in price sensitivity - as part of the buying decision by both the retail buyers and end users - over the period should have been more pronounced in table 12.
- (e) The substitution threat, in the Porter sense, i.e. the substitution of a washing machine with, for example, either hand washing and a "mangle" or perhaps "using a laundry or launderette (also discussed in paragraph 3.1.), was not considered either a practical case or relevant to this thesis. More applicable, however, was the substitution by a retail buyer of, say, a home manufactured washing machine with an imported product. This has been increasingly used by the retail buyers as a buying tool in order to "get prices down", since retailer's buyers are now presented with products from all over the world, whose technical standards and quality are fully acceptable in the UK.
- Branding has become less important, due to lack of consumer awareness of many English manufacturer's brands. The lack of advertising support by the UK manufacturers was mentioned by several of the interviewees, the effect of low advertising budgets being a loss of brand awareness on the part of the consumer towards the brands concerned. There were exceptions, for example Hotpoint who have commissioned a large amount of TV advertising.

However in the main, the reduced awareness of UK brands was considered to be the outcome of so little brand advertising over the last ten to fifteen years. Thus any one manufacturer's product is constantly under threat from foreign competitors who are only too willing to cut their price and engage in expensive and extended advertising campaigns, in order to gain space on the shelves of the large retail outlets and thereby market share. i.e the retail buyers have "substituted" the indigenous UK products with some of those from overseas.

- (f) Rivalry is strong as ever. Each manufacturer continues to try to push another off the retailer's shelves, thereby ensuring for themselves the opportunity of increased sales and market share.

## ***5.2 Additional Validation of the Results***

On the basis of the above the major and substantive issues were the significant lowering of the "entry barriers" and the major increase in "retailer buying power". Additional research was carried out in order to assess whether some definitive evidence could be found that would validate the conclusions reached in connection with Table 12.

The increase in import penetration was well documented in Table 4. and subsequently in Chapter 2. Many writers [for example, Hoover (1974), LBS Centre for Business strategy (1986), Dodsworth (1987), Grant (1987), Senker(1989), Baden-Fuller and Stopford (1991), Wolfe and Asch (1992)] have commented at length on the growth of imports into the UK and reference has been made to all of these writers in this thesis. The other key issue was significant growth in the "buying power" of the large "high street" retailers. Segal-Horn (1987) and Grant (1987) commented that manufacturers had previously owned or controlled the wholesalers and retailers through exclusive distribution arrangements but that now the retailers have taken over this power from the manufacturers.

Segal-Horn (op.cit.) stated that "The British Shoe Corporation now exerscises its virtual monopoly buying-power ruthlessly and Marks & Spencer a little more benignly with longer production runs but just as tightly controlled". The development of "own-labelling" or stencil-branding" was also referred to which was and is used by retailers to create for themselves some product differentiation in the market place and which because of the retailers buying-power manufacturers had little choice but to support.

Sparks (1987) stated that the number of independent retail outlets, of all sorts, had declined over the period 1961 to 1982 from 541,000 to 350,000. He commented that these figures reflect the search for labour productivity on the part of the multiple retailers and the result of rationalisation within the retailing sector.

The MMC (1990) also stated that between 1971 and 1980 the number of retail outlets, of all types, declined by one quarter. Additionally between 1980 and 1987 there was a further decline of about 6% to about 345,000 outlets. In 1970 there were only about 30 superstores (all grocery outlets) tradng in the UK, but by 1986 there were about 470 . A feature of the past 10 years (1980-1990) had been the appearance of the DIY, furniture and electrical superstores of which according to Verdict Research (1989) 18% were electrical stores. The MMC stated that the share of total retail turnover accounted for by the multiple store groups had reach 60% by 1987 compared with 54% in1980, and 46% in 1971. The writer believes that the above statistics illustrate the consolidation of the retailing sector with the large multiples taking a larger share of the market.

The consumer expenditure on DEAI White Goods ( U.K. National Accounts -1989) indicated a growth from £2,076 million in 1978 to £3,869 million in 1988 - at 1985 market prices.

Hence from the above it could be concluded that the multiples were increasing their turnover whilst in turn their market share and influence was also becoming more influential. It was also reasonable to make the assumption that the buyers employed by these retailers would be taking full advantage of their increasing influence and power.

This would give support to the conclusion reached in connection with Table:13 in that the retailer's buying power had increased , and their threat of substituting one manufacturer's product with another could easily be carried out. This leverage by the retailer's buyers was used to a maximum in driving through very one sided and advantageous deals from the standpoint of the retailers.

It should be pointed out that a particular manufacturer may have developed a potentially world beating product - at the right price. However if distribution into the retail trade and on to the retailers' shelves had not been successfully arranged, any marketing plan will fail. Hence the emphasis and reference above to being on or off retailers' shelves. This is probably the most important key to success. One can paint scenarios of heavy TV advertising creating high demand - but if the product is not available for sale on the retailers' shelves, the marketing plan will "bomb". Distribution is all important.

It is considered whilst the above analysis is not totally conclusive, it does provide an indication of a method of performing a more definitive quantitative analysis of the competitiveness of an industry using the Porter Framework as the basic tool of the method. The outcome of the field work needs to be considered before commenting further.

### **5.3. Industry Profitability**

It has already been postulated Porter (1980), that the collective strength of the industry forces determines the ultimate profit potential in an industry. Whilst the Porter Framework gives no clue as to how these forces can be quantified neither does the analysis above provide any real measure of the forces, it is can be deduced on the assumption the Porter Framework is valid, that the forces in the UK domestic appliance industry are intense and can be compared with the examples cited by Porter like tyres, paper and steel - where almost no firm earns spectacular returns.

Inter- Company Comparisons (1987 and 1988) record that the DEAI did not make high profits - see Table 13.

Year	1982/83	1983/84	1984/85	1985/86	1986/87
Profit Margin %	4.7	7.5	7.9	6.4	4.6

Table 13 - Industry Profitability.

This would be consistent with the Porter (1980) prediction that in a highly competitive industry no one makes large profits. Hotpoint - see Table 10 page 39 - as has already been stated, broke the mould with profit margins rising to 12.5% in 1985/86 - twice the industry average.

It was of interest to follow the development of KENWOOD, the kitchen appliances group, following the management buyout by the directors announced in the Daily Telegraph on 9<sup>th</sup> September, 1989. The new team planned to revitalise the group and to float the company in three years later. The MBO took place at a bad time with the onset of the recession.



Subsequently, Kenwood "went public" in July 1992 and on 15<sup>th</sup> June, 1993 the F.T. commented as follows: Forecast profits this year of £11M put the shares on a multiple approaching 16, already a premium to the market. Kenwood is a quality company with new products coming through.

Turnover for the year ended June 1993 was £102M with profits (pre-tax) of £8.4M. Another company that broke the mould and did not adhere to the "industry's recipe" - reference Grinyer and Spender (1979).

## **5.4. Results of Interview Programme.**

### **5.4.1. Industry Performance**

Some of the conclusions reached in the earlier parts of this thesis were summarised in a paper by Wolfe and Asch (1992), where it was concluded that the buying power of certain retailers, in the highly competitive and virtually stagnant market environment, had placed an overbearing advantage in the hands of large retailers. It was suggested that this buying power had acted against the interests of the indigenous manufacturing and wholesale distribution sectors of the UK Domestic Electrical Appliance Industry. Richard Gibson commenting on the government objectives of removing RPM stated, " I suppose one of the declared intentions was to keep retail prices down. It is in the best interest of the consumer ..... to prevent profiteering by the manufacturer and retailer. I find that argument somewhat simplistic because obviously if a manufacturer or a retailer is not making reasonable profits then he cannot invest in his business for the future, which will ultimately reflect on the service package in a total sense on the product he offers to the consumer. I think that is why the standard of service in its broadest sense is perhaps not what it should be in this industry".

The low industry profitability was also analysed in the ICC Business Ratios (1988) for the DEAI, in which 99 of the leading UK domestic appliance companies were reviewed. This report was based on the analysis of published data and whilst the writer, in section 3.2.(a), together with others, particularly Terry Smith (1992) have commented on the veracity of published accounts where in particular Smith used the phrase - accounting sleight of hand - rather than genuine economic growth. Thus the conclusions reached in the ICC report, were treated with some caution and only used to provide the broad profitability trends. The report noted that the average return on capital employed (ROCE) for the ten largest companies over the three years 1984 to 1987 varied between 12.2% and 17.6%.

This performance cannot be seen as particularly outstanding since compared to other product/service sectors ROCE's in the region of 30 to 40% would be anticipated. Returning to the issue of the accuracy of published accounts, it is doubtful if the companies that were reviewed in the ICC report would all have deliberately "adjusted" their results to show such poor figures.

The companies reviewed in the ICC report were split into two sub-sectors: manufacturing and importers/distributors.

The average profit margin in the manufacturing sub-sector was low (4% for 1986/7) and had fallen by 22% over the three years under review. The average profit margin for importers was negative for the years 1985/86 and 1986/87, although some recovery was noted in 1986/87. The report stated that "All together for the whole sector, the profit margin has been falling at the rate of 24% per annum. It is this sort of decline which cannot be sustained for too long.

Jim Collis considered that many British companies within the DEAI did not make money. He was also stated, "that companies like Tricity were allowed to run inefficiently and unprofitably at a time when Thorn were perhaps making a vast amount of money out of lighting - so it didn't matter much".

Nick Lightowler considered that the key thing that happened in the sixties was that around 64/65 the government abolished retail price maintenance. Malcolm Derry explained that in the late fifties and sixties we only had one or two importers. The UK market was based on UK products and brands. In his view the removal of RPM "escalated the number and size of retailers dramatically". "This happened in an expanding market and it gave the opportunity for importers to come into the business and these importers were operating on a lower cost base than their UK counterparts". "Then what happened was that the UK manufacturers in an effort to compete were having to reduce their retail prices [i.e. selling prices] accordingly". Nick Lightowler went on, "Cost of [UK] manufacture was very high. They [the manufacturers] had enormous sales forces. Their reps would call on 20 shops or something like that, and each one of them [the manufacturers] had fifty to one hundred reps or merchandisers or demonstrators.

All of which was a tremendous cost and the cost which the importers didn't necessarily have. To give you an example". Lightowler went on to explain the case of an Indesit washing machine that retailed in the late sixties at 49-59 guineas and was of modern design. The equivalent twin tub English Electric, Hoover and Service was selling at about 60 guineas". Malcolm Derry expanded on the issue of design by saying the although the Italian design "was a bit more flashy", it's colour added to the "display factor" and to the excitement of the product.

The conclusion must be that although the sector was expanding in terms of sales, it was hardly a profitable one.

This statement bears out the Porter view that in a highly competitive industry no firm will earn spectacular returns.

However the power of the retail buyers was only one of the forces acting on the UK Domestic Electrical Appliance Industry. Each of the five forces described in the Porter Theory and shown diagrammatically in figure (1), will now be analysed on the basis of: (a) The historic development of the industry described in Section (2) , (b) The theoretical analysis recorded in section (5), and (c) the interviews carried out with leading members of the industry.

#### ***5.4.2. Effects of Government Policy***

Whilst a major contributor to the decline of the industry's fortunes has been attributed to the changes and consolidation of the retail sector, the results of further research within the industry show that much of the decline was initiated by various government policies over the previous twenty years. The resulting retailer pricing/trading strategies were often, in the first instance, a defensive reaction to the new circumstances as they arose. The outcome was that many of these strategies (e.g. If you can find a similar product at a cheaper price, we'll match it), became embedded in the trading methods of the industry - often to detriment of the profitability and long term future the companies concerned or more frequently their suppliers i.e. the manufacturers.

Porter recognised that forces outside an industry are significant - but primarily in a relative sense, since such global forces usually affect all firms in an industry in the same way. It is of interest in this paper how the various sectors within the UK Domestic Electrical Appliance Industry reacted to the changing circumstances that determined the overall industry profitability.

### ***5.4.3. Review of Interviews In Relation to the Porter Framework***

#### ***(a) Government Policy.***

Four of the five interviewees were explicitly of the view that government policy had been the over-riding factor in the downward fortunes of the industry. This supports Porter's view (1980) where he specifically states that the short-run profitability of an industry can be affected by fluctuations in economic conditions but the underlying characteristics of an industry are rooted in its economics and technology that shape the arena in which competitive strategy must be set. The removal of Retail Price Maintenance (RPM), in the sixties, was seen as the catalyst in the start of the decline, but no one placed this change as the prime factor. The inability of the industry to effectively respond to the increasing competition from abroad due to government stop-go policies was cited as the main reason.

Jim Collis summed it up as follows: "Our whole area was subject to purchase tax and credit restrictions.... I think there were something like fifteen changes in just the initial deposit to be paid on hire purchase arrangements over a period of about eight or nine years...[this] was called Stop-Go but which government sources called Fine-Tuning. [It] was responsible for making it impossible to plan..... We would sit around a table on budget days ...[and] we would be faced with either closing a factory or trying to work out how to double our production".

He went on: "The major retailers, and I am thinking of people like Comet and others therefore had to go elsewhere. Where did they go? They went to Italy. That was the break-through for the Italians.... they had well designed products and they took their opportunity".

Richard Gibson stated: "I suppose the first one (factor) that comes to mind is the stop-go economic policies..... which I think put UK industry at a disadvantage which.....it suffers from today (1990). This industry is about long-term investment and where you get rapid changes in monetary policy, fiscal policy, economic circumstances, [this militates against]...taking a long-term view which industry in this country is not prepared to do".

The second thing from a market point of view .... was the effect of Comet style retailing with the abolition of RPM... Everybody latched on [to it] in some form....into the latter part of the eighties.

I think British manufacturers were in a state of disarray. Because of the short-term view British manufacturers have been forced to take about long term investment, they weren't generating enough new product ideas to prevent easy import penetration".

Jim Collis agreed with this opinion. He went on, "Now I know it's a fashionable thing to say, but which UK bank, for example, would take the attitude of the Japanese banks in terms of lending at fairly low interest rates for a very long period of time". "Everyone [in the UK] is looking for profits today not tomorrow".

Jack Aland stated: "I think everyone saw it (the removal of RPM) as an advantage.....in view of what has happened since then it has been a bad thing for the industry....the price [at which] some product is offered is ludicrous. I don't like retail price maintenance...there is an obvious need for an orderly market. I think what we've seen over the past few years is a lack of advertising on TV to promote the product, there has been a lack of R&D and products have just been sold purely on price".

Nick Lightowler stated: "I think the key thing that happened .... was that ....the government abolished retail price maintenance... Round-about 66/67 a new style of retailing and advertising was launched..... The retailer in question was Comet who went out [and] showed line-list advertising in full-page advertisements... where they showed the recommended retail price and the Comet discount price. Eventually..... everybody sells at the cheapest price and a form of retail price maintenance is coming back... although unofficially". BSW Note. What is being referred to is a policy known in the trade as "orderly marketing", which by present day standards is probably illegal. A manufacturer, for example Hotpoint or Hitachi, decide having consulted the major retailers (Dixons, Comet, Rumbelows) that a particular product will sell at X pounds. For example, Hitachi agreed (verbally) that a particular retail group will set their selling prices to stay within certain limits of X. They repeat this with other groups and hope that in spite of competitive pressure, price X will hold in the market. (Writer's comment) - It should be noted that Lightowler worked for Comet for some years. See also paragraph 5.3.3(b) below.

Jim Collis commented further on the actions of government adversely affecting the DEAI in reply to a question regarding the role of NEDO since both he and the writer were members of a working party representing the DEAI. He stated that the particular forum, sponsored by the government of the day, was "singularly useless, at least towards the end of its life". "What NEDO wanted was a grand plan, for the next ten years. The people sitting around that table, even though they were the chief executives of British industries, they were not the decision makers.

For example, Chaim Schreiber was not in a position to commit, in advance, Hotpoint because it depended how Hotpoint fitted within the overall GEC policy. The Managing Director of Hoover had a whole succession of different American masters, Jimmy James of Electrolux had a lot of authority but basically decisions were being taken by the guys back in Sweden". Thus Jim Collis was of the opinion that to do a plan for the UK industry in this forum was never sensible.

Jim Collis was also of the view that no government (up to January 1991), had given any specific support to the DEAI - other than by incentives to build in deprived areas. He stated, "It always seemed to me that if you could only justify going into production as a result of getting a cheap rent - down in the back of Wales - the chances are you've got a poor business". He went on to state that he couldn't think of any governmental protection we had obtained.

On the contrary, he stated, "We made a very big effort a one stage to put forward anti dumping cases against the Italians. We got "no - joy" from government at all". He went on to describe a NEDO report that was prepared investigating the Italians the implied there was no protectionism on the part of the Italians. On the contrary it stated that they were better at manufacturing than we were in the UK. Jim Collis thought there might have been an element of truth in that but we knew at the time that the Italian industry was heavily subsidised in terms of steel.

Derek Smith took a broader view and commented that "The last period when this country invested in its industry to any significant extent was probably during the early Victorian period. Since then most of the money has been taken out and put into other things. People who have made money out of it [industry] have put it elsewhere, they haven't reinvested it". He went on to comment on the social attitude towards the whole "business of manufacturing" which has been downgraded as a career.

It was concluded that governments of the day had brought in legislation that had created additional strains on the industry over and above the expected commercial forces that operate in a free economy. Whilst this factor does not form part of the Porter frame work, it is suggested that the frame work might be modified to include the effect of government legislation on an industry. The comments by the interviewees together with the history contained in this work suggest that the effect of government policy is a key factor in the performance of an industry.



***(b) Pricing.***

In addition to the removal of RPM, much of the responsibility for the change of retail prices was attributed to government action. However, Derek Smith took a slightly different view on what had happened in relation to pricing. "I would have to say that a lot of ills we have in the industry are put a the doors of the retailers and government is not always... their fault. Somebody is selling them [the retailers] a product at a price that they can do it (discount). So I think manufacturers will have to take responsibility and say there is a bottom price [beyond which we cannot go].

Writer's comment - Manufacturers have to very strong willed to adopt this strategy, in the face of either having to make people redundant or perhaps closing a factory.

The point he was making that manufacturers should have a product that has features and is branded such that retailers must have the product on their shelves and will thus be prepared to accept an economic price from the manufacturers standpoint, rather than simply buy on the lowest price that can be squeezed out of the supplier.

Derek Smith went on to say:" There have been instances where manufacturers have actually said, no we will not supply you". I think Hotpoint got into fights with Comet.... and stopped supplying. I think Hitachi [stopped supplying] for a while".

Reference was made to this Comet/Hotpoint dispute later in this section. In the above context, it should be recorded that Hotpoint led the UK manufacturers in establishing a strong marketing policy. They had a firm policy as regards the retail price of their products. This they recognised, in turn, fixed their selling price out of the factory. They were prepared to get tough with even the largest retailers in order to maintain their price levels in the market place. They also got the whole of their company thinking in the same manner.

Richard Gibson, commented further as follows: I think the essential thing they [Hotpoint] recognised, which nobody had really actually focused on before, was that there was a vital link between the consumer and the manufacturer, which was fairly obvious but hadn't been addressed properly - and that was the retailer. (Writer's note. Richard Gibson's analysis makes the basic assumption that there is no distributor or wholesaler in between the manufacturer and the retailer i.e. the manufacturer sells direct to the retailer). This was a fundamental principle of the Hotpoint distribution philosophy. Many large appliance manufacturers follow this approach today). If you could actually provide a formula that first satisfied all his needs (the retailer's), and followed through the ramifications of that [at the time]. Therefore, if you could provide a scenario where the retailer lost any hassle in the sale and felt supported at all levels as part of a marketing package and actually had the opportunity to earn a reasonable profit, then you actually have a winning formula.

Richard Gibson also stated that "I think price will always be the lead criterion - and you ignore it at your peril. I come back to a simple statement that if you haven't got the product right at the right price, then you are struggling".

Whittington (1989) also commented upon Hotpoint's policy for disengagement from discounting. "He [Chiam Schreiber, the Hotpoint managing director] carefully cultivated the small independent retailers, rather than the discount chains, in order to encourage more retail price discipline". This developed subsequently with the introduction of "margin support", a clever means of getting round retail price maintenance restrictions by granting special subsidies to retailers having difficulties in sustaining what Schreiber called the Maximum Retail Price. Writer's note. Whittington used various pseudonyms in referring to the personalities described in his book. However since the writer was employed by GEC at the time, the real names of the players are recorded in this thesis.

It was interesting to record that Nick Lightowler was at Comet in 1980 when Schreiber attempted to pressure Comet, via the courts, to stick to his pricing policy. Lightowler said that the argument was that simply Schreiber wanted to uphold his policy of "orderly marketing" [Writer's note: another way of saying, price fixing] and Comet didn't want to do it. They [Comet] sold at 5% below the lowest "going price" in the market and changed their prices from week to week in national advertising. The Hotpoint product was the brand leader and Comet had to have it on their shelves. Hotpoint sold to Comet at higher prices than other retailers in order to prevent Comet selling at prices which were lower than other retailers i.e. if Comet cut their prices - their margin would be eroded, which often prevented price cutting. The court cases were always withdrawn before the hearings.

Hotpoint's success and their profits growth have already been referred to in section 1 of this thesis. Similarly Baden-Fuller and Stopford (1988 and 1991) commented on the almost unique high profitability of Hotpoint in a market that was, in general, performing badly.

It has already been stated in Section 1 that successive governments failed to produce any consistent legislation that brought about a stable and supportive industrial environment for the UK Domestic Electrical Appliance Industry. This view, it is suggested, was supported by the interviewees.

Pricing, thus is and was very competitive and continues to be the key tool used by all the players in the DEAI.

### *(c) Industry Competition (Rivalry)*

Although the analysis in paragraph 5.1. (Table 12) would indicate that the intercompany rivalry had decreased over the period under review, it is suggested that much of the research would indicate that the level of rivalry has remained high. All the manufacturers in the DEAI have and still compete strongly for space on the retailer's shelves or in their catalogues.

It was shown in Section 1, Table 4 that import penetration increased throughout the late sixties, seventies and eighties until in 1985 it had reached 46%. These increasing import volumes developed over a period where the total home market was not large enough to sustain the home based manufacturing capacity.

Richard Gibson supported the above view on import penetration as follows: I think it's [ import penetration] due to a combination of things. I think in the first place manufacturers were in a state of disarray.... Secondly, [they were in this state] because of the short-term view that manufacturers have been forced to take about long term investment, they were not generating enough new product ideas to prevent easy import penetration. You know it was fairly easy if you had a brand new (innovative) product to get into the UK market.

Richard Gibson went on to point out that Zanussi had been successful for three reasons: Firstly, they had an excellent product range. Secondly, when they came to the market both Hotpoint and Hoover were weak and the market was ready for another brand - so the opportunity was there. Thirdly, Zanussi came up with a very clever advertising campaign "The Appliance of Science" which nobody had done before. The advertising up to that time had centered on "I've got a product it's gonna sell for £200 and it's the best one around because I say so".

Nick Lightowler's deputy, Malcolm Derry commenting on import penetration commented that: "[In the sixties and seventies] the UK manufacturer's workforces were enormous. Their technology was very, very poor. Cost of manufacture was very, very high. They had enormous sales forces..... All of which was a tremendous cost which the importers didn't necessarily have.

Jack Aland commented that, as far as the Italians are concerned they relied on price. I don't understand how the Italian government have subsidised these prices. He went on to comment that Miele and Neff were high quality products which were purchased by a very high socio-economic group who want to appear to be different.

Nick Lightowler commented that brand names were always important regarding the issue of rivalry as he stated that "I believe that if there is a price differential of between 10 - 20% then that's when you start to lose loyalty to a brand name".

Much of the work in Section 1, together with the subsequent research indicated that the UK based manufacturers came under extreme competitive pressure from the importers who built up brand awareness as a result of their competitively priced, quality and well designed products. Before the mid-seventies few people, it is suggested, had ever heard of: Bosch, Miele, AEG, Neff, Zanussi, indesit, Rowenta, Tefal. It is worth recording that Hotpoint, did decide, in the late seventies, to attack the importers and gained unique success by subsequently achieving market leadership in washing machines. Richard Whittington (1989), as has already been described, recorded the results of his research into what happened within Hotpoint during that period. Whittington ascribes Hotpoint's success to Chaim Schreiber's domination of the business. The writer actually worked for Schreiber during this period and concurs with Whittington's comments. "The company's strategy over these years, and particularly during the recession, cannot be understood without appreciating Schreiber's autocratic, entrepreneurial style, the highly personal relationships he enjoyed with his hand-picked management team, and the keen patriotic enthusiasm Schreiber inspired for manufacturing investment and the capture of home market share".

Whittington reported that Schreiber's managers stated that the competition was not the two leading British companies - Hoover and Tricity ..... It was the Italians.

Schreiber and Hotpoint's declared policy was to push back imports.

#### *(d) Distribution - Power of Retailers - The Buyers.*

The ease with which wide ranging retail distribution in the UK can be achieved has already been commented upon. Richard Gibson reaffirmed this view when he commented that "its fairly easy to get into the market place [domestic electrical appliances] if you've got a reasonable product offer.

Unlike many of the other countries in the EEC where distribution chains are very fragmented and [they have] lots of little retailers, here you've got .....three retailers [BSW note: Currys/Dixons, Comet, Rumbelows - at the time) that control 25-30% of the market. You add the Electricity Boards and you are getting very close to 50% of most markets". Jack Aland agreed with this view. " Aren't we the total opposite of France? You have 80% of your business going through 20% of your outlets. It's totally different to the continent..... We talked about the strength of the retailers but the retailers, like Dixons, Currys and Comet would not have gained that strength unless the manufacturers had condoned it.... they were as greedy as the retailers. Nick Lightowler basically also agreed since his view was that one could get national distribution by "just dealing with two or three key national retailers".

Thus two or three retail buyers could control the industry. It is the writer's view that this narrow band of buyers and their associated companies used their buying power to effectively control the profitability of the industry by fixing retail prices, not by collusion, but by ensuring that they were "never knowingly undersold".- to quote the John Lewis Partnership. Derek Smith also took the view that "retailing is in the hands of very few multiples".

The effect of the actions of these few buyers was to drive retail prices down or at best not accept price increases year on year. Thus in the face of lower cost imports and escalating prices at home the UK manufacturers margins were, with one or two notable exceptions, squeezed. The consumers certainly got a good deal, but was this in the best interests of the country.

It has already been shown that imports increased - see Table 4 - which was aggravated by the propensity of the UK manufacturers, at least initially, not to allow the products to be sold under retailers brands, only added to the growth of imports as retailers chose overseas suppliers in preference to their UK counterparts. (Reference Jim Collis).

## **5.5 Summary of Results**

The key consideration to arise from the results raises the question of overall Government policy over the period of thirty years. The Chairman of the industry sub-group of the NEDC quoted in paragraph 2.5 stated, in 1989, that no government, in his view, had taken any interest in the industry for over 20 years. Thus the industry was left to "market forces" and the imports flooded into the country. This was particularly exacerbated by the removal of retail price maintenance.

The availability of these imported products encouraged the retail store buyers to use their buying power to full advantage in squeezing down their buying prices, which the imported brands were better equipped to meet. A number of the interviewees agreed with this view together with the results shown and discussed in relation to Table 12 on page 74. The effect on the manufacturing industry was to lower profit margins - which aggravated by increasing imports.

The results shown in Table 12 support the view that retailer buying power had greatly increased over the period.

The other key issue was the growing sensitivity of the high street consumer to price. This sensitivity grew and became one of the main considerations in the selection of product by the retailer's buyers.



## **6. Management, Strategy and Culture within the DEAI.**

### **6.1. Introduction**

The analysis of management and culture within a particular business has in the past been well documented.

For example, in analysing the management philosophy of various businesses Johnson (1992) explained the development of Business Strategy in organisations by referring to two perspectives: Incremental and Cultural. He pointed out that organisations go through long periods when strategies develop incrementally, that is decisions build on one another, so that past decisions mould future strategy. In the writers view perceptive managers are well aware that today's decisions, more often than not, can have strategic influence on the business well into the future.

On the other hand, Management Strategy has long been associated with what are seen by many as theoretical analyses, carried out in isolation from the "real world". Johnson (1987) makes the point that such frameworks have been based on what writers say managers should do rather than observations about how strategies actually come about. He argued that within an organisation, managers more often than not, have a set of core beliefs, methods of working, relationships with others relevant to the business in which they work. In analysing these beliefs or "company view", Johnson suggested that a core set of assumptions exists throughout an organisation, these assumptions being held almost universally by most people. This "company view" has been variously known as a "culture", "mind set", a "recipe" Grinyer and Spender (1979); and a "paradigm" Johnson (1987). This paradigm represents an unconscious set of beliefs within an organisation which are "taken for granted" in the day to day operation of an enterprise.

The Paradigm depicted by the "Cultural Web" of an organisation Johnson (1988) and (1992), can act as "filter" such that executive policies that managers have to carry out, get modified and sometimes cause an opposite effect to that originally intended. For example, difficult executive instructions, often take cover in the tradition of poorly run businesses by exhibiting weakness in "fudging" issues.

Such a "Cultural Web", in the writer's view, existed in his current company where it became apparent that difficult executive decisions were not getting beyond the second line of management within the organisation. The organisation had five layers of management between the chief executive and the factory floor. The result was that the lower echelons of management did not 'own' these executive decisions and often the pace of implementing changes became retarded. This paradigm has been changed.

In the general sense, the outcome of such an organisational fault is often more indecision and organisational chaos.

Other examples can be cited of management teams who are so arrogant that they automatically discount hostile competitor activities or changes in buyer behaviour as aberrations, and continue blithely their management policies as before to the detriment of this business. In performing the above analysis of an individual business it is assumed that it has a well understood frame work of operation, its periphery is understood and its internal structure is relatively homogeneous.

## **6.2 *Application to the DEAI***

It is suggested by the writer that the above cultural considerations within an industrial organisation can be extended to an industry, like the DEAI. In the sixties, the DEAI had clearly defined products that, in the main, were distributed and retailed within a defined set of retailers. The leading manufacturers were well defined and operate to a common set of beliefs and rules.

Over the period between the sixties and the eighties this 'method of working' or paradigm was disturbed by the influx of imports. It was considered (that a meaningful understanding of the change in the DEAI industrial paradigm could be achieved by distilling out the results of the interviews with the industry leaders against the criteria shown below, as they were viewed in the sixties and the nineties.

### 6.3. The Change in the DEAI Paradigm

The 1960's	The 1990's	Comments by Interviewees.
Our market is essentially British	We have an International Market.	Jim Collis - Indesit, Zanussi; "all of a sudden they were able to come in". Nick Lightowler, "The Italians were very price competitive". Malcolm Derry, "The Italians bought a certain amount of design ....it livened up the market".
Foreign Brands will never be accepted here.	What is a Foreign Brand?	Malcolm Derry, "[The British Manufacturers] adopted the ostrich technique and hoped it would work. They said our product is much higher quality". Nick Lightowler, "Brand names are always important....if there's a price differential of 10-20%....you start to loose brand loyalty".
Our technical standards are superior to those required abroad.	Technical Standards are universal.	Nick Lightowler, "Those importers who wanted to be serious about it, could easily pick up on these specifications".
We are the only ones who know what our market wants.	Importers sometimes know best what our market wants.	Richard Gibson, "Zanussi had an excellent product range".
Our market is very orderly.	We believe we have learnt how to manage a chaotic market.	Richard Gibson, "I think that they (Hotpoint) recognised.. that there was a vital link between manufacturer and retailer that hadn't been addressed properly".
Our manufactured quality and design is better than that of our foreign competitors.	The consumers demand top quality from all brands.	Derek Smith, "The most significant change [over the last thirty years] has been the improved reliability of products".

The difference in attitude over the thirty year period is clear. From an industry which was extremely introspective and relatively stable, the DEAI has developed into a much more broadly based group of companies more aware of world-wide issues and better capable of coping with the strongly competitive and turbulent nature of the UK DEAI.

## 6.4. Changes in Organisation/Distribution

The 1960's	The 1990's	Comments by Interviewees.
We know all the key buyers - the foreigners don't have a chance. The retailers have always accepted the manufacturer's prices and adjusted their retail prices accordingly.	There are only 6 to 8 key buyers. All companies have access to them. They account for 70% of the market. RPM was removed 30 years ago - retailers will not be dictated to by manufacturers. Anyway it's against the law.	Richard Gibson, "Unlike many of the other countries in the EEC... here you've got a situation where today three retailers control 25-30% of the market. You add electricity boards.....and you are getting close to 50%...". Nick Lightowler agreed with this view and added that in Germany this [ease of distribution] doesn't exist". Derek Smith, " Distribution has changed from being in the hands of individuals, very small companies, to being in the hands of a very few multiples. All the indications are that ...they used their extreme power".
Chain/Department Stores 20%	70%	Richard Gibson, " What we've seen in the late eighties is a move from small, medium and large; to small and large."
Direct Retailer/Wholesaler 50%	20%	
Others (inc. Mail Order) 30%	10%	

(Based on estimates from within the DEAI)

The consolidation of the retail sector has narrowed down the number of substantial customers available to the manufacturing industry. Retail Buyer strength is paramount. The demise of the small local shops and mail order is evident. The UK members of the DEAI have adjusted to the narrowness and more highly competitive nature of the DEAI.

## 6.5. Changes in Rituals and Routines

In the 60's we knew everyone who was anyone in the market. We had been doing business with, for example, Currys, Comet etc. for years. In the 90's we realise we have lost market share to the foreigners.

## **6.6. Stories**

In the 60's almost incestuous buyer/salesmen relationships.

Do you remember when "Fred" got drunk at the Hoover party in Harrogate?

In the 90's the traditional wining and dining has slowly disappeared. People move from job to job more often. There are few stories. The better trained and focused sales forces have adapted to the competitive challenge from overseas companies.

## **6.7. Symbols**

We always get a visit from the MD of Hotpoint at the exhibition. The Chairman of London Electricity Board was our guest at our hospitality suite at Wimbledon. Our MD is a member of the AMDEA board.

Attendance at exhibitions is now limited to one bi-annual exhibition held in Cologne. Companies are highly professional and there is little incestuous repeat of visits in "previous years". Symbols are less important. Performance is paramount.

## **6.8. Summary**

Looked at from a UK manufacturers' standpoint much of the 60's culture was typical of the pre-conception that appeared to matter up to about 1979. For example, Jim Collis in January 1991 stated that "People say that there's no European Tumble Dryer market". It's a peculiar British market - but Croslee sold hundreds of thousands of Tumble Dryers in Germany and other parts of Northern Europe. It actually forced the German manufacturers to think about making Tumble Dryers. Jim Collis stated clearly that the fact was that there was no fundamental technical constraint on continental manufacturers importing their products in the UK. In the UK the British Government only insisted that products were safe. Passing BEAB in terms of performance approval was not mandatory. Today all technical barriers have been demolished through the CENELEC certification agreement.

Jim Collis also implied that in the late 60's and 70's many UK manufacturers failed to detect the rapid changes that were happening in the retail sector. Comet, for example, was a fairly new concept for the UK - a warehouse operation on the outskirts of town and on a trading estate, with no real display of product. In order for them to succeed, initially, it was important for them to be able to sell branded products and put these well-known brands in their newspaper advertisements, because a person was not necessarily going to drive out to a warehouse to buy a product with a brand he had never heard of.

A lot of UK manufacturers have never really liked supplying Comet, anyway, because it was a hassle to have them selling at lower prices than other people - so they (the UK manufacturers) began to cut them off. So in order to survive Comet had to go around and look for imported products. This let the importers in the door.

Dixons approached the market similarly - although at the time they promoted their own brand names like Carlton and, in brown goods, Matsui. The UK manufacturers because of their reticence in supplying Dixons - forced them to look elsewhere for merchandise.

However it is clear from section 2 that at the same time foreign brands were gaining foothold with names like Zanussi, Bosch, AEG, Miele, Rowenta, Tefal etc. Their products were of superior design and met all the necessary technical and safety standards. Whereas the retail stores in the early 70s were served largely by wholesalers, by the late 70s/early 80s, the strength and size of the large retail chains like Currys, Comet, Rumbelows etc., had grown such that the wholesaling function became redundant as these retailers purchased product, in bulk, direct from the manufacturer - wherever he was located home or abroad. In this manner the wholesalers margin was taken by the retailers. In a very short time the retail market was dominated by five or six buyers.

By adopting a system known as "price pointing" (see Section 2.4), the large retailers were able to maximise their margins at the expense, more often than not, of the UK manufacturers.

Thus it was conceivable that the industry in the sixties had talked itself into the mindset that the DEAI was impregnable to these new importers. This impregnability was clearly not the case as has been demonstrated in this thesis and has been illustrated by the views and comments contained in paragraphs 6.3 and 6.4.

The work also supports the views by Grinyer and Spender, Johnson and others, that an industry can exhibit a culture, industry view or mind set that is self generated. This work shows that it can be against the long term interests of that industry by believing the industry "story" or "word on the street" is "gospel" and incorrectly following the resulting conclusion - like, for example, ignoring the threat of the build up in imports together with their increased penetration onto the shelves of the high street retailers.

## **7. Conclusions**

It is indeed a welcome stage to, at last, be writing the conclusions to this work. The thesis has taken over five years to complete and to quote Pettigrew (1990), "there is a time to stop investigating and start writing", and the writer believed such a time had come.

This work has been about the UK Domestic Electrical Appliance Industry and its almost continuous decline in prosperity and size, from the mid sixties to the present day.

In the Introduction reference was made to the genesis of this thesis, which came from a concern about the degeneration of the industry in the last thirty years which was crystallized out in the question, "Why had so many continental European companies successfully established themselves in the UK and beaten the indigenous brand leaders like Hotpoint, English Electric, Morphy Richards and many others at their own game"? The answer proved to be multifaceted.

It became clear, as the work proceeded, that Porter's (1980) views on competitive strategy proved immensely helpful and were somewhat prophetic as regards the DEAI, in their conclusions "that in a highly competitive industry nobody makes profits". Additionally the Porter "five force" framework of a typical industry proved to be the cornerstone of the analysis. The tabulated method of "scoring" the Porter Forces introduced in this thesis, enabled a study to be made over a time period facilitating a review of the shifts in the different forces to be carried out thereby creating a method of highlighting the growth in import penetration over the thirty year period. This increase in import penetration was subsequently substantiated in the field of work.



Thus the results of the analysis revealed or confirmed:

- The Porter framework was helpful aide in the understanding of an industry over a thirty year period.
- The Porter framework analysis created a basis for studying the shift in the different forces.
- Porter's thesis that in a highly competitive industry, no business prospers unless it takes a particularly offensive stance backed by significant investment, as with the example of Hotpoint.
- A large shift in the dynamics of the DEAI had taken place over the thirty year period.

The key issues were:

1. Consumers had become more discerning and demanding of high quality products, excellent service both before and after sale and had become extremely price conscious. The balmy days of the sixties had gone, where retail prices were controlled and manufacturers always made a margin because it was decreed as such. The UK manufacturers did not fare well in the new circumstances.
2. The consumer's change in attitudes in the standards of performance of both the products, retailers and service created a demand that the UK manufacturers could not satisfy. This allowed the foreign European companies into the UK because they had the products and services that they had honed to a fine sharpness after more that ten years as part of the EEC's highly competitive European market. The British manufacturers and their products, coupled with the British public's almost non-patriotic approach to buying electrical appliances, proved to be easy prey for these expert European predators. Thus the UK manufacturers lost market share and import penetration reached almost 40% overall by the beginning of the 80's, whilst at the same time the key washing machine market reached over 80% import penetration.

3. The consolidation of the UK distribution network into between five and ten large retail and mail order groups, in place of the multitude of wholesalers and small retailers was a key factor in the concentration of retailer buying power.

For example, the writer found, in 1980, that Morphy Richards had over eighty small wholesaler and retailer customers and by 1982 the company had only five customers in this category. Projected industry wide, it is not difficult to see that actions like this destroyed the electrical wholesaling business, there was now no role for them to play. There should have, as a result, been more margin to share between the manufacturers and retailers but the retailers were in the ascendancy from the standpoint of their influence on their suppliers.

The change in distribution put enormous buying power into the hands of a few retail buyers - who used their skills adeptly in selecting the best products at the keenest prices, which often came from overseas - but in so doing, hastened the demise of the UK manufacturing base. The outstanding example of a company who "bucked" this trend was Hotpoint. They used a combination of improved products, better service and a distribution policy of supporting the remaining independent trade sector, whilst not succumbing to the price pressure from the large multiple retailers.

4. UK Governments did nothing to assist the beleaguered DEAI, unlike, in particular, the Italian and French governments, who assisted their own industries. The stop - go policies of the seventies, by successive UK governments, also hastened the demise of the DEAI since it was impossible to plan product development and manufacturing programmes in that industrial environment. The one major exception was Hotpoint, who were led by an exceptionally gifted businessman, who took business risks that others would not attempt.

5. The industry itself seemed to possess an in-built blinkered "mind-set" or "recipe" which prevented the management of the time from "reading" what was really taking place and thereby taking the necessary early corrective action to combat the import penetration along with the changing distribution power balance.

As a postscript, recent discussions (1995) with senior management at Hotpoint revealed that the emphasis in retailing and distribution within the DEAI has changed again.

In the past five years the newly privatised Electricity Boards have become much more commercial and less hidebound by the "in depth" bureaucracy they exhibited before privatisation. As Regional Electricity Companies (REC's) they have become one of the leading forces in the retailing sector at 8% market share, second only to the previously outstandingly dominant multiples like Comet and Currys - (12% market share). The department stores and independents had lost ground whilst the remaining largely privately owned small retailers had changed little as regards market share.

The major shift by the multiples to out of town sites had created considerably more retailing space and now there was an over capacity in this part of the retailing sector.

Competition amongst the retailers had increased and they have had to find a way of paying for their under-utilised space and associated overheads. One way out, to date, has been to sell service or maintenance insurance. This has become big business and is now the subject of an Office of Fair Trading investigation. According to the Hotpoint people, retailers are currently happier to sell a £400 package of a Washing Machine (£300) on which they possibly break-even, together with service insurance (£100) on which they make margins in excess of 80%.

As an additional illustration of this adverse retail profitability trend, it was announced in the Sunday Times on 5th February 1995, that Thorn-EMI had decided to close its Rumbelow's electrical retailing chain.

Additionally in the Sunday Times of 12th February 1995, Ardyn Bernoth commented, in an article entitled "Electrical Retailers blow a fuse" that a few companies, in the electrical retail sector are making money.

This is a complete change from the 1970's and 1980's.

There is clearly a need for more research - probably involving:

1. Exploration of the Porter Framework in more detail in both manufacturing and retailing.
2. An investigation in a different industry would reveal whether the analysis would work in differing industrial circumstances.
3. An up-to-date re-examination of the retailing structure in the DEAI.
4. A hypothesis could also be prepared, based on a knowledge of other consumer facing sectors, in order to determine whether the concentration of retailer power acts in the best interests of the consumer in retail sectors such as Banking, Food, Clothing and Telecommunications - particularly in view of the over-riding power of BT in the UK.

In conclusion this study of the DEAI has attempted to try to stop the dynamics of the industry at various points in time and draw conclusions from the facts apparent at these discrete points in time.

It is believed that the objective has been achieved and the lessons learnt should serve as a warning to other industries which hopefully might prevent a similar industrial down-hill slide.

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*APPENDIX 1*

**RECORD OF INTERVIEWS**



**BSW**

Just for a point of view of the university, Derek, you have been in this sort of business for years, haven't you?

**DS**

Yes, seven years now. Editor for five years.

**BSW**

But originally from industry, of course.

**DS**

Yes, before this I worked in journalism for twenty years, essentially always in business to business trade. Prior to that I was in the motor industry as a design engineer - I trained as a design engineer in the motor industry at what was the Pressed Steel company in Oxford now part of, I suppose, Rover. I spent the first part of my working life as a working engineer. Really, design was what I did most of but not so much general design as tool design and production engineering (latterly). I don't know again from the motor industry point of view, as I am you must know, motor cars actually haven't improved much over the last 50 years. They are not much different from what they were. What has actually transformed the industry is the fact that production methods have changed dramatically over that time - and that's where the money has been made. It's been actually turning bits of metal into motor cars a lot more cheaply and efficiently.

**BSW**

All industries have their difficulties and problems, don't they? What we are looking at here, initially, is an industry that has developed over 30 years and all sorts of things happened. When you came into the industry you must have seen all sorts of things to do with design, quality and production. Have you seen any changes in this industry in your period here?

**DS**

Yes, I think so. I would say the most significant change of all has been the improved reliability of the products. You know if you talk to the average consumer, especially housewives, you would probably laugh at that but in a sort of macro sense if you look across all products they have become very, very much more reliable and the instance of products breaking down is much less than it was. You have to couple that with the fact that they have become much more complex in that time so, inherently, they should be breaking down more if they weren't more reliable. I think that supports the argument - but that would be the single biggest advantage.

**BSW**

In terms of the industry as compared with Continental industries, or foreign industries in general, but more particularly European, what is your view as our industry's approach to design. You mentioned reliability, marketing and so on, are we competing do you think?

**DS**

It's a difficult question, because my immediate reaction is to say no we are not. I don't think we compete as well as some other countries. Are you speaking of the UK as opposed to the rest of the world?

**BSW**

England versus Europe and really the rest of the world. I mean our import penetration has increased from about 5% in the sixties to something over 50% now. Why is that?

**DS**

I think a lot of that has to do with developments in the EC and also to do with the fact that we now have foreign companies operating in the UK. For instance, I think most of the Japanese brown goods companies are exporters in a very big way. They intentionally are - they didn't set up in the UK to build for the UK, they were set up in the UK to build for Europe. But in the meantime, because of the changing market forces in the world, and in particular in the United States which I am sure you are aware of, they have discovered that there is an export market and I think they are exporting from Europe, from the UK base in Europe, across the world. In fact, I know they are - they are actually exporting back to Japan in some cases.

**BSW**

This is in brown goods or?

DS

Essentially in brown goods in this case because they are not heavily involved with white goods. On the other hand they are developing here in that field. The reason I hesitated on the marketing question is that, and this is a hobby horse of mine, I think we are criticised as a country (and Europe too), for not being good at marketing and I don't think that criticism is wholly valid. I am inclined to think that one of the reasons for the demise, if you like, of our industry in this country and to a certain extent a bit in Europe, we tend to be very parochial about this say Britain is going in the pan and Europe is great. What we actually see is that Britain isn't so good when we compared with West Germany. If you start comparing it with France and some other countries it isn't quite so bad. But I think at the root of this problem is the city's attitude. I think the city for whatever reason takes a very short-term view of finance. And because of that we are continually, but you know more about this in the years that you have been managing director of a number of companies, you are having to continually make short-term profits in order to appreciate all this, when in fact probably logically you ought to be doing things over a longer period. I think if we look across at Japan in particular and Germany to a certain extent, too, you will find that their financing is geared in such a way that they can take a much longer term view - the Japanese, the Koreans too, the Eastern nations as opposed to the Western world. Certainly, even more than the Germans. The Germans take a slightly longer-term view than we do. So everything I say in terms of, if you like, production marketing and design is coloured to a certain extent by my feelings that I don't think we start from the same base as they do. Given an equal position to start with Germany and Japan and the rest of the Far East I don't think we are so bad. My experience in dealing with Japan in particular is that they have certain attributes which are very laudable. They link nicely with this idea of taking a long-term view of financing in that they also take a very long-term view of results. They are prepared to labour longer and harder than we are before they actually see the fruits of their labour.



I think we tend to be very short-term programmed and this may be something that's come from the States - it is my impression it has. We tend to take this sort of short-term view, we want results quickly, we want profits quickly. Everything has to happen overnight. I mean, 2/3 year plans are fairly common, 5 year possibly. But Japanese plan 20 years ahead and the Germans plan considerably longer than we do.

Given all that, you have to say we start at a disadvantage in our marketing. But when you look at what we have done given that disadvantage I think we market better than the Japanese do. My experience with the Japanese is that they tend to take advantage of this long-term view in holding back on a market until it is established, and then usually from a position of some strength they will step in and clean up.

A good example of a current is the receivers to the Japanese. What has happened in fact is opening of the market for satellite TV

Now they have been standing on the sideline now for 2/3 years. I have been to Japan and been heavily quizzed by them about what is going to happen in the UK, which way are you going to go, what's going to happen to technology, who is going to win out of BSB and SKY and they have deliberately not pursued the BSB technology which is the most advanced technology. They have deliberately come back. They will now, and you will see this happening in the next few months, go into marketing their satellite receivers in a very big way because they actually have the technology due to sale from the SKY system. They also have a very good product and they have the ability to market it. They have a good brand name as most of the big Japanese manufacturers. So all of that will give that a great big push I think over the next six months. And you could very well find that whereas at the moment the leading brand in satellite TV receivers for the SKY systems is Amstrad. After that it's certainly not Japanese. It's probably European like Grundig. I am willing to bet money by the end of this year one, two, three will be Japanese. Amstrad may come in I am not sure, but certainly the Japanese will be top. Now that is typical of their marketing in that they will stand back from the market, they will let the Europeans, and I am talking the European markets now, fight it out, they will let the Europeans spend all the money on developing different ideas, following different technologies, usually arguing with one another. When the battle is fought and won and it is clear which way the market is going to go, they will then step in, and they have got very powerful resources because of this long-term borrowing and long-term strategy. They have very powerful resources that they just clean up. They've done it on everything. Not just our business. They've done it in motorbikes, motorcars, you name it - heavy industry, things like building equipment, waste moving equipment, they are market leaders in all those areas and their strategy has been exactly the same in every case.

And to compete with that you have to take an equally long-term strategy. Now, I suppose eventually what you'd have is everybody standing back waiting for the other one to go forward. I don't know, it's never happened, because we have always been the ones, Europeans - not just UK, who'd develop the market.

**BSW**

You are making a very fundamental criticism of the industrial system, but operating within that if you look at the white goods industry in this country over the past 20/30 years - and I don't want to put words in your mouth - you may disagree with me - only a few companies have actually made money, even given the system, now why have they managed to do that.

**DS**

Difficult actually to say. I think there are examples where some of the have made money for different reasons. My impression is that the ones who are successful at the moment have done it in two ways.

I have to go back to this question of reliability because I am convinced that part of the problem with both sides or all sides of the industry has been reliability. If you like it was the sort of hole in the dike that let other people into our market. There was a time when British industry, and I think this goes back to the end of the war and when people said right we got to have product at all costs. There is a market that is totally starved of any consumer goods. They will buy anything. We've just got to make it. I can only rely on my experience in the motor industry, and I know that out there motorcars were being built that, frankly, I don't think some of them would have passed the MOT now. They were terrible and they were built and were sold because the public would buy anything, they were desperate.

That I believe engendered an attitude in companies which said, "Well, you know, OK quality is important but not more important than production." If you really came to a crunch where you had to sort of shade your standards a bit, I'm not talking producing something that absolute rubbish but shade your standards a bit, as opposed to stick to the standards and produce production, maybe stop the production line. Then the tendency was that the production line went on and the standards were shaded. This undermined all authority of quality control inspection and gradually production was the aim whatever happened.

It goes even deeper because a lot of our problems with the Trade Unions in this country, certainly in the motoring industry and I would suggest in our industry, in white goods industry, going back some years, stem from the fact that whatever you did you did not stop production and even if you had to go to the managing director in the end the chances are that his decision was going to come down on the side of producing.

**BSW**

To be more specific, Derek, you take Hotpoint - don't you think that is a success story in the white goods industry or maybe you don't?

**DS**

Yes, I do, but I think it's short-term. Then again I was looking a bit longer term. Yes, I think Hotpoint is a success but quite short-term. I am talking in five years or maybe ten at the most. Previously I was talking about gearing up industries to succeed - perhaps really what I should say was instilling an ethic into an industry or into the country which is what we are competing with in Germany and Japan, the Far East, as opposed to producing a product and making a company success again which I see is the short-term.

But yes, looking at the shorter term I think Hotpoint is a success story. I think it is a success story for two reasons. One, again I believed they produced a product that was reliable and secondly, they pursued a policy of marketing which by and large meant that they didn't devalue the product from a price point of view. Again, sorry to have to keep lapsing into philosophy, I think this is what it comes down to in the end. What people don't always appreciate is if you sell your product on price you will eventually devalue your brand. Now, you know, your guess is as good as mine, how much it costs to establish a brand like Hotpoint or Hoover, Yale and Valor, but it's millions and millions of pounds and it also takes a long time. Even with all the money in the world you can't do it overnight. It takes some years and it takes a lot of money. There is a balance between time and money, that you can shorten the time by increasing the money, but there is a limit. Now, if you have established a name for a good reliable product in a segment of the market at a certain price point you then start shading that price point you will eventually inevitably devalue your brand name because consumers are not idiots, much as they like to get a bargain, at the end of the day deep down they always believe a bargain is cheaper for some reason. They don't really believe there is a free lunch, so eventually physiologically they start to get the idea, well if they are selling this thing cheap there has got to be a good reason and that reason has got to be because it isn't really worth what they were asking for it before. You start on this physiological path of undermining the brand.

Now, I think Hotpoint to a very large degree got over that, Schreiber was obviously the architect, so I understand anyway. Basically, he said we will do two things. We will produce a product that is of good quality consistent with the market needs that we are looking for. Secondly, we will maintain the price of this product as much as we can in order (a) to benefit his own company in terms of its return and (b) its distribution base he also wanted to look after. But also I think, a more fundamental issue, to make sure that the consumer continues to view Hotpoint and the brand Hotpoint as being of value within the market that they pitched in. Hence, I think, between you and me (I don't mind you recording this but try not to let anyone from Hotpoint hear it), I don't believe that Hotpoint at the moment is really that much better than anybody else frankly. I do think that they are trading very much on the rock that Schreiber built.

**BSW**

It's a very interesting point that you are making. Of course, I was in at the beginning of all that when Schreiber was there, and I can confirm what you say is true. What I've been trying to do actually is to look for opinions. Do you think anybody else has done it to any extent in the same way as Hotpoint has been successful?

**DS**

In a way I think Zanussi has done it.

**BSW**

What, since Richard Gibson has been there?

**DS**

No. Before Gibson. If I had to put it down to anyone I suppose it would be his predecessor. I believe he was the architect of the "Appliance of Science". I believe that what they did was to take a brand that was virtually unknown in the UK and built it through advertising in marketing into a particular product with a certain charisma which captured the mood of the time within a certain market segment. And while they did it I believe they also built quality into the product. I wouldn't like to argue about the relative merits of Zanussi and Hotpoint in terms of quality but my perception is that there isn't anything much to choose between them in terms of quality and reliability of the product. The difference I would say is that Zanussi has a certain style of panache basically, which Hotpoint doesn't have. If you were asking me now to invest my money in one or other of the brands it would be Zanussi. The reason for that is very simple. I believe that Hotpoint, as successful as they have been, have actually got very short-term possibilities and their limitations are in that they are essentially a national brand.

In order to turn them into a European brand, which is what they need to do to survive as a large company long term, I think it's going to take a lot of money and marketing expertise, a lot of selling. Zanussi to me is truly European brand. I don't know how European it is in term of its sales but I wouldn't think it would be too difficult to turn it into a brand that would sell across Europe because I think its got the style, its got the panache whatever. The sizzle is there with the sausage which is truly a European sizzle whereas I think the sizzle on Hotpoint is very British.

A brand I think could emulate very easily and may do if it were taken in hand is Hoover. I believe Hoover is very, very sound.... There are times when I wish I could get hold of Hoover myself because I am their expert but I reckon I could do.... I've got some ideas of what I'd do with it. I reckon I could do a decent job with it. What bothers me is that, and I am not criticising individuals - I hope you will appreciate that - but I think that over the past few years, 4/5 years perhaps maybe more, Hoover has lost its way. It hasn't had any clear direction. I think it also lost quality in the product but my perception is that that's come back now. But it still has no clear strategy, well not one that's come through to me in terms of capturing European market. I know that it is sold in Europe and I am not for a moment saying they are not doing OK. But the difference to me is that I can see Zanussi being sold across Europe on satellite TV or through consumer magazines and I can see that message translatable into any language because it's a sort of simple, there is a message in the product in the name in the Hoover charisma. You don't actually have to say it in words, it's just got a sort of....rather like, if you like, French 'Haute Couture' or Swiss watches. It's got a sort of feel to it.

Hoover I think had that image years ago. I think it's lost it, but I think it could get it back. Creda I don't think could ever get it, frankly - I just don't think its got it there.

**BSW**

Just to get to the point - you are actually implying that brand name is important?

**DS**

Very, but image, too. I think the name is important. The actual name itself is important because I think there are some names you know you are just never going to do anything with them - they don't work. No agency, however clever, can build and sell them. The image is vitally important. First you have got to get an image and make sure you are aiming the right image in the right market. If it's European it must European, it's no good it being America or Far East or whatever. The second is that its got to be in the right market segment, you cannot be all things to all men unless you are going to base on some sort of snobbery and say "I am Harrods". Harrods is all things to all men, because Harrods represents wealth and that's universal. But if you are looking at something like a washing machine or kitchen - you've got to say I'm going for the 50+'s or I'm going to go for the 30-45's or 20-25's or whatever. You've got to clearly define where you are going. You then have to have the right image and the right brand name to catch that market and that's essentially important. You also have to make sure, if you are going to do it that, that is translatable into, if you like, not so much the language of the land that matters but into the ethic (ethos) of the country you are going into. You would not sell a Zanussi washing machine perhaps as easily in Portugal as you would in Spain. I think there is a difference. The whole brand thing to me is vitally important but also incredibly complex.

**BSW**

You've zeroed in on product and on branding. I would just like to know your views on the distribution system here in the UK. How do you see it now? You've had the Kingfisher/Currys/Dixons thing, you've seen the changes in distribution, your magazine sells to..... you are aiming to some extent at the independent. How do you see distribution and what's happened to it?



**DS**

What's happen to it is historical record really. Distribution has changed from being largely in the hands of individuals, very small companies, to a situation where it's now I suppose predominantly in the hands of a very few multiples. I can't see that situation being reversed unless there are some very dramatic changes in the world and I don't see that happening. I have a theory, and it's only a theory, that two things will happen. One is that the actual distribution base, vis a'vis multiples, will get smaller. I think we will end up with two or three large multiples who are, if you like, product specific in as much as they are specific to our industry. I think we will see a broadening of stocking of small appliances. In my opinion (and I wouldn't write this in the magazine) you could write off small appliances now.

Whilst in the short-term you might sell something into the Independents I don't think it is in you interest particularly to do it. In my opinion, it is broadening. It has gone into M & S and has gone into Habitat and will continue to go into those sort of stores. Sainsburys sooner or later have got to start - and they sell pretty well. They will start selling very small domestic appliances, toasters, kettles, irons. I mean, they're becoming commodities. And that is the way I see that going. I think you draw the line somewhere around food mixers. There's got to be a bit more technology into it. It is repairable, it is expensive and at that point it has to be a specialised outlet. But again, there is this sort of cheaper end of that market which I think it will still go through and you will get special sort of cooks in the shops like Boots.

Yes, I think we'll see a sort of shading, some white goods going into some of those markets. Microwave ovens are an obvious area - whether you will call them brown or white goods. That sort of product. I think the large white goods will go to a specialised multiple outlets - they will tend to focus more on those because they will be edge of town stores, they will have lots of room. You need lots of room to stock things. I also believe that more and more you are going to need to stock a number of ranges because people are going to say, I don't just want to go in and see Hotpoint and Hoover, I want to go and see five or six brands - and see what they've got. So I can see the need for space and, almost by definition edge of town because it's too expensive to do it in town - if there was the room. I think brown goods will go slightly the other way. I think it's happening now - I know it's happening now. Even the Dixons and Currys of this world, particularly Dixons, are having to move up market on their brown goods products and have done in the last 12 or 18 months and they are having to continue to go that way. The reason for that is that in order to sell them you are going to need a very high degree of expertise in your sales staff and that again by definition says you are going to have to pay them more. In order to be able to afford them more you will have to sell the product with a higher margin on it. I also believe that in order to sell that sort of product you are not going to sell it in a warehouse you are going to sell it in better surroundings. Again, if you look at the current Dixons stores, the ones that have been revamped, they are very much better than they used to be. So there's going to be a sort of polarisation between white and brown goods. Brown goods are going to be sold in smaller but better stores with better staff because they need more explanation and they are more technically oriented and the only way you will be able to afford to do it is to sell better products with higher margins. Whereas I think white goods will tend to go into two outlets. One will be a sort of top end white goods outlet which will be more of a kitchen specialist and perhaps built-in. The other free standing gear which perhaps won't be quite so sale expensive will be sold in edge- of-town sheds. Decent places, the sort of places that Comet are building now which have got carpet on the floor and are quite well laid out but have got lots of space and, in fact, can show a range of products so people will have more selection.

**BSW**

Given that's the trend and you know you've already emphasised the strength in terms of sales potential of the biggest multiples - and you said the numbers will get smaller - surely the buying power now of those people is increasing and what does that do for the manufacturing industry?

**DS**

I think it's a problem. All the indications I have seen over the last 18 months have been that the days when buyers realise their enormous power, and there is no question about that, and used it to the extreme I think are over. I think they have realised that it's a two edged sword. I think they have realised that, it's all very well screwing the manufacturer down to the last penny so you can get more margin. The problem with that is you end up with a manufacturer who can't give you any support in terms of marketing, hasn't got any money to spend on R & D and in the end cannot produce you a decent product. It may be that this range is very good but the next range is probably going to suffer.

If you are not careful you end up in a situation, as I think Dixon-Currys did and probably Comet to a certain extent, where you are being supplied by manufacturers at rock bottom rates but you've not got the best product. And the consumer being a consumer looks round after a while and says yes, it's all very well going to XYZ if the price is cheaper - but actually the product I want is better than that and I can only get that by going to another shop. You are back to the situation of saying that price is not everything. You can't sell on price forever. And really the buyers who screw people down, again this is just my own feeling, their philosophy also seems to me to be in the past that they buy on price and they sell on price. It's almost as if they are oriented that way. For a start I don't think the products are anything like as price conscious as people have been led to believe - and certainly as buyers have tried to lead manufacturers to believe.

I think that philosophy is dying now and there is a sort of feeling now within the industry, both in the manufacturing and distribution side that one has to fix a level of which it is sensible to produce a product, that there is a sensible margin in it, there is enough money to market it and promote it properly and to put some money back into research to design the next generation. That perception, I think, has got through to the sensible business people on the distribution side who are saying yes, this is true, therefore there is a price of which we have to sell this thing. Yes, there is going to be a trade-off on who makes the most margin or how the margins go and what sort of support you get but I don't think there is any things like the sort of cut throat trading as maybe there was in the early days of Comet - that's my impression anyway.

**BSW**

You think it's changing, do you?

**DS**

I think now it's changing. I think you are getting a buyer now who sees the whole business. He doesn't just focus simply on buying this lot at the cheapest price - is actually seeing a broader perspective of the business and saying, price alone is not what it's all about, there are other things.

**BSW**

Did you in any way look at the conclusions reached by the MMC on Currys, Dixon and Kingfisher deal? Do you have a view on that?

Do you think they were right or should they have let it go ahead?

**DS**

Not necessarily to be honest. They reason I say that - I could see some argument for allowing someone like Comet who, in fact, appeared to have changed their ways to a certain extent and seem to be taking this changed attitude to the whole business of retailing. I could see some argument from putting more power in their hands in a way in that they - they did say they would and they might have very well have been persuaded to raise the high level of pricing standards throughout the industry. Now, there was no indication at the time that Dixons group would do that. In fact, subsequently, and I think because of pressure from shareholders and other forces acting in the market - they have actually done that, they are actually pushing up market.

**BSW**

Prices are going up.

**DS**

They are tending to go up rather than down. They have certainly burned their fingers very badly on retailers' own brands which is what they majored on prior to say 2 to 3 years ago, and I think are actually taking a much more adult view of the whole business. So, in the event what could have happened if Comet had got hold of the Dixon group seemed to have happened anyway. The one thing that seemed to benefit out of it would have been a move upwards in pricing, seems to have happened anyway. So, in the event it doesn't look as though it was so bad what happened. I was by no means convinced that the idea of Comet taking over the Dixon group was all bad. I could see there could be some good things come out of it.

## **BSW**

Looked at from the manufacturers point of view with the enormous buying power and notwithstanding what you've said before - isn't there a risk with that, that they fix a price point for a particular washing machine or whatever, and work back to a buying price? If they are moving up market, fine. But let us say that that group now fix a price for a washing machine, then let us say another group like Asda, for example (no, probably not a good example), one of the other groups anyway price the same washing machine lower, surely Currys, Dixons or if were Comet as well, would want to compete with that, and force the price down to compete and thereby screw the manufacturer? You don't think that is happening so much?

## **DS**

I don't think it is happening so much but I'd also say that in many ways it is the manufacturer who has to put their own house in order because whilst anybody can run and take a loss on a product for a while, I can't believe that any major group is going to do it for very long because they wouldn't be allowed to. Therefore, it suggests that they are actually buying their product at a slightly more advantageous price. If that is the case then who could blame Comet or Dixons or whoever for trying to do it. I would have to say that, in my opinion, a lot of the ills we have in the industry are put at the doors of the retailers and it's not always, I believe, 100 per cent their fault. They can't do it without they get the product to do it with. Somebody is selling them a product a price so that they can do it. OK, you can argue - well, it's either that or. I don't sell them anything. But you know, the logic to that argument is ridiculous because in the end you'd sell any product and any price just to stay in business, which means that you won't stay in business because eventually you won't have any money anyway.

So, I think the manufacturers will have to take responsibility here and say, look, there is a bottom price. In certain ways it happens - because -. Again, I think Hotpoint got into fights with Comet over selling their product and stopped supplying. I think Hitachi did for a while - stopped supplying. There have been instances where manufacturers have actually said, no we will not supply you. Again, this is where you come back to the strength of the brand, if it is a good brand, a very strong brand, eventually even Comet or Dixons cannot go on without that brand. They also, it's not something that is always recognised, need to have you - they need your product. It's no use selling 'Sansui' and 'Matsui' and things like that. Particularly, in today's market, most of the consumers now are not interested in own brands, they are interested in good reliable branding. So, I think the investment in the brand, not only is there to sell the product but also protects you from the worst sort of screwing on price you are likely to get from a buyer in one of the major groups.

**BSW**

Yes, you are making an important point there. Just to move on a bit - you've implied throughout this that manufacturers are selling direct to retailers. By implication it seems you are not considering any distributor in between the wholesaler anymore.

**DS**

No. I suppose it comes down in the end to, if you've got a retailer he's only buying in small quantities and probably the manufacturer says, it's not worth my dealing with this account. Because, certainly in my experience, the accounts that most distributors seem to have, or wholesalers seem to have, are the ones that the manufacturer doesn't want for whatever reason. That may not be the only reason, but one of the reasons would be that they're very small quantities. But you see I think their life is limited - and almost we said it to them in that a few weeks ago when we did our distribution issue. You can now with a computer system actually install one of those in a retailer store and by that computer he can order stock direct from a warehouse which is delivered on a lorry every Wednesday. He doesn't actually need to stock more than one of a product and if he can convince people to buy from a catalogue he doesn't need to stock any at all. But basically he doesn't need to stock product in order to sell it. It can be delivered direct from a central warehouse almost as quickly. And that is pretty acceptable to most customers.

**BSW**

That's an interesting comment on distribution. I wondered whether you had any view of the changing role of the mail order house?



**DS**

Yes, it's interesting because they seem to be growing. I don't have a lot to do with that side of it so I'm not terribly well briefed on it. They seem to be growing and again I can see for some of the reasons I've just said consumers are quite, happy it seems to me, to buy some product either on site or maybe from a catalogue and have them delivered some time later from central warehouse which obviously must be advantageous from a distribution cost point of view. This seems to have grown. There was a time when you wouldn't have bought anything of any consequence from a catalogue - people bought clothes I think - but consumer products not so much. But it seems to be now that people more and more are tending to say, yes, OK, I'll buy that. Again you must temper what I say because I'm by no means an expert on this - but my perception is that the reason for this is twofold, in spite of things I've said before. One is because people tend to buy brands and they trust brands and there is lot more branded products appear in catalogues now than there used to be.

It used to be that if you sold to a catalogue company you would create a secondary or even a third brand that they would sell. Now, more and more the major brand is being featured. I suppose if I had to say, the biggest influence of this would be Argos. Argos have, if you like, legitimised catalogue selling. What is Argos but for a catalogue sales except they happen to have some places where you go to look at the catalogue rather than just have it sent through the post. But it's no different really from Kays or Great Universal. Alright, you collect the products there and then, you don't have to have it delivered. In lots of cases if they thing is fairly big you may have it delivered to you home anyway. Because of Argos and Argos stocking well-known brands I think catalogue products generally moved up market and more and more catalogues stock good known brands. So the first thing is customer confidence. Customers buying from a catalogue say, If I can buy a Hoover or a washing machine from this catalogue, it's a Hoover XYZ so it is the same as the one I've seen in the shop. Obviously there is a lot more consumer protection. If the price is OK they just say, OK, I'll get it delivered just as same as the other one, no problem, let's order it from a catalogue.

The second part of, that is, because products have become much more reliable people are not so worried about service. A while ago they would have said, Well, I wouldn't buy from a catalogue because who is going to service them. Nowadays the chances are you are not going get it serviced at the shop, they are going to say to you, to the manufacturer. I buy it from my local reputable local dealer because I know him and if it goes wrong I take it back to him and he fixes it. The perception now is that I buy it from somewhere because (a) it is not going to go wrong, but if it does go wrong it probably has to go back to some central repair place anyway. So, what's the difference. It is not much of an extension from that to saying, Well I buy it from a catalogue because (a) it probably won't go wrong and if it does we'll let it go back to the same central warehouse. I think there has been a movement there over the years. Both the way products are serviced, their reliability - and this is back to this thing about reliability on brands.

## **BSW**

Just looking forward into the future, do you have any view about the direction that the industry may take in the early 90's? Are you detecting any major changes, other than those we have already discussed?

## **DS**

Yes, I think two things are significant at the moment at the two companies, Whirlpool and Hoover. Whirlpool as I understand it, I didn't go to America to see them but I sent someone out there who came back with a glowing report, is taking very seriously the European market and I think, are about to follow the Japanese initiative of getting themselves into "Fortress Europe" in order to sell from within. This is why they greed this deal with Philips and they will, I think, in another 2 or 3 years get the option to buy out the rest of Philips - I think Philips got 46% at the moment. I think Whirlpool will buy out the rest of it. I think by that time we will see them dropping the name Philips and it will be totally Whirlpool. They will, I think, (and I wouldn't argue with them) they will have established the brand Whirlpool in the market over here as a reliable, middle of the road brand.

So I think we are seeing the Whirlpool company (an American company) do what the Japanese have been and are doing, establishing a base. I suspect that Maytag's move to put a task force into Hoover and put an American in as MD is part of a similar strategy. We all know that Hoover has needed some clear direction for some time now and I think it's had a path but it's not perhaps firm enough. My perception is that it's not as direct and as dynamic as it might be. That could be because of a lack of funds. Don't take this as a criticism of any individuals. I am not 'au fait' enough with what happens behind the scenes of Hoover to know. It could well be that they couldn't do any more given the cash they had at their disposal. I suspect that now with a new task force there will be a much firmer hand on the tiller and presumably if Maytag are going to take this trouble they are obviously going to give him the funds. That is as I understand it according to Maytag's announcements anyway.

Now, I see both those moves as being significant in that the Americans are making a (two American companies) definite play for a share of the UK market. Put that in the context of what's happening with the rest of the companies of the business, at the moment even Electrolux's best friend would have to admit that they are in the doldrums. They probably have too many brands and they don't seem to be going anywhere with any of them with the exception of Zanussi which I've mentioned before. The Electrolux brand itself doesn't seem to be going very far and even the area in which they were predominant, which was cylinder cleaners, they have now lost tremendous ground. Not very long ago, a few months - August/September time - Panasonic actually became market leaders in cylinder cleaners. One couldn't have conceived of that five years ago.

**BSW**

That's in this country?

DS

That's in this country. I think it was only for a couple weeks for something. But it's significant that a Japanese company have only been in the business for five years or so went from nothing to market leader and knocked out a household brand, a house name like Electrolux who are not just the leading brand, they have been synonymous with vacuum cleaners as long as I can remember, my whole life. That's a hell of an achievement. It says something about those companies - not very flattering about Electrolux I'm afraid.

Given the fact that as say Whirlpool's taken over the first white goods business and, I think, we will see Philips drop out of that. That is another European company who is not doing very well anyway. So, we are left with a situation where you have got two major American companies, powerful forces, coming into Europe, and I see them as being there to challenge what they see as the start of Japanese domination in this market.

The Japanese are moving into white goods quite rapidly. You just have to look round and see what's happening. As I have just mentioned Panasonic have been market leaders in vacuum cleaners, they have got some interesting sales in other areas, shavers, that take them into the consumer area away from brown goods, their traditional outlets. Hitachi are now in white goods with washing machines. You know, typical Japanese philosophy, they are not driving these forward with massive ad - campaigns. What they are doing is putting into lots of places particularly into the department stores where they are making significant sales. They are becoming a established accepted brand. Japanese philosophy follows that they will let this go on for a few years and they will start to really push it. I believe that at the moment they are being manufactured here by another company and one or two things will happen. Either they will turn that company into a Japanese company which I suspect is what's happening - which is why they chose it in the first place - or they will pull out and build their own factory or they'd buy somebody else's. Within the next 3 to 5 years Hitachi will be making in the UK and they will be in white goods in big way.

Toshiba have been buying, and you probably know more about their plans than I do, I believe they are also doing the same thing. Panasonic will not be left behind and this move into cleaners is just a start. Interesting point here - some years ago I was talking to Miele. They said they were trying to broaden the acceptance of their products. They were trying to convince people who previously wouldn't have bought Miele products because they immediately thought they are too expensive and can't afford that. But it was worthwhile and the strategy was to develop a Miele vacuum cleaner. The idea being that, you could afford one of those because they were about £107, bit more expensive than the norm but very good value for money, but once you've got one and you've got the Miele ethic and you think this is fantastic machinery, you then look upon the idea of £600 for a washing machine with a little more favour. You know, if this is that much better as a vacuum cleaner for a bit more money, perhaps I should buy a very expensive washing machine because it will be that much better.

Now as I understand it that strategy has worked. Taking that philosophy, in a sense Panasonic are doing the same thing. Panasonic have got a very well established name across the country for brown goods. I see their strategy, and they haven't discussed this with me, but it is self evident, they have now moved into the household appliance end with a product that anybody can afford - a vacuum cleaner. Having established that, and they have done, people will then very readily accept that a Panasonic washing machine will probably be pretty good, too. That is another way of coming out with the same thing. But I am convinced that within the next 5 years it will certainly see the major Japanese companies - Hitachi, Toshiba, Panasonic. I wouldn't see Sony moving there at all; Sanyo, possibly, I don't know. But certainly those three I think we will see as being the major forces in white goods in this country.

I also believe the Koreans - they are already moving here too, and they will move more quickly. I think you will see Goldstar, Samsung - My longer term strategy is that when you have got that established and let's say that's 5 years, there is no reason then why Japanese companies shouldn't do what they do in Japan. They then take over individual dealers and use them as one brand home base. They can't do it at the moment, because who of the dealers that have mixed products can go with any of them. They can't get a full range. But the way will be open to do it. In five years time I think the individual independent retailer will be few and far between.

Panasonic tend to have very, very loyal dealers. They are quite prepared to spend a lot of money filling out your store - Brown Goods - but a lot of their dealers now sell vacuum cleaners.

It's not like selling a washing machine - they don't take up a lot of room - its a fine line - you've got microwave ovens, so a vacuum cleaner is an allied product. It will not be too long, less than five years - three years probably, they will be in major white goods and in five years you may very well see a predominance of independent dealers who will be one brand dealers. Now it may be that they will do a deal - they will say, OK you go with our brand we'll give you better buying terms, more promotion, we will do your shop up and we'll advance some cash. So in effect they buy a proportion. You are still the owner. You will have 51% of the action - but you'll be one brand.

## **BSW**

That's actually very interesting, more than interesting - that really could put the wind up the major brands that are going into the multiples because it is going to be an enormous competition.

Just talking broadly is this an illustration of the susceptibility of British distribution to imports because it is so easy to get in?

## **DS**

Forget the historical reasons why it's happened, and I think that's an interesting discussion on its own. But if you and I were to start up a shop now selling brown and white goods, you know it is our money, we want to minimise minimise the risks. We've got to go for reputable brands. We can't really afford to go for secondary brands, we might run them as well. But we must have a good brand or we're not going to get people into the shop for a start. When you start to look around and say where are we going to go, quite honestly he would be a very brave manager if he went for European brown goods brand, I wouldn't. The chances are you'd go for Hitachi, perhaps Hotpoint if you can get it, if not you would look at one of the others. But if Hitachi said to you, look why don't you do a deal and you sell Hitachi, Bush and Matsushita alongside. I think we're going to say yes.

Now my information, and this is from Hitachi so it's going to be tempered a bit, is that their products are outselling other quite well known brands. If we still had our store going for a year eighteen months and we look and say we are selling more Hitachi than we're selling other brands and we go to Hitachi and they're going to say well if you go with us we'll put a fitted kitchen in for you and give you a bit more support.

It is back to this business. Hitachi are not expecting to get their money back on white goods for 20 years. Hoover want it tomorrow, so does Hotpoint. Quite honestly, Brian, I used to feel sorry for Hoover's managing director when you were, not just for you personally but for everybody - you are all on a hiding to nothing because you have no hope to compete against these people. In your case it was slightly different because your boss was borrowing money from Japan at advantageous rates but he was the only one I know was doing it. Whereas the majority of them have no hope. If you go to the city they'd skin you alive for a start on the interest and they want it back next Thursday.

Manufacturing is largely dead in this country. Who manufactures anything. Most of the product that you buy now in white goods is either manufactured in Italy or Germany. I have just been talking to Hoover about it - even the washing machine is made in Italy. All of their Mayfair built-in range, top end range, is made by Kupersbusch. As a manufacturing base, I believe, in fact, yesterday there was a report that came out that manufacturing base in Britain is reduced to such an extent that they were talking of a real crisis situation - for you know there is a point beyond which it goes and it just cannot go any further and then you become a third world country. They were trying to find out why that's so. I mean, I could tell them why it's happened - it's very simple.

I am talking about a hundred years - I am not talking about the last six weeks. Before we were born - the whole history of investment. The last period in which this country invested in its industry to any significant extent was probably during the early Victorian period. Since then most of the money has been taken out and put into other things. People who have made money out of it have put it elsewhere, they haven't reinvested it.

That I think was coupled with the social attitude to the whole business of manufacturing which down graded it as a career, as a job. The status of engineers in this country has not been high, again since the early Victorian period - as compared with other countries of the world; France, Italy, Germany who have rated engineers very highly. I am using the term engineer in a general sense now, of course, not just in the metal industry but across the whole business including people like designers - engineering designers. There has been no incentive in terms of reward or in terms of status for anyone to pursue that sort of career.



What you have seen in my lifetime is a move in industry for the people running companies to not be from an engineering background but at one time a sales background was quite important. Then it moved on to finance and I don't know what it is at the moment because it is a long time since I've worked in the industry. My guess is it is still financially oriented. But certainly I went through a period when I worked in the industry when we were run by accountants. There were two things wrong with that. One was that, they pursued the short-term returns policy. You have to take into account that they were pushing their own personal careers so once they got to a point in the company where (a) they had quite a lot of influence and (b) they were trying to get to the top, they followed in many ways the same sort of policy as buyers we were talking about. They said, if you were on the board, look I can make this company return profits very quickly - put me in charge and I'll do it, and they did. And the way they did it was to gear the whole thing to short-term returns - let's have a sale at any cost, let's get product turnover. Everything else was secondary to that motive and they engendered all these thoughts in industry where engineers said, look there is no status in it, there is no money in it, there is not long-term future in it because everything has to happen now. So there was no money put into R & D, nobody bothered about that, we'll cut R & D budget because we'll get a bit more of a dividend.

Over the last hundred years this is the sort of pattern we have had. Now that pattern doesn't just follow industry because industry to a large extent (everything is a cycle) dictates what happens outside the industry, it dictates what happens in schools and universities. So consequently you don't train the people. If there is not demand, if the people in educational establishments are looking out and saying, well, what am I going to recommend to these young chaps to do for a career, then they look out and they say being an engineer you are not going to make any money out of that, there is not status, but if you are an accountant or whatever they are going to tend to take that view. You then have a nation that says, right we will train people to do a certain thing.

There are a lot of other things overlaying this whole business of class in this country, the class structure and everything else that doesn't help. But it isn't just that alone. We've had a situation I think in the country where for a very long time they have trained people not to make things. There has been, if you like, another class structure who say there are those who make things and we know they are never going to make a lot of money really - there is just not a lot of money in that business and it's got no status. There are other groups of people who, not managers necessarily because people who make things could be managers too, if you like handle finance in a very broad sense who have status in their own. That is a very over-simplification but that's the sort of thing that has gone through the whole of industry in my lifetime and it was happening before my lifetime. It doesn't surprise me one little bit that we are where we are. In fact, I think it is a miracle we got where we got - because we've had people actually going into the whole business of making things, designing things and producing things in spite of the rewards, who actually make things not because of what they could get out of it. Now you contrast that with Germany, France, Italy - particularly I think Germany and Italy and you will find things are very different.

## **BSW**

Is there not also another problem where the governments themselves are thinking short-term? They are trying to stay in office so they've got to do something startling and to support let's say the line that you are saying which is a training policy and an apprenticeship policy, resurrect some of that. It might win them some votes but not many.

**DS**

When I was a lad there was a school system that said you all started at the same school more or less, whether it was private or public. You then go to another school at which point you are selected at the age of 11 to go into one of two schools, either a grammar school or a technical college. Although there was a certain social stigma attached in going to a technical college as opposed to a grammar school, even then, which was unfortunate because in a way the rot was already starting then. That was clearly essential and should have never allowed to happen. At least you did have an educational stream through which you could take someone to train them for a technical career. At some point that whole system was thrown out (about 50's) and it has never returned. You have to train engineers - they don't just grow on trees. You also have to do more than just train them to be technically competent, you have to give them the ethos that says, I want to be an engineer because there is some status. We are all human beings.

Present: Nick Lightowler, Merchandise Director (since left);

Malcolm Derry, Buying Director - White Goods.

**BSW**

I dropped you that line to explain the sort of things that we would get into. Both of you have been in the industry for some years now, haven't you? It goes back some years with you doesn't it, Nick.

**NL**

I have been in the retail business for 26 years.

**BSW**

How long have you been, Malcolm?

**MD**

I have been in the appliance industry, manufacturing and retail, for 24 years.

**BSW**

So, in fact, you have a lot of background and can go back a bit in history and might be able to clarify a few points in our minds.

There were a lot of things throughout the sixties and seventies, just look at that briefly as you have both been in the industry for so long. What do you think actually affected the profitability of the industry looked at from a manufacturer's point of view in that period? Were there any big things that happened in that time that you would say, "Well, that really killed it all, made it good for us", or whatever?

NL

Can I make one point then I would like Malcolm to make up the balance. I think the key thing that happen, Brian, in the sixties was that around 64/65 the government abolished retail price maintenance. Up until that time all products had to be sold at a certain price. Round about 66/67 a new style of retailing and advertising was launched onto a rather unsuspected retail market in two areas of product primarily initially. One was in major appliances and the other area was in Hi-fi equipment. The retailer in question was, of course, Comet, who went out at that time showed line list advertising in full page advertisements in local newspapers where they showed the recommended retail price and the Comet discount price. It was a very low cost operation. It started from the back of a garage in Hull but extremely successful and a tremendous cash generator. That built through the seventies with manufacturers slowly coming on board and the product range expanding into brown goods as well, TV and audio brown goods as oppose to just Hi-fi. Eventually the whole thing went full circle and is almost going into the eighties now. Eventually the whole thing has gone full circle where everybody sells at the cheapest price. A form of retail price maintenance is coming back into the equation again although unofficially.

Profitability, from a manufacturer's point of view, I think I'd like Malcolm to come in here.

## **MD**

I think the problem was the manufacturers - UK manufacturers particularly because back in the late fifties and sixties that's all we really had, we had one or two importers but in reality we were UK based, UK brands. What the RPM thing did was to escalate the level of business quite dramatically. It escalated the number of retailers and the size of retailers. If you look at the expansion of recent retailers like Ketts particularly, Tempo as you go into the 70's, the Miller Brothers and all those sort of people up and down the countryside it opened up lots and lots of avenues for manufacturers. What it also, of course, did in an expanding market, it gave the opportunity for the importers to come into the business and you started to get lots of low costs importers into the business. Then what happened, of course, was that the UK manufacturers in an effort to compete were having to reduce their retail prices accordingly. Very, very suspect that time of the strength of their brand against price pointing situation which they have not been used to.

## **BSW**

Do you think the price pointing was there? That word wasn't used, was it? It was almost by default that the retail price came about.

## **NL**

If you take the Indesit fridge that came in, which was 29 guineas or whatever it was when I was selling it in Ketts days and the UK manufacturers, their workforce was enormous in those days. Their technology was very, very poor. Cost of manufacture was very, very high. They had enormous sales forces, if you remember. Their reps would call on 20 shops or something like that, and each one of them had 50/60/70/100 reps or merchandisers or demonstrators. All of which was a tremendous cost and the cost which the importers didn't necessarily have. I think that has evolved over the period of time, in people not making a great deal of money. I think while the thing's up here they are OK but as soon as it came down to a level which is now here today there is no money to do it.

**BSW**

There was another margin involved.

**NL**

To give you another example, Brian, in the late sixties Valances at that time brought in directly from Italy Indesit washing machines which had very low spinning speeds, about 400 or something like that. But they were able to retail at 49-59 guineas. Now that at a time when a twin tub washing machine would be selling at about 60 guineas - English Electric or Hoover or Service, they would be selling at 60 guineas.

**MD**

The other problem we had, of course, was that the Italians bought a certain amount of design - it wasn't necessarily a good design but it livened up in the appliance business.

**BSW**

It wasn't necessarily a good design in fact.

**MD**

No. It was a bit different. A bit more flashy - a bit more colourful, etc. That added to the display factor and to the excitement of the product. Whereas the UK manufacturers were still going down the same old road.

**BSW**

How much was an automatic washing machine then?

**NL**

Basically, it was the Hoover-Keymatic which was £100 when Indesit came on with this product for £50. This was a new market.

**BSW**

**Was there any brand reservation? Didn't the Brits at that time have any brand awareness or brand loyalty?**



**MD**

The only brand was Hoover at the time. Hoover was the main one followed by - Electrolux in refrigeration was very strong, English Electric was very strong, there wasn't a Hotpoint around. There certainly wasn't a Zanussi at that point and you was left very much with a Hoover brand Colston was the only dishwasher and maybe one or two others.

**BSW**

Do you feel that the British manufacturers actually defended themselves very well in that period?

**MD**

Not at all. I think they adopted the ostrich technique and hoped it would work. They said that our product is much higher quality.

**MD**

Our product had a higher quality and higher specification and a better build to it.

The early Indesit washing machines and the early Newpols and things like...

**NL**

The Newpol was counted as disaster. Indesit was just a low spec. A spin washing machine is not particularly high spec but for someone who has only got £50 has got the choice between an automatic washing machine that doesn't spin clothes very dry or twin tub and they have to pay 20% more for it.

**BSW**

You wouldn't criticise the British manufacturer's quality at that time?

**NL**

You can always criticise quality. Quality has become much better over the years but in those days I would think that the amount of money that they put into a machine was substantially higher than say, the Italians would.

**BSW**

Whether it was necessary or not is debatable I suppose?

**NL**

It's typified by the Bendix washing machine which was made up in Liverpool at that time. If you looked inside a Bendix washing machine - it used to take two people to lift it, it was so heavy - technologically it was extremely advanced because it already had a built-in dryer. It washed and dried. But the price was £150. It was very expensive in relative terms, It was very heavy, it had to be solidly plumbed in. It had to be on a proper base otherwise the thing would go rocking around the kitchen or whatever. It was very much a Deluxe machine.

**MD**

The previous ones prior to that in the fifties were bolted to the floor.

**BSW**

So in fact, the sixties and seventies as you are describing it was the sort of period of change?

**NL**

With British manufacturers finding it very difficult to change their method of production.

**MD**

The industrial revolution in terms of the union control wasn't there at that point, so they couldn't cut their workforce back to make them more profitable. They, in fact, didn't have the technology and the equipment to cut their workforce back anyway. It wasn't until I think the unions became more under control, that they could then invest in robotics and automations etc. to make themselves more efficient.

**BSW**

At that time we had a situation where a lot of these importers were now starting to come into the country in more depth and more strength and all the rest of it. At that time though was there any kind of 'Buy British' policy?

**MD**

None at all.

**NL**

You see, there was a parallel revolution happening in the brown goods industry. Transistor radio started not to be made in the UK. Then more expensive pieces of kit started not to be made in the UK to the end basically the only thing that was made in the UK was television sets and increasingly now it is primarily by foreign manufacturers who have been forced by government policy to put factories in the UK that are actually making them here. The Hitachis, Sonys, the Panasonics of this world don't do it because of choice, they do it because of government policy. The attack on appliances was not from the Far East, the attack was from Europe.

**BSW**

They are much closer. We have been in Europe since 1973 - it has made it more easy. Do you think that the distribution system in this country militates towards assisting importers? Do you feel that an importer coming in here has an easier job than perhaps, say, going to France or Germany?

**NL**

I think you have got to look at more than just the distribution system. If by that you mean the whole distribution chain to retail, yes. Because then you deal with 2 or 3 key national retailers to get national distribution. If you take Germany this doesn't exist.

**BSW**

That's really what I'm getting at, because I think this would have militated towards people coming in here. In your recollection, and we're talking in the sixties and seventies, did the government at any time put up any blocks or artificial barriers like technical specs or anything to stop people coming in?

**NL**

Technical specs have always been there but they are primarily based on safety legislation which we assume UK manufacturers understand anyway. Those importers that wanted to be serious about it could easily pick up on.

**BSW**

You never experienced problems in general, I mean in a big sense, safety problems.

**MD**

The only area that they would have had problems was in the electricity boards where they followed the BEAB rule all the way through it. Which is why you didn't see a lot of importers in the electricity boards because importers didn't need to produce BEAB product. Bearing in mind that electricity boards in the sixties and seventies which were quite a large part of the industry.

**BSW**

Coming back to the development of the industry, do you consider now brand names are important? You were saying earlier that brand names would appear to becoming less important in the seventies. How do you feel about it now?

**NL**

Brand names are always important. They are always a major advantage. However, I believe that if there is a price differential to sell a product of between 10% and 20% then that's when you start to lose loyalty to a brand name.

**MD**

Yes, I think it differs with the economic climate. When you have lots of first time buyers in the market place which you don't have today, but we have had, then lesser brands or even on a label are easier to sell because people don't have preconceived ideas of the brand. When you are in a total replacement market which we are in at the moment people tend to replace brand for brand or certainly brand for another brand. You would very rarely see someone go from brand to secondary brand or own label. That is why the brands in this economic climate are the dearer, whereas in a more difficult economic climate there is place for secondary and unlabelled brands but as Nick says there has to be some financial benefit. You'd never sell an own labeled product at the same price as Hotpoint brand.

**BSW**

You mentioned Hotpoint. Why do you think that Hotpoint is known to have been very successful looked at from profitability and performance in the market. Why have they been so successful over the past 10 years?

**MD**

I think they got their distribution right first. That's the first thing. Then they went for the big boys. So they created a base of distribution through the independent sector of the chain. Once they've got that and got some stability in that market they then could with some strength attack the multiples and then get their orderly marketing system in place. The other thing, of course, is if they had a nice range of product and it had some quality, and it was relatively reliable and at the alongside of going to the business they had a good service organisation. So the whole thing came together quite well.

**BSW**

We remember the Comet issue. What was the view then? I don't think there is anything that we couldn't talk about now, is there?

NL

The view was very simply a very strongly held belief that the retailer under the terms of British legislation had the right to determine what price he sold any piece of kit out. The whole principle of Comet at that time was that it was cheaper than everybody else. It genuinely was so on most merchandise. It was not a very sophisticated outlet. It simply said, well if the high street price is this then our price is this which would normally be 5% lower or whatever. It managed to be profitable in that environment because of its very, very low overhead base. The battle between Hotpoint or Schreiber, as it became very personal, and Mason and Hollingbury were involved, was principally that Schreiber wanted to uphold his policy of orderly marketing and Comet didn't want to comply. As a consequence, he sold at increasingly higher prices to Comet than he would sell to an organisation like Currys, for example, to limit Comet's ability to mess around with this pricing policy, to the extent they went to court on several occasions.

BSW

Given the situation that we are in now, people talk about orderly marketing, do you think there is a benefit now seen from the retail trade of this sort of thing?

NL

I think that there is a benefit to certain manufacturers and to a degree retailers as well. If this business is to move forward and actually stay profitable they need to have at the manufacturing end to make sufficient profit to be able to reinvest in their product facilities to keep them up-to-date, and keep them competitive with importers. I think from the retailer's point of view as we've seen over the last 3 or 4 years that the costs of retailing have risen disproportionately to other areas of this business and the retailer increasingly has to make more pounds profit because, generally speaking, once appliances have tended to move up in price more or less in line with inflation, the costs of retailing have gone ahead of inflation, so the retailers have to make more profits on every individual sale. That has been very difficult to achieve.

**MD**

That, of course, has necessitated further negotiation with manufacturers for lower costs because the retail prices were not going up at sufficient rate to cover the increasing cost or the need for increasing pound notes. So the only way you could do it is to drive it down the other end and say to the manufacturer, hang on I need another 3%, 5% or whatever. At the same time with orderly marketing if everyone does it which everybody is trying to do now with most of the key brands you then have to find a way to create a competitive edge. You have to decide what your competitive edge is going to be and who is going to pay for it. So you are asking the manufacturer for lower costs, you are asking him for a promotional account to be able to get your competitive edge. He's still only putting his price up £10 at retail twice a year. You can blame the retailer but at the same time you can blame the short-sightedness of the manufacturer by saying, if this is happening, I need to put my price up by £20, £30 or £40.

**BSW**

I'm sure he'd like to but you know it doesn't work like that.

**MD**

I think we've got to the stage now, it is my belief and I know that Nick is very much the same view as I am, we got to the point where the consumer has to pay. We've come right into the nineties now. I don't believe the manufacturer can go any further because he is on the breadline anyway.

**BSW**

The industry singularly unprofitable. Material costs are rising like nobody's business. It is not actually only in this business. We're spreading into other companies within our group. We see it the whole time. Yes, the consumer is going to have to pay.



**NL**

If you draw parallels with other heavy engineering type of businesses, a basic Ford Escort launched in the sixties would be around £635, the minis were about £450. At that time an automatic washing machine was anywhere between the cheapest was £50 and the normal going price was £120. You then draw the parallel to today. The basic Ford Escort is going to cost you about £7000 (using a multiplying factor of 10) on that same premise using a heavy engineering your basic washing machine is sold for £500 and the DeLuxe washing machine is somewhere around £1000. That's not the case.

**MD**

The other parallel myth is that the Escort or Mini that you bought back then and what you get now (using the tenfold factor) incorporates a lot more bits and pieces and features - enormous development in safety aspects and so on. Whereas the basic washing machine still selling at £250 still the same - still the same one you were selling before. Design has changed but basically it is the same thing.

**NL**

Strong distribution in the UK - we touched on it earlier on. A lot has been said of orderly marketing. It is not in fact so - it is quite disorderly because over the last 3 years, what we have had increasingly creeping into orderly marketing is discounting of a very severe nature through the back door. This has been through the use of either manufacturer funded interest free credit or retail funded interest free credit which currently is running at anything up to 24 months. If you look at the cost of giving somebody 24 months interest free credit, it wipes out almost all of the margin that he makes on the product - the typical margins in this business are between 22% and 30%. If you take on interest free credit it is a very substantial danger.

**BSW**

Yes, I can see that immediately. Talking about distribution as such, of course we all read the outcome in the MMC report of the Kingfisher business with yourselves. Whilst the result was probably what you wanted did you really agree with their conclusions? That had Kingfisher combined with the Dixons group the propensity would have been to force up prices at the retail end at the expense of the consumer. Do you think that would have happened?

**NL**

Definitely. Certainly, if we had bought Comet it would have happened.

**BSW**

But at the expense of the consumer? Of course, that was what the MMC was looking at - public interest. Would some of this got back into the manufacturing industry?

**NL**

Our aim would be for as little as possible, obviously, for we are negotiating on different sides of the table as you know full well. But I would have thought that some of it would have done, as an increase in prices. There are more than two people that actually participate. What we would seek to do is to get the prices increased but maintain our buying price at the same level. What the manufacturer would seek to do is to get the retail price increased and charge as many people as he can a higher price. So then what we would aim to do is to make more profit. What the manufacturer would have to do is to make more profit out of other dealers. He would have reduced competitiveness even more, in the market place.

**MD**

I was just saying that the MMC earlier in the year sell at the expense of the consumer. At the moment is it an expensive industry and retailing and all the rest of it. The consumer is getting off scot free. She's getting a cheap price, cheaper than she should be paying and if you look at other consumer goods and just look at the disposable income and what they spend it on. Who ever you talk to they've got at least 2 Hi-Fi systems if not three Hi-Fi systems and 3 televisions and goodness what else in their house particularly if they have 2/3 kids, and they are spending less on that washing machine than they spend on the Hi-Fi system. So it is the appliance industry which is suffering, not that I advocate the coming together unless it is on our terms but the consumer has got to learn that if she wants cheap price and her interest free credit as well she has got to pay. We can all be busy fools and do a wonderful job for the consumer but at the end of the day what is going to happen is there is going to be a shake out. There is going to be a retail shake out and a manufacturer shake out. We've already had the first shake out which is the Whirlpool thing and the GE thing and the Electrolux. There is another tranche to come and we have to be careful that we don't create through poor economics actually become a monopoly by that default.

**BSW**

Yes, there is a danger in two ways. Looked at from the manufacturing point of view the probability of a merger of the size of Kingfisher and Dixons put a lot of buying power into one set of hands. You'd agreed with that wouldn't you? The converse is also true that if more manufacturers drop out your ability to buy from various sources reduces. Although, of course, you can go abroad and there are still 6 or 7 major suppliers of white goods in Europe - so that isn't the end of the world. Do you agree with that?

**MD**

No, it's not the end of the world but even Europe is becoming smaller and smaller and retailers are searching further and further away from the UK for product opportunity.

**NL**

We were the first company in the UK to bring refrigerators in from Korea.

**BSW**

You raised the points about idiots in the industry. Fortunately more of those are falling by the wayside, aren't they?

**MD**

I think we are a responsible retailer. If you went back some years we could have been classed as irresponsible in the way we went to market, that's before everybody jumped on the orderly marketing bandwagon. I think we are a responsible retailer, we show a responsibility to the manufacturing industry. We certainly support the brands, but we also support new product development. We are prepared to work with manufacturers on new product development. We want to bring new ideas to the consumer to raise the retail price, to even raise the perceived value of the white goods business to the consumer, who believes it is a necessity. We were the first people in frost-free refrigeration - well, I exclude Bejam at that point because they probably started before us. But in terms of a national retail organisation going into frost-free we were the first people. We had to bring it in under our own label because none of the brands wanted to be involved. Because it was a new development they were frightened of it. Now, us having pioneered that product development other people jumped on the bandwagon. What we want is other new ideas to bring to the consumer. I want to bring electronic refrigeration into the UK. There is a company in the UK that builds electronic refrigerator but I am not sure that the consumer will understand it.

**BSW**

Is it total electronically controlled?

**MD**

Electronic controlled, electronic controls of temperature, compressor, it has door alarms on it, a clock, timer, a fault finding thing, if you come in and the compressor has been off it can tell you how long the freezer's been off, it will tell you what the temperature of the food in the freezer is and so on. But it is expensive because no one else is developing it. It has been left to one brand, Kelvinator, to develop this thing. Now if Hotpoint or Electrolux was to jump on this bandwagon then we would all be selling it.

**BSW**

Are they not receptive to these ideas?

**MD**

They are frightened of the price - the eventual retail price. We are talking about £400-£450. You have got Zanussi with their super-chill which is another boom idea, central compartment, zero degrees, no frost, £529. We sell maybe 20 each week. Now if there were half a dozen of those then distribution would be greater, more choice to the consumer - if they see one they'd probably say, I don't know, but if they see six, they'd buy.

**BSW**

Is this a trend do you think - more features, higher price?

**MD**

It is something that we, well since I have been in domestic appliances, have always pushed for - new features, extra features and new ideas. Luckily being with DSG you have the opportunity to poke your nose into places where previously you wouldn't have been able to and get at the people who design product.

The classic one was 'jet system'. 'Jet system' came in 3/4 years ago. It was a super concept, low energy, low water, low power consumption, it had Zanussi brand on it and it didn't work - because the consumer did not understand it. I couldn't see it. It was in there. My people in the stores found it difficult to talk it through to the consumer because it was a new idea and it took them 18 months of advertising and retraining to get the thing off the ground. Now, it is an accepted part of washing machines in most of the brands.

## **BSW**

Developing this theme - you were actually moving towards what I would call the Far Eastern influence on this. We see that the Japanese, Hitachi for one, are in white goods in this country. They are coming in with relatively high featured products. Do you see this trend increasing? The competition in this country is not coming from Europe but maybe from the Far East?

## **NL**

Clearly the product isn't actually manufactured in the Far East. What they are using is their brand name. It is a very good quality and the built quality is to a high standard, very nice finish on it. The fridges are made in Denmark, the washers are made by Servis - not the most major manufacturers either of them in the world. But the product that they product for Hitachi has all had the Japanese influence on it in their attention to detail and the quality of finish that they require. I think there is a good parallel here between the service of this world and the Vestfrost's of this world and the television industry where, for example, Bush or Rank Bush Murphy as it was called, was a major TV manufacturer, they then collaborated with Toshiba and produced a partnership manufacturing operation. Bush eventually then went broke and left the whole thing with Toshiba. I envisage a scenario like that in the development of say, Hitachi, over the next 3 to 5 years. Now, I don't think we are ready to take the whole thing on here but I think the outcome of that will be that they will either have a joint venture or totally owned manufacturing facility within Europe.

## **BSW**

That is interesting. Do you see a development particularly with Japanese companies of the owner/retailer concept, where they own parts of retailers?

**MD**

Certainly brown goods have done it with their Sony stores but they are not the major players. I don't know of anybody in the appliance industry who does that apart from John Lewis.

**BSW**

But not yet, I just wonder whether it might come?

**MD**

Philips are in it, many years ago they owned Lyons.

**NL**

When you say owner/retailer do you mean manufacturer/owner?

**BSW**

Manufacturer/owner.

**NL**

I think they have all had their fingers burnt so much, there would be such a strong reaction from the major retailers, that they'd find it very difficult to get off the ground.

**BSW**

It has happened in Japan but of course they don't have the strength of major retailer.

MD

Japan is slightly different. Japan was always structured that way - you would have retailers tied to a particular manufacturer. Not just on appliances, it would be of course a whole raft of things because somebody like National Panasonic in Japan is an enormous company that can supply just about every single need of a retailer from a transistor radio through a VCR, a Camcorder or a television set, washing machine, refrigerator, tumble dryer, air conditioner, the whole thing.

At some stage we ought to touch on potential new market. What I would like to go on now is the point you that you made down here, "Has any government in the past 30 years done anything to assist the industry?"

Yes, by default. What they have tended to do generally through European wide moves is to put restrictions on the import of certain types of kit that was getting too competitive for their own manufacturers to remain competitive with and typically that was the case of freezers from the Eastern Block there was a quota on the amount of freezers coming out of Eastern Europe which under their old manufacturing scenario used to be for a buyer a very low cost base. Their actual costs were very high but they wanted the hard currency so they would sell at a loss to the West. Latterly, we have had scenario for the last 3 years in microwaves with Korea where again the EEC has acted as a body and put in a quota on the amount of microwaves that can be imported from Japan and particularly Korea. Because the UK manufacturers and the European manufacturers could not compete. Now what that has done is, it has made the Koreans particularly and the Japanese open up factories within the UK. Some of these factories are an out and out sham. The product actually comes in fully assembled. It then goes into this so called factory, the doors taken off and the doors put back on again and they perhaps put a light bulb into it or something like that and it is then deemed assembled in the UK, and falls outside of this. Obviously, they have a period of time where they can get away with this. But increasingly things like the cardboard boxes and the magnetrons for these microwaves and transformers particularly will be coming out of European, but primarily UK, sourced manufacturers.



So increasingly there would be a higher local content. The window for doing that is probably a two or three year window.

## **MD**

The irony is of course that most of the factories they are in have been subsidised quite heavily by the government for they are in the high unemployment areas. Like Goldstar is just outside Newcastle.

## **BSW**

I suppose it is a good thing that they are supporting the UK industry. On the other hand, as you say, if it is just a sham it really isn't doing what it set out to do.

## **NL**

Well, some of them are quite genuinely good, full running factories. The Sharp factory in North Wales is a classic example. A lot of the product is locally sourced and manufactured and they actually put the things together pretty well there. But clearly without government intervention those factories would never have been started. It is interesting that in Sharp they have a factory making microwaves. They also have a factory making typewriters on the same site. It is because of anti dumping that these factories are operational. They also make VCR's there.

## **BSW**

Is it not true to say that this has come through forward more strongly in the last 10 years - more strongly.

**NL**

Yes, very much so. That and the use of safety standards to make it more difficult for people to - safety standards have certainly been tightened up very substantially in the last 10 years. The classic example if you like, the text book example, is the liberalisation of telephones and the approval process that has to be gone through before you can import a telephone and say that it is an approved telephone. The backing paperwork for a standard two-piece phone to achieve approval is probably an inch thick of A4 paper, double sided and specifications down to the last grommet. You to have that for every single new column that you bring in. It is an enormous process.

**BSW**

So they are putting some controls on.

**NL**

In certain areas.

**BSW**

I wonder where the impetus for this comes from? Is it the Trade Associations?

**MD**

That one was definitely masterminded by British Telecom. I think the impetus comes from those manufacturers whose livelihood is under threat. On microwaves for example it was clearly Moulinex and Thora/Tricity.

**BSW**

If we look at the industry as a whole it's really been reduced so considerably over the years as you were saying earlier. There are brand names that don't exist now who were here years ago.

**MD**

Still in cupboards but they won't bring them out.

**BSW**

In terms of washing machines as we were talking about earlier, the number of really genuine British manufacturers of washing machines is three - Hotpoint, Servis and Hoover. Do you see this move by the Americans to take control of the Hoover thing, is that going to.....?

**MD**

That is a cost exercise, I believe because the man who is coming as MD is a technical production man. He is not a sales and marketing person. The guy under him is specifically a production guy. What you've got is people man at the top who is going to sack all the workforce and you've got a production engineer underneath him who is going to make what's left more efficient. It is a production problem.

**BSW**

That's quite an important point because in the context of what we are talking about - would you mind repeating that?

**MD**

If Hoover ever wake up the industry better watch out. I then went through various one man scenarios and to a man round that table they agreed with my first statement. They felt that if only they could just break away from the Hoover bit and into the big wide world that they would make it happen. Everything about Hoover is old fashioned. The production is not old fashioned but the way they go about it. The classic one was when they moved away from Perivale, which was all very old fashioned, down to the new Draggonparc headquarters in Merthyr Tydfil. I went down there, brand new building, walked up through the lift into the sales office and all sort of work stations and then you came to the big oak door and walked in and it's exactly the same.

They just replicated the whole of Perivale, in slightly more modern rooms, but all the old furniture, all the old pictures are on the wall, the whole thing was just taken and put down there.

## **BSW**

Looking on the European base Hoover 10/15 years ago was selling in France it was well known, it was a good name. It's dead now. As you said earlier Hoover was the only name in the sixties in washing machines.

Were there any other points that you wanted to bring out from that letter?

## **NL**

Yes, What can the industry do to improve its overall profitability?

Clearly, one of the ways is to put its retail prices up to a more sensible level. We believe the whole range is completely underpriced. The other thing is to develop newer technologies and then sell them strongly to the consumer. For example frost-free refrigerators, typical, where insufficient is made of that. This is a technology which is prevalent in the Far East. Most fridges that are of any size and any sort of quality are automatically frost-free. They have total consumer acceptance. Here in UK, same in America. Here it is only just started to happen. Not just the UK but the whole of Europe. Here is an opportunity, a golden widget that you can really go out and sell for another £100, if everybody got behind it. Most of the manufacture is actually scattered amongst the few people all over the place. Philips do a little bit, Zanussi do a little bit. Hotpoint don't make any but they buy it in and put their name on it. Lec are about to go into frost free next year and they are buying it from an Italian company, Maloni - they've got refrigeration technology for years and years.

## **BSW**

Incidentally, while we are on this point coming back to brand, do you think Hotpoint are losing their way a little at the moment?

**NL**

Do you mean now this very minute or over the last year?

**BSW**

Over the last year, maybe two years?

**NL**

No, I don't think so. If they've lost their way anywhere it's in their product. They have always been backward in coming forward with new product.

**BSW**

But their after sales service is good, isn't it.

**NL**

Yes, their general level of service is very good. The service they give to independents, to multiples such as ourselves is excellent without question. I think they are probably the best and Zanussi probably second best.

**MD**

Where Hotpoint score over those two is in pure distribution - in getting the product where it should be at right appointed time. They always had the policy of holding stock which is what the industry needs so that the independents and people like ourselves can pull-off in a Just In Time basis. They were the first in home delivery in terms of direct delivery to the consumer. The whole distribution is streets ahead of Zanussi particular and to a lesser extent Hoover.

**BSW**

Were there any other points on the industry profitability just to recap? You mentioned government actions.

**NL**

Just to finalise a point on raising the prices. You can't necessarily just raise the prices, you've got to give them something whether it's a new design, new features or whatever, or at least highlight the features you already have to raise the prices. I think the industry is concerned itself that they don't feel they have a strong enough story to go to the consumer with and say, hang on this is going to cost you another £40. They feel that the volumes will drop considerably by doing that.

**BSW**

You don't think that?

**MD**

I don't think so. If it is one good thing that comes out of orderly marketing is that if Hotpoint put their prices up today Zanussi will put theirs up because they want to make more money and Hoover will follow, then the smaller brands will follow as well - that the first. Secondly, Mrs Consumer wants to buy a Hotpoint washing machine, she goes into Comet and it's £500. She says, It's gone up £40. She then goes into Currys, it is £500, and into Rumbelow and it is still £500. Eventually, she will get to the point, well this is £500, she's got to pay. That is the one strong thing with orderly marketing, is that if it happens then everybody is going to be the same price and the consumer doesn't really have a choice.

**NL**

Is it of help to the UK industry now that the UK has joined the ERM?

Yes, it gives us currency stability which helps us in our direct invoicing particularly from places like Italy. It is tenuous but it is a help - takes some of the worry out of it.

**BSW**

What would you like to see any UK government do to assist industry?

**MD**

That is a difficult one. What clearly is missing in the major appliance industry is a top down view of the industry and the developing products within that industry and then a co-ordinated guiding hand to say this is what you as an industry ought to be promoting at this point in time to be successful. Whether the government has the capability or even the will to get into something like that - like, for example, we were highlighting the opportunities with frost-free, somebody ought to get Hotpoint, Hoover and all of these other people together and say here is an opportunity, as an industry promote this, here is an opportunity as an industry to promote green issues and here is how we think you should do it.

And do a co-ordinated push, a government supported push to improve the quality and design of product, and there is not that. You have a lot of individual companies all fighting each other without any UK Inc. input if you like.

## **BSW**

You've made a very strong point.

## **MD**

There was a programme on Monday night about the green issue and how green are we against Germany. Hotpoint and Hoover particularly came out very badly against AEG, and AEG is green all the way through. But you still sell 20,30, 40 tons more Hotpoint machines than you do an AEG. I think the other thing the European government can do to assist industry is a considerable investment in product training particularly at retail level. I don't know whether we will get any government assistance on just physical training.

## **NL**

There is training and training. Most people just pay lip service to training. Oh yes, we've got to have training so we will do training, it goes in one ear and out the other. What you need is training that is actually beneficial.

## **BSW**

There is a point you are raising. Is this a question of applicable courses available at polytechnics and technical schools or training on the job, do you think?



**MD**

Training on the job or we use the manufacturers to train. We have just launched into a brand new training pack which was assisted by the manufacturers in terms of input on information on how this washing machine work, how does this vacuum cleaner and microwave work. We went through and we produced five work books and a video, cost absolute fortune but it will last for 2 or 3 years unless some wonderful new technology comes out. We have had to do it off our own back, it's in a pretty box and has some nice pictures in. By doing that we are trying to highlight the jet-system features, the combination microwave features, the frost-free, the halogens on cooking and all these sort of things that are an enormous benefit to the consumer. It gives an opportunity for us to sell higher up the price point value and get more pennies in the till. But without these initiatives we are still going to be selling log standard washing machine, 800 spin washing machines or cookers with radiant ring at £300. We are not utilising the features that we already got in the industry to convince the consumer (a) to spend more on the product and (b) to change their product. The other problem we have in white goods is the replacement. We are still at 10/11 years on washing machines and 16 years on cooking. The other thing about Japan is because of all this new technology they change virtually every year.

**BSW**

Is there a continuing role for the wholesaler/distributor?

**NL**

My view is that it is very limited, very small.

**BSW**

Is the role and future of the 'Mail Order' house changing?

**NL**

That is a very cyclical business. When times are hard mail order houses do well because they offer very cheap, easy credit. When times are not hard their business fall back. The cycle keeps going. Argos is a very interesting retailer. Argos is successful because it delivers what the consumer expects. What the consumer expects is a wide range, reasonable prices and good availability and it delivers that. What the consumer does not expect from Argos is any form of service. By that I mean pre-sales service. You go in there, you don't get any hassle from sales people because there aren't any and you buy what you choose. You don't have to queue for ages after you've paid for it to get it.

**BSW**

Do you think it is going to develop anymore because we've seen Littlewoods come in with Index crawling on the back of Argos, haven't they. Do you think there is a trend there?

**NL**

I think Argos will blow Littlewoods away because Argos is Argos, they are in the high street. They are the leaders in that type of selling. Regardless whether they'll continue, I think the likes of Littlewoods will probably fail, from behind they are not offering anything else.

**BSW**

It's a 'me too' exercise. There is no question about that. But what I was really trying to say was given your type of store and the way you are developing you are offering some small appliances, you have a range and people can go in and see them and you are training your staff and all the rest of it. Do you see that you might be able to claw back some of that market that Argos are getting?

NL

Well, they are strong in certain areas. Small appliances, as you mentioned, they probably more than double our share in most areas of small appliance. But then you don't need a lot of help in buying a small appliance. You do in some areas and it is nice to have. But people's mentality in buying say a £30 iron or kettle, it's an investment of £30, it is not the end of the world, they will buy it, and the description of some of these things actually sell better off the page than they do out of the salesman mouth. However, when you get on to £500 washing machines you perhaps like to see it, feel it, touch it and get a bit of advice. You know, what am I getting for my money here. So I think in that area provided we can train our sales staff to a higher level of expertise we will continue to out perform Argos in the major appliances. It is a study purchase. You wouldn't buy a motorcar from a catalogue unless you've really researched it beforehand, to and have a look at it at least wouldn't you.

'Innovation in Design' - Academic and industrial training adequate - I believe yes. I don't think there is any problem in getting designers in the UK. It is the companies what they then put them to, that is the actual problem.

Skipping on to R & D - there isn't a lack of R & D investment but I think it is poorly focused in the wrong direction.

MD

I think they've got the R & D, they don't necessarily want to expose it.

NL

The point I was trying to make it that the focus of R & D within British appliance industry has invariably been on a cost reduction exercise as opposed to a product development exercise. They look into every area, how can we take more cost down to this, rather than how can we add more value to this, how can we sell this for more money as the motor industry have done. I think it is wrongly focused.

## **BSW**

The future of white goods manufacturing in the UK will it continue to contract?

## **NL**

Very difficult to say. With multinational companies now having a stake in almost every area of the business whether they will take the view that they're going to make washing machines in the UK and refrigerators in Italy, that type of thing, is something that would be based as much on what distribution costs eventually end up being as the logistics of making the product. Clearly they haven't had any of them, any major break through in cost savings by buying all of these companies all around the world. If there is any cost saving that comes through it will be in the component purchase area as opposed to the manufacturing cost reduction.

## **MD**

Previously were you had low wage cost in Italy, Spain and to a lesser extent Yugoslavia and Eastern Block, you are not going to get that. Italy is as expensive to build product as it is to build in this country and you have to distribute it from Italy. Similarly with Spain. There inflation rate is quite high, interest rates quite high and the workers are looking for more and more money because in fact there are less and less jobs in Italy. There are going through the same thing now as we went through 10 years ago in terms of cutting workforce. Previously they couldn't cut the workforce. If they laid people off they had to pay them for 6 months.

## **NL**

Trends in Customer Priorities - aspects which will become a major priority in the customer's buying decisions?

Clearly the green issue will build and we have got to find an answer to that. The safety aspect of products will continue to be important. If we can then find a beneficial way of selling that that would be a way to affect consumer's buying decisions. Clearly, reliability will be a major factor and increasingly so looked from the manufacturer's point of view in terms of profitability. Now from the consumer's point of view, because all of the service industry cost bases are going up very substantially so the cost of repairing merchandise will increase. During the first 12 months, of course, the manufacturer picks up the return for that.

**BSW**

Do you think extended warranties coming back in.

**NL**

Extended warranties are in. They are sold by retailers in huge quantities. We make a fortune on it.

**BSW**

But not the manufacturer, for example.

**NL**

We try and dissuade manufacturers from selling extended warranty, because we make a fortune on selling our insurance risks.

**MD**

If you see all that, what Nick was saying about safety, reliability and good after sales service and all the rest of it, these products last for years and years. That is what they are building in - reliability factor. So unless we have the investment in R & D to bring new ideas out then there is no reason why that consumer should change her washing machine, because she's going to get the same washing machine with all the same features.

Unless we don't move on to the next generation of washing machines whatever they may be we are not going to hasten the replacement cycle. So the only route we can go it to keep selling these pieces of tin but at a price which is the value for the product. Otherwise the curve is going to go downwards in terms of pound note.

**BSW**

Yes, it is very interesting some of the points you've raised here particularly, of course, we hope a copy of this will go to the DTI for example and that point about action for the government in terms of some direction for the industry is very relevant and very practical I would have thought, does it not?

**MD**

Yes, it doesn't help Mrs Thatcher standing up and saying you shouldn't buy a refrigerator for the next 5 years until we've got 100% CFC, it doesn't help.

Richard Gibson is Managing Director of Zanussi.

**BSW**

OK, Richard, I think I have explained to you the background of this work and you've got my note there on what it is all about.

You know you have been in the industry for some years haven't you, to my knowledge about 20 years now, isn't it?

**RG**

Well, actually on the payroll since 1969 with a domestic appliance company but the first four years of that was "toing and froing" doing a sandwich degree course - so in sort of full time employment in the industry since 1973.

**BSW**

Well, you can say that is still quite a time. So you seen quite a lot of changes in the industry over the period. What do you think is the largest change that affected the industry lets say in the seventies - what do you think that really impacted heavily on the industry during that time?

**RG**

I can only make a judgment on what appeared to be the largest effects. The reason why I say that is given that I wasn't around in the sixties it's difficult to make a judgment against what the difference were between the seventies and the sixties, so you have to make the judgment based on what seem to be the important issues in the seventies. In that context there were certain economic issues that were obviously very relevant and are still relevant today.

I suppose the first one that comes to mind is the stop-go economic policies, as so defined, which I think put UK industry at a disadvantage which to some extent, though probably not to the same extent, it still suffers from today. This industry is about long-term investment and where you get rapid changes in monetary policy, fiscal policy, economic circumstances, unless you are prepared to take a long-term view which industry in this country generally are not prepared to do. That will inevitably leads to a lack of investment in the short-term which means that you become uncompetitive in the long-term. I think that is an undoubted factor which is still with us perhaps not quite to the same extent but I think it is still an underlying problem for the UK domestic appliance industry.

The second thing from a market point of view which would obviously be topical was the effect of the Comet style retailing with the abolition of RPM in 1964 I think. You saw at the end of the sixties and you didn't really see them mushroomed at all until the seventies in terms of discount warehousing. That certainly became the trend that everybody else latched on to in some form or other throughout the seventies and into the eighties into the latter part of the eighties.



We have seen a slight retraction from that style of trading in itself in that we now sort of getting into more service related issues - and Comet themselves are probably the best example of that. Rather than just trade from a warehouse with three or four assistants standing behind a counter with absolutely no customer advice or support they have now gone to a stage where they are offering a wider range of services. I think that trend is being followed now by other companies. But certainly if one talks in the context of the seventies discount warehouses were the name of the game, very much. They had all sorts of impact in terms of reducing retail margin, reducing manufacturer's margin and generally keeping the price - retail prices down - which of course was, I suppose, one of the declared intentions of no RPM. It is in the best interest of the consumer to have low retail prices because you prevent profiteering by the manufacturer and the retailer. I find that argument somewhat simplistic because obviously if a manufacturer or a retailer is not making reasonable profits then he cannot invest in his business for the future which will ultimately reflect on the service package in a total sense on the product he offers to the consumer. I think that is why the standard of service in its broadest sense is perhaps not what it should be in this industry.

**BSW**

Yes, in order to give this improved service as they are doing now that demands surely a high retail price or just squeeze the manufacturer again?

**RG**

Well, it is healthy that there should be a squeeze the manufacturer because he has obviously got to remain efficient if he is going to be competitive. But if you squeeze the manufacturer ultimately he cannot invest in new products which, in a basically replacement market, certainly in the nineties, it will be a solely replacement market. There are very few markets opening up as there were perhaps in the late seventies with microwaves, dishwashers and things like that.

There aren't those same latent market opportunities. Therefore, you are dependent more on replacement market and opening up market opportunities that's not been satisfied. You need to invest in products. A low margin by definition means that your ability to do that is limited.

## **BSW**

Throughout the seventies and indeed the eighties the import penetration particularly in the white goods area - we'll leave the small appliances out of it because they were completely demolished - but in the white goods area increased the import penetration. Why was that? Were the British manufacturers just not making products that were relevant, do you think?

## **RG**

I think it's a combination of things. I think in the first place the British manufacturers were in a state of disarray. Now they may have been in disarray for the reasons I've just given but that doesn't change the fact they are in a disarray. Secondly, because of the short-term view that British manufacturers have been forced to take about long-term investment, they weren't generating enough new product ideas to prevent easy import penetration. You know, it was fairly easy if you had a brand new product to get into the UK market.

It is also true that given the price domination that existed in the market place and still exists in the market place, that price is the overriding consideration. Retail buyers would naturally be attracted to a cheap front loading washing machine because if you are trading on a price platform then you obviously naturally degenerate to the lowest possible price. So there was a sort of captive audience in terms of the retail buyer mentality.

I think the other thing which is very important and equally still true today is that the retail structure in this country makes it fairly easy to get into the market place if you've got a product that's a reasonable product offer. Unlike many of the other countries in the EEC where the distribution chains are very fragmented and lots of little retailers, here you've got a situation where today it wasn't so in the seventies to the same extent but it is still true to a significant extent. You've got three retailers that control 25-30% of the market.

You add the electricity boards on to that and you are getting very close to 50% of most markets. It means that the cost of entry in terms of investment is not as great as it perhaps needs to be or is in other countries. You also of course get when you look in the context of the seventies and eighties a situation where the government policy was not to make it that difficult for importers to get into, as opposed to France who have always been very protective generally.

## **BSW**

It is interesting that you should say this because having worked for British manufacturers, you did for some years, where in fact Hotpoint gained market share against the others in the period you were there anyway, that's a fact. Now you are here at Zanussi an importer where you are clawing back market share. Let's take Hotpoint and then come on to Zanussi. What did Hotpoint get right in that period?

## **RG**

I think the essential thing that they recognised which nobody had really actually focused totally on before, was that there was a vital link between the consumer and the manufacturer which was fairly obvious but hadn't been addressed properly and that was the retailer. If you could actually provide a formula that satisfied all his needs then I think they, or we, were the first to recognise that the tremendous importance of the retailer as being the vital link between the manufacturer and the consumer. It is fairly obvious but I don't think everybody had actually followed through the ramifications of that. Therefore, if you could provide a scenario where the retailer lost any hassle in the sale and felt supported at all levels as part of a marketing package and have the opportunity to earn a reasonable profit, then you actually have a winning formula against the background where things were being traded at products at a price. If you could actually add a third dimension to that which was not easy to copy you would have a winning formula. I think that was the first thing.

I think the other thing was - and this goes back to my early comment - that they did actually take a long-term view. Because the results that one looks upon so favourably now in the mid-eighties which was really their golden period, was the function of the investment that was made in the last seventies and early eighties. You can't wind the clock back but I suspect that if that investment had not been made at that time, the results in Hotpoint would not have been so successful. I am not saying that they would not have been successful because that was only one part of it. But they did invest in a brand new laundry factory.

**BSW**

Yes, but do you think it was a conscious decision or was it one man's vision?

(BSW Note: The one man was Chaim Schreiber and he owned 37% of

Hotpoint - the remainder was owned by GEC.)

**RG**

I wouldn't say it was one man's vision. I would say it was not that difficult to have a vision - and obviously he was the key player in that vision - but what was equally important and what was unique in this situation was that one man's vision also had to have a substantial share holding in that investment. So he had a unique advantage that no other managing director or chief executive had, in roughly similar circumstances in that it was his money.

**BSW**

Yes, that was also true. As it turns out he was right. We are supporters anyway, you and I. Looking back, you talked about investment, don't you think that so many companies in this country are motivated by the short-termers we are talking about here. This is a problem isn't it?

**RG**

I think it is a fundamental problem. I think it is a subject in itself which is very complex. I think it's part of the UK economic and business culture. You know, you've only got to look at the Financial Times at any day of the week at the moment and you've got companies that are actually trading. If you look at their trading position it's not bad but because of what's happened to interest rates, arguably from one point of view through mismanagement, but equally arguably from their point of view in that they were investing in their business for the future and could not have reasonably predicted that interest rates would double in such a short space of time. These companies are now in a situation where they were held up as the way you should actually manage your business, are they now being sort of pilloried for gross mismanagement or something almost along those lines. You have got to say from what we know of say, the German experience which is sort of held up as probably the best economic example in the EEC at the moment. Their view appears to be different. They don't chase short-term profits. I am sure it is a lot more complex than that because we always tend to simplify things but it is undoubtedly a problem that we have not grasped and I think the real evidence is that the manufacturing industry generally speaking - not just in white goods - right across the board is declining in this country and has done. I think in the seventies you could have said well it's because the workers don't work hard enough and we have too many strikes and all that sort of stuff. But frankly I don't think that's an issue any more. Our track record in that area is arguably as good as our European partners. So it really just come back to lack of investment.

**BSW**

Yes, I take your point. In terms of Zanussi and Miele and others in the market - you've got personal knowledge of Zanussi - you know I am not asking for any proprietary information.

**RG**

Well, I can only talk from Zanussi in its inception as a competitor so I hope I can be reasonably objective about it.

I think Zanussi has been successful, or was originally successful, and got the opportunity for three reasons. One was, and I think this was the undoubted key reason, that they had and still have, an excellent product range. Nothing in this business can substitute for a good product range, you can't compensate for it. The first and foremost thing to say about Zanussi - it had an excellent product range, it still has an excellent product range. Second thing is, the market was ready for another brand. You know, Zanussi really came into this market at the end of 1979. At that time Hotpoint was not as successful as it is now. Hoover was starting to go into decline and the other UK brands tended to be one product group specific. There wasn't another brand that really encompassed all of the areas. So the opportunity was there.

The third thing - and I actually think this was the least of the important of the factors though it is the one that probably often people throw up - whereas they came up with a very clever advertising campaign which is something to hang it on. Which nobody had ever done before. Because up until Zanussi coming on the scene it was, here is my latest product and it has these widgets and these knobs and isn't it fantastic. The consumer was pretty bored by that actually. When the "Appliance of Science" came in it was not selling product features, it was selling Zanussi, and what Zanussi meant as a business and what it meant as a company, and that was a totally different plane. Rather than I've got this product and it's gonna sell for £2.99 and it's the best one around because I say so.

**BSW**

Yes, and it made a lot of impact.

**RG**

Yes, but I think it's probably in that order. You know, people argue it was the "Appliance of Science". The illustration that I would use which I think is an interesting comparison is Ariston. Ariston came out with a very clever advertising campaign about two years ago. Ariston and on and on and on. But frankly the product does not live up to that expectation - maybe.

**BSW**

Yes, I think it is interesting what you say about that.

Let's move on away from specific companies. You touched on the distribution network in this country and the influence that certain chains have. What was your reaction to the abortive bid by Kingfisher for Dixons? Do you think that was in the best interest of the industry or not?

**RG**

I think it's very difficult to make a judgment as to whether it was or it wasn't. I think there are certain arguments for and certain arguments against and frankly given that it now hasn't happened I find it not appropriate to actually make a judgment as to whether it was good or bad because I think there were arguments for and against. We didn't come out with a strong stand one way or the other and quite frankly I didn't feel it was appropriate to.

(BSW Note: White goods companies were asked for their opinions

on the proposed Kingsfisher/Dixons merger. This was rejected by the Monopolies and Mergers Commission in 1990)

**BSW**

Yes, I think looking at it merely philosophically if you like as we both know the characters, it is difficult to stand off, but anyway let's try. There was a danger that a group was going to become much more powerful from a buying point of view - have a lot more buying power - putting Comet together with the Dixons Group. Would you agree there was a danger that the higher buying power would have militated against the manufacturers in that they could have wielded an even bigger stick against us?

**RG**

I think that's the argument against it. The argument for it - and I don't actually know how you trade one of these two arguments up against it and say what value each of them has. The argument against it was that if you have one retailer who, well if you accept that those two retailers are to fight it out on the high street at the moment and that has an impact on retail prices and to some extent does not improve the joint profitability of the retailer and the manufacturer. But if you have a scenario where one retailer did not have the irritation of having to demonstrate that he was more lively and aggressive in the market place on a day to day basis than the other one then that could actually be in a long-term interest in the profitability of the industry. I don't think that the OFT would look upon it as a very favourable move but I the clout argument it gives is it could to some extent be traded up against that. That's why I say given that it didn't happen I am not sure that I really want to be drawn into a judgment as to whether it was good or bad because I think it really wasn't black and white - you couldn't actually say it was all bad or it's all good.

**BSW**

Well, that's an interesting opinion. That's all we are really interested in. In terms of distribution now, how do you see the forward look into the nineties? How do you see that developing?



**RG**

What, in terms of when the big get bigger and the small get smaller?

**BSW**

Yes. Or do you think the mamma and papa shops will still have a place?

**RG**

Oh, I think the mamma and papa shop will undoubtedly still have a place. Yes, I think we were talking about the small guy. The small guy will always have a place for as long as he desires to have a place. I think he will have to protect himself to an even greater extent than he has done already and therefore the sort of role of CIH for example as a collective body may become more important as it has in the past.

(BSW Note: (CIH) Combined Independent Holdings)

But I believe he has a future. What we've seen in the late eighties is a situation where you move from small, medium and large to small and large, the medium ones have been squeeze out of the middle. I think you will see a situation in the nineties, where the bigger probably get marginally bigger, but it's difficult to say how much bigger they will want to get other than purely through acquisition. I am not sure how much bigger they will want to get organically. The smaller guy will always stay around for as long as he desires that he wants to stay around. One of the interesting things about the small guys perhaps, and this is a personal opinion, is when you get to the next generation whether that next generation will feel that they actually want to keep their money invested in a business showing returns as it is. If they do the economic calculation they might say as some have, well actually it would be better selling freehold property or whatever the assets of the business are and doing something else. It is difficult to make a judgment on that. But I am convinced that the small guy will stay around for as long as he wants to stay around and one has to say that it is in the manufacturer's interest that he does because that gives a base of distribution. We all know the arguments for the small guy get the big guy. There are also arguments the other way.

But small guy certainly affords the manufacturers a good deal of protection in terms of his distribution base which if you again accept this is the long-term market then that's very important.

**BSW**

Do you think there is any likelihood that there might be a move towards manufacturer owned retailers like you have in Japan?

**RG**

I think in theory there is no reason why it shouldn't happen but I suppose in a sense it already exists because Thorn own Rumbelows, they actually say that they don't have any manufacturing base. So I don't think there is any reason why it shouldn't happen but if you're asking me if I think it will the answer is no. I can't see, particularly in the current climate, why it would afford any particular advantage to a particular manufacturer without compensating disadvantages. If you are going to do it then you will have to do it on a reasonable scale to actually get any economies out of it. In so doing you would have to assume you'd alienate the other retailers that you serve or you'd become less interesting to them. So there is a great gamble that actually might become self-defeating.

**BSW**

The only reason I mentioned it was that one sees moves in the brown goods area where Sony, not necessarily owning, but they are taking the first step. There are many, many Sony centres.

**RG**

I think there has certainly been a move in the eighties, I mean Hotpoint was to a large extent a pioneer of this idea, of actually getting this partnership idea together with the retailer. The issue is how far you actually go down the line without actually becoming a retailer. My own view is that you should support the retailer in all senses so that his actual job is simply to persuade the customer to buy your products once it is in the store and put the money in the till. That's the ultimate. But I think you will have to recognise that there is a line there somewhere and frankly that line has to be drawn between a retailer and a manufacturer and from a manufacturer's perspective. Unless you can convince yourself that your distribution base will substantially improve then I can't see an advantage because really your skills of manufacturing and his skills of retailing, and they are not the same skills. So unless you believe that you can actually substantially improve your distribution base and that is an advantage in itself which I think is unlikely because you'd lose on the swings and gain on the round-a-bouts, then if you convince yourself that it's sound because you can do a better retailing job I think that's a poorly based argument - because we are manufacturers, not retailers.

**BSW**

It is not up to me to comment on this as you've realise.

Other issues - I know these ways of distribution have really got no relevance to major appliances which you are in, but just if you had a comment, in terms of mail order - do you see them changing role.

As you know mail order has had a fairly limited market share of white goods. It's had a substantial share in I believe small appliances which is a function of the product. I think mail order has a tremendous opportunity in white goods. It remains to be seen how well they grasp that opportunity in the sense that if you believe that lines of communication and methods of communication are becoming more and more sophisticated everyday in terms of what you can do with the television screen in your home, then there is an argument that says people will feel more comfortable in the future in terms of shopping from home, maybe. Given the systems that mail order companies have on a one to one basis with the consumer, they have a ready made system, you've got to say that offers tremendous opportunity to them. Having said that, against that, I think there is a lot of people who actually like to go and touch and feel the product - see it, handle it, have it explained to them and therefore whilst maybe in some time in the future the more sophisticated consumer is actually going to sit in front of a screen and key in their requirements and have it delivered when it suits them, I think we are a long way off there. Therefore, one can't see the mail order proportion of the business substantially increasing, whilst there is an active high street because I think generally speaking people like, with the major appliance, to actually see it, to have a relationship with somebody that they can go back to if there is any problems with it and because it is a £300 appliance and it creates a sense of uncertainty that they wish to alleviate as best they are able to. It is a purchase you don't make very frequently and it is not a product you take a lot of interest in the intervening period, so you need some comfort and comfort is a big distance down the end of the telephone.

I think the other thing that of course is a very big question mark against mail order is that the growth of interest free on the high street to some extent take away one of the reasons why you would buy through a mail order catalogue anyway. The instant accessibility of finance. I think at the moment the traditional view as being that mail order has a particular type of customer, a solid customer, and is always going to be a mail order customer and statistics seem to show that customer as sort of holding up as well as any other customers at the moment.

**BSW**

How about Argos?

**RG**

We have never had any business, this is Zanussi, with Argos and it is difficult to see how Argos could break into large white boxes on their traditional style of trading. I think it is going to be rather difficult for Argos, which I must admit I don't know a great deal about in any detail because we have never dealt with them, seeing it as a consumer. Its difficult to see how they could make a large intrusion into the white goods business unless they did it on a price platform, which we would perceive not to be in the best interest of the manufacturer - though obviously at the end of the day if they buy our products then they are able to cut prices. They would have to do it on a price platform.

**BSW**

In this whole area of distribution on so one are there any points you feel I haven't covered?

**RG**

Well, this whole range of questions that you posed here.

Does the ease of distribution within the UK militate towards making import penetration easier? The answer has to be yes.

Have the UK manufacturers retaliated in any real sense to the large numbers of imports? Yes, I think they have. They have retaliated in a general sense as best they are able to. One has to question their investment and their lack of product innovation but maybe that's a function of their ability to invest, maybe chicken and egg.

Has there been, or is there, a 'Buy British' policy on the part of the retailers? Well, I think the only thing that one would say there is that generally speaking I would feel that buyers, all other things being equal, would prefer to buy British. But, of course, rarely are all other things being equal. You don't get if you like an unfair advantage if you are a British supplier. Possibly you did in the days of pre-privatisation with electricity companies but obviously their view is changing now and will change probably even more in that Zanussi has become more acceptable in the last 2 or 3 years, than perhaps it was 4 or 5 years ago.

### **BSW**

How are you finding things like technical standards and so on. Is the trend in the country now - will they accept let's say a VDE approval?

### **RG**

We all have problems with BEAB from time to time as you well know and I cannot say that we are unfairly treated by anybody because we are an importer. I mean, of course it becomes a fudged question anyway because as long as you are buying some products in the UK that the question is when do you actually become an importer as opposed to a non importer. Now I suppose the answer is, well when you import more than you export. It is a bit of a grey area - it is becoming increasing grey because all the white goods players sell things that they import.

**BSW**

Yes. We have talked about distribution and so on. Let's just move into an area where we are looking at with some interest. The is the question of training of people and innovation in design and so on. Are you finding that people are coming forward now that are better qualified perhaps for this type of business than they were before?

**RG**

Well I would have to distinguish between manufacturing and sales and marketing. Now I have to say in manufacturing sense I am a little out of touch because my relationship with the manufacturing side is very much arms length because I am not responsible for manufacture. When I was with Hotpoint obviously I was part of the integrated management team and you were much looser to that. Now most of our products are made in Italy and frankly I am not in touch with what is happening on a day to day basis in terms of this area. In our own area which I broadly call sales and marketing I think there is a recognition that training has a very high value. But in the current economic climate we are probably not investing as much money at it as we should do. If I look at the way that our organisation is run we invest disproportionately quite a large portion of money on training. But there is a limit to how much one is prepared to do that because you know if you've got good people then in an environment such as our which in terms of number of people is relatively small, they'd want to do lots of other things. Training I think is the ultimate in importance but perhaps we are not investing the amount of time and effort as we should do.

**BSW**

Yes, I'm sure you are right there.

**RG**

I think back to when I was a student apprentice with Hotpoint and we had in various areas probably 10 student apprentices a year. Two years out of college is probably only one of them left because you haven't got enough places to actually grow those people into and therefore you sort of looked on the investment and say, hang on a minute was that really worth it, I've just trained him for a couple years and he's gone to work somewhere else.

**BSW**

A lot of the design and innovation that you call for in a product comes from marketing and sales. The days of the engineers that 'engineers the hell out of something' just because he wants to, have gone, I hope.

Do you see any further contraction within the manufacturing industry in this country? Or do you think from what you can see it's probably down in the majors anyway, down to the few and that's the way it will be?

**RG**

Well, we are always making that judgment at a point in time and I think that at this point in time we have seen the major part of the contraction. The only thing that I would put a question mark against is the businesses that are, without naming them, one product businesses and are basically relatively small businesses run from a UK base with no substantial export market, have to be very vulnerable either to acquisition or to contraction.

**BSW**

In the major areas.



**RG**

Yes, I mean I really wouldn't want to name on that. But I think that the companies that are basically one product companies rely very heavily on the UK market. It is very difficult to see how they can (1) have the financial resources and (2) have the investment in new products to compete in an Pan European market place.

**BSW**

Lastly, because I think you've covered all the other areas, what do you see in terms of trends in customer priorities, the ultimate customer? What are they asking for today that perhaps they were not asking for 10/15 years ago when they were buying on price?

**RG**

Well, I think price will always be the lead criteria - and you ignore that at your peril. I come back to a simple statement that if you haven't got the right product at the right price, then you are struggling. No amount of clever marketing will ever compensate for that. Having said that the balance between the relative importance of price as amongst all other issues I think will change, for a number of reasons. One is the demographic changes that we all know that are happening at the moment - social changes in the sense that the people who have got money ostensibly are of a different age group to what they were ¾ years ago. People with spare cash are the "greys", whatever you want to call them. The people who haven't necessarily got large mortgages, where the children have left home - we all know the sort of category, the marketers have got the target. That is obviously going to have some impact in the sense that that sort of person is now buying for the 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup> etc. time and is looking to trade up and is looking for a better product and therefore will be looking more for value for money in its broadest sense rather than just purely where can I get the cheapest washing machine at the cheapest price. I think equally, people are generally becoming more sophisticated in terms of their knowledge of products and their expectations of products and equally they are becoming more demanding.

Legislation is driving things that way. More and more legislation is backing up to give the consumer more rights - I am not saying that that is necessarily a bad thing. So the consumer is going to be more demanding and legally he is going to have the legs to be more demanding.

I think people will also look for perhaps more features in products than they have done previously. Probably the best example to use is a washing machine. If you go back to the sixties, a lot of women bought a twin tub because they actually had Monday as the wash day and they liked to be involved in the wash and they felt they were being involved in the wash - it was almost part of the emotional thing as well as being a ritual in the family life. The attraction of the twin tub was partly that they could actually put clothes in if they've missed one, they could stand by and watch the wash and feel part of it. In moving to the nineties there is a total change round of that situation. (1) people don't just wash on Mondays. They probably wash if they've got a young family every day more than once and it's little and often syndrome. (2) they don't wish to have this same interrelationship with the machine that perhaps their mums did and what they are looking for is ease of use and convenience. They want something they can easily understand, get the clothes clean and leave it to get on with it. Therefore, ease of use, convenience and all these type of factors are going to be more important than they were in the past.

We also of course have to again ignore at our peril the green issues because I think the next generation, the generation that are sort of just coming in their teens who are going to be the purchasers of the late nineties have been brought up on green issues whereas our age group have got the sort of, yea, I'll be green if I can be but I'm not actually going to put myself out too much, it's the government responsibility. I think the age group that are growing up now have not experienced anything else and therefore, when they actually look at their criteria of purchasing green issues are going to be far more important than they were because that's the climate they've grown up in. They are going to have a much more protective attitude to life.

Another issue that's got to be addressed is that the size of the family is going to be smaller - actually number of people. That's not just the UK, right across the Europe we see that pattern which is something the manufacturers got to "bolt-into" in that he's got to have a product that will actually satisfy the single person. There is a big new market there and that may be of the same potential as the market where there is the traditional wife, husband and two children - which has always been seen by most people as the traditional market.

Health is another thing. It is certainly an issue when one talks about refrigeration and say some of the cooking products as we have seen in microwave ovens. The health issues has helped to destroy the microwave market. What that all says to me is that price will still be up there as probably the number one but all these other issues will be plugging away and whilst they may have been submerged in the past they will actually have collectively quite high importance and it will be the retailer/manufacturer - as I think we are both in the same boat here - I think the problems are alike - the retailer and the manufacturer who individually or collectively offer a wider proposition to the consumer is going to be actually successful.

## **BSW**

One of the things that you haven't mentioned and I don't know if it's high on your list or are people taking it for granted now and that's the service.

## **RG**

I think there is more a sense of taking it for granted than there was in the past. But if you come back to Hotpoint's success it was undoubtedly a key factor in their success - the standard of aftersales service that they provided. This no hassle factor again, to me that is another classic illustration of what we did at Hotpoint.

## **BSW**

Aren't you doing the same here?

RG

Well, yes, yes we are. I don't think we quite got the perception they've got for it doesn't come overnight but there is an interesting little example which I will come on to in a moment. In Hotpoint's case it comes back to this no hassle factor. Take away the hassle from the retailer and he'll like you more because basically a retailer wants to sell products in white goods. In brown goods it's slightly different because he's probably doing the servicing as well. But in white goods he doesn't have any involvement in the service. So if he's got a problem he expects you to take it away from him. Therefore, the no hassle factor is very important. You said I hadn't mentioned it. I think everybody recognised that in the eighties. You know, everybody's addressed that, maybe not so successfully as Hotpoint have but generally if you look at all manufacturer's marketing propositions they all now include service fairly high up there rather than something that's on the back page of a catalogue or in a leaflet or something. It's fairly high profile. It's interesting that Philips - Whirlpool when they relaunched themselves under the double banner at the beginning of this year put great emphasis on that. So I think it is generally recognised. To me in the nineties you've got to take it one step further. In the eighties it was to provide service. In the nineties it's to provide customer care, because service to me is basically reactive. Customer care is proactive. That might seem like a subtle distinction but to me customer care is broader. I think that will be the issue for the nineties. It will be a broader spectrum than customer service.

The example which I was going to use with Zanussi which we find quite illustrative is, Zanussi's reliability is excellent generally speaking and that is not just my word, there are various consumer reports without mentioning any names that would substantiate that. Our perception in aftersales service up until fairly recently was not consistent with that. The reliability was not perceived to be much better than average when in reality we would say statistically it was and certainly we could support that with some hard facts. The reason for that is that people do not distinguish between somebody coming along quickly and effectively to mend my machine and the fact that it goes wrong lots of times. They don't actually distinguish between the two.

They see it as all one thing. Therefore, if you haven't got a big profile in after sales service then people perhaps have a similarly knock-on effect to your reliability. We use independent service agents. There was a limited amount of Zanussi branding but there wasn't a corporate message. As soon as we went to a corporate message in terms of having black vans even though their name is still on it, having overalls, having tool cases, having identity badges and presenting a Zanussi image albeit that it's actually through a third party, as soon as we did that we started to get very good vibes back about our service. In fact, our service was very good anyway but it was just this perception angle again, how you present yourself. Because there weren't lots of black and yellow vans belting round the country then we were perceived to have a low profile in service. As soon as we put black and yellow vans out there, I am not saying it was just that but, it was certainly interesting to track how the image of our service went up when we did that. Service undoubtedly cannot be underestimated.

I think in the relevance of the nineties it's going to be a broader thing. I think everybody's latched on to the fact that you ignore service at your peril again. It was a clear message of the eighties. Certainly it was ignored in the seventies. I can remember in Hotpoint actually being thrown out on one account because our service was so bad.

**BSW**

I think we've all been through that.

Richard, I think it's been very helpful. Thank you very much.

MEETING WITH JACK ALAND, ASSOCIATE DIRECTOR, LITTLEWOODS, TO DISCUSS THE DEVELOPMENT OF THE DOMESTICAL APPLIANCE INDUSTRY IN THE UK ON 25TH JUNE 1990.

**BSW**

Did you come into the industry through a mail order firm when you were very young?

**JA**

My background is electronics. I joined Littlewoods as a brown goods buyer in 1970. Prior to that I had 10 years experience with Freemans Mail Order. My background is mail order rather than product but at Freemans I was involved in audio, small electrical appliances, DIY and such like. Shortly after joining Littlewoods in '70, I think in the beginning of 1972, they decided to stretch me as this company does and gave me vacuum cleaners and major appliances. About a year later I was made responsible for all audio and electronics - so I have had about 15/16 years experience at the sharp end, but the last couple of years have not been so as I have other responsibilities of sports and foods and everything.

**BSW**

You have been at the sharp end of this industry all this time. You are a product of the commercial industry - your background isn't what we would call academic or anything like that.

When we look into the sixties - and we are looking now at the industry's profitability overall through the 60's, 70's and 80's - do you think the removal of retail price maintenance at the time was good for the industry or was it bad?

**JA**

I think at the time everyone saw it as an advantage of being a more open market and what it has done in view of what has happened since then it has been a bad thing for the industry because market share as far as retailers are concerned has been one of the problems. It's almost being sales of any cost. I don't like retail price maintenance. I think there is an obvious need for an orderly market. What we are doing at this moment is that some of the product which we see and look at the price at which they are offered is absolutely ludicrous, particularly in the small appliance area, e.g. toasters, hairdryers and such like. I think what we've seen over the past few years is a lack of advertising on TV to promote product, there has been a lack of R&D and products have just been sold purely on price, and we're getting to the stage where the consumer expects to see a hairdryer in a bubble pack at the checkout at the Tesco Supermarket which I think is wrong for this industry.

**BSW**

For the industry in general. Do you feel on the majors this same sort of thing applies. Do you feel that competition has become so tough that quality is reduced, or have they been able to maintain it.

**JA**

I think they have been able to maintain it a lot better than they have been on small appliances and a lot of the thanks for this has got to be due to Hotpoint and their policy of marketing their product on a five year guarantee period on the service in the home, on home delivery and on their service centres, as you know from your past experience.

We've stayed very, very close to Hotpoint. I have a high regard for them for the way they stand in the industry and I am particularly conscious of the way they took Comet on all those years ago, they deserve respect. And it seems to me that the other people are coming round more to their way of thinking rather than Hotpoint moving towards their opposition.

When I think of the likes of Hoover, for example, I'm thinking of Zanussi, we've got the recent or the current malaise of Indesit, change of ownership and such like, certainly the way I see it, and I think this is evidenced by the change in advertising and marketing of products over the last 12 months, service is becoming more and more important, and this is a bold statement that, price is becoming less important - very brave statement, I would not have said that as recently as 18 months ago. But if you just look at the wall behind me here - we keep a careful monitor on what the high street are doing - we take all the tabloids and extract all the advertising and you see the deliberate change, a very positive change, over the past 18 months. Whereas, if you took Dixons, Comet or Currys 18 months ago they were taking an individual product and saying 'beat us - £9.99 for this' while everybody was selling it for £13.99. Suddenly they move in, due to the interest rates, I don't know how they afford it - but no interest on hi-fi - here we have 18 months interest free credit on selected lines of Comet. Then we see the Electricity Boards getting together, 12 months interest free credit. They seem to be slowly moving away from that and moving on to what we see the sheds coming in with now - we buy this big so we must be the best and you're getting the benefit. But they are talking of formal service and a width of range which is going to come through more and more from the multiples. Just look at the Electricity Boards advertising here. First time I've seen them get together or the four Northern Boards and they talking about interest free - look "trust the experts, expert service, free delivery, impressive range, free installations on washing machines".

## **BSW**

There is no discussion of price.



**JA**

There is very little on price there.

That covers, of course, with another very important factor, and I am generalising here on small appliances and the brown goods, the move away from the house brand means that everybody is fighting everybody else face on, with the recognised brands. The prices are very similar. I don't think at the end of the day that the customer - they seem to be getting a bit lazy - will do a lot of shopping around for the extra £5 on £300 video system or washing machine and they are looking for what other advantages there are. And if the retailer considers himself as being the expert, the biggest and don't worry if you buy from us, we'll provide a back-up service there is opportunity.

**BSW**

Where do you see the Mail Order in all of this? Where is it going now that it's role has changed?

**JA**

Dramatically, The biggest thing that we had going for us over the last 5 years has been the multiple's house brands. Unlike some of our competitors, and I am talking Littlewoods here rather than the general total mail order industry, we have persevered with the leading brand names to give it credibility. We have been talking free delivery, we have been talking no interest, we have been talking after sales service and buy with total confidence. Now we've got the problem that the high street is doing exactly the same thing.

At this moment in time, the mail order in this country is very much on an agency basis with a commission charge. I believe there has got to be a move, slowly, towards the direct account. It's become more and more obvious with ourselves. If one goes back a few years, back to the mid 60's say, then every agent used to have about six and-a-half customers, now it's almost totally the immediate family. So that catalogue is going to the final recipient of the goods. The old days where the agent used to take it into the office and into the factory and operate on a 10% commission is fast fading. The number of those there now are few and far between. Let's face it, when we had those six and- a-half customers there was no plastic around as there is today. We're all fighting for the same customers. Everybody seems to think that mail order is approaching a different geographical mix and a different socio- economic mix. We are not. Our penetration, our sales, come from exactly the same geographical mix as the high street and also the same people who apply for the VISA plastic are purchasing through us. Our success in the future is going to depend how well we can credit check people. The same as the credit card company.

#### **BSW**

Don't you feel that the catalogue is such for, some people, is a more preferable way to buy than going into a shop?

#### **JA**

All very much so. I think there is a great opportunity to market on a direct basis but you can't put at risk the enormous volume of business that we are talking on an agency basis. Bearing in mind that the commission is probably the easiest capital figure you come up against the 10%, and a lot of people already acknowledge that fact. It's going to be a very brave mail order company who move away from that agency base to come up with a net price. Because it will also to a certain degree, as you are aware, upset what we call the ordinary market syndrome. Because if you took 10% off some of our prices we could actually be lower than the high street.

**BSW**

So, your general feeling is, to pick these points, that we are not selling so much on price these days, there are all these other aspects. Though, of course, in small appliances, it's more than impulse purchase.

**JA**

If we take small appliances, mail order are losing their share of the business and I think that is inevitable. The value of the product has never kept pace with inflation as you are well aware and who would want to bother with a credit sale on a hairdryer or with anything under £20, it almost seems a impulse buy - if you want a quick replacement you'd go out and get it quickly.

**BSW**

It's a very small part of the market, anyway.

**JA**

Bearing in mind, of course, we do have the INDEX operation so this protects us to a degree and which is growing.

**BSW**

I suppose the success of Argos has led people down that route and you are ideally placed to tackle it. Shoppers World had the opportunity many years ago - and pulled out.

**BSW**

Do you think the sheds, we mentioned them before, are a thing that's going to continue, or not?

**JA**

Oh, yes. I have a great fear of the sheds in so far as their natural growth by acquiring more sites are concerned, I think those days are at an end, quite frankly. They have almost reached saturation point. What they will do without any doubt in my mind is to diversify into other product ranges. I think they have a wonderful opportunity to do so as well under the single roof. I have read some recent reports following the merger of Pay Less and Do-it-all but under the sort of Home Charm - Home Care basis that the WH Smith group are actively looking and making some of their sheds more feminine orientated. That means that they are going to have small appliances in there without a doubt. There is going to be less emphasis on rotary saws and electric drills and a little more on the sort of home charm and you are going to get decorative and that type of thing coming. I think they will also offer a width of range as well, and if we talk to small appliances they will say that's an area where the high street generally have abdicated their range - as you well aware. There is no offer and if they had an offer in the high street this moment in time I think we would be doing even worse than we are doing on small appliances now - in mail order.

**BSW**

You have already mentioned Hotpoint having been so successful and you have touched on Zanussi but why do you think people like Miele, Zanussi and other importers have done so well relatively over the past 20 years and really chewed up a lot of the market shares that used to be held by UK brands.

**JA**

As far as the Italians are concerned they relied entirely on price. I don't understand how the Italian government have subsidised these prices. Very similar to the Japanese situation where they talk about abysmal profits and yet only in the last fortnight we have seen fantastic profits generated by Sony and - they make it somewhere, it may not be in this country, but they certainly make it back there. But you know well enough the political situation in Italy involved with white goods is a monster, and if that really came out as a full issue under the EEC - that would be an interesting one.

**BSW**

But Miele is a high quality product.

**JA**

It is a high quality product, the same as Neff.

This type of product is purchased by a very high socio- economic group, and I would suggest that a lot of it is coming in on built-ins on recommendation and such like, where that is almost sold on people that don't know what the values are and do not really know the market and they buy it because it is the most expensive. You know as well as I do that it doesn't warrant the price differential that's built there - it is quite ludicrous.

We certainly couldn't afford to run it, I wouldn't want to run it. I compare Miele with Bang and Olufsen. It's very much that we've got the Royal Award Sponsorship and what you're buying in Bang and Olufsen is antiquated technology - quite frankly - pinched from Japan with slightly different, not necessarily better but just different, design, and bought by people who want to be seen to be different.

**BSW**

On the profitability point, I think the industry shown itself capable of really developing limited profits over the last 20/30 years. I think that is true, if you look at the figures. Do you agree with that? Do you think there is any possibility we could change the trend in the next 10 years or do you think we will go on like this?

**JA**

Is there any chance of you getting all the manufacturers to sit around the table and agree a policy because isn't this a market share game which we are in? We seem to be looking at volumes - it seem to be volumes first and profits second. I think the same criticism applies to many retailers. I think we are beginning to see the first signs of it and I hope that they will develop because you won't get the development in terms of product and the service to the customer when we are working under the small margins that everybody is at this moment of time.

**BSW**

Isn't that a function of retailers?

**JA**

To a degree, yes. We tend to try and hit price points. We try to remain within 15% of the high street selling price, bearing in mind that we are looking ahead 12 months so we are demanding that suppliers hold their price for 12 months so at certain times we do better than the high street when you look at the latter stage of the catalogue.

The word which hits me is rationalisation. There is no doubt at all that we are seeing the high street trying to cover or control their costs by entering into a degree of rationalisation. It was quoted to me only last week when I was discussing this because we happened to look at this as well. I can no longer afford to deal with all the suppliers that we deal with, quite frankly. I was told that Rumbelows, on the brown goods side, unless they can work on a minimum of 5000 units of any brown good product they couldn't take it in for distribution purposes. Now we have already recognised this on INDEX very strongly, more so than our agency basis. We are going to see some fatalities, there is no doubt about this at all in this industry and it depends upon the retailers what range - you know as well as I do that all you need a beauty care product to come on the market and if Boots don't take it then its chance of success is so small you wouldn't bother. I am also considering Argos in that consideration. But there are two retailers there who dominate the small appliance beauty care market. Now if they were to rationalise their range who are they going to stick with. Are they at the end of the day going to stick with the people who are producing the product at the very lowest cost working on the minimum margin - they will only stick with them until it serves their purpose to move on. And I think they will move into the more credible brands who have more long term policy.

## **BSW**

This whole issue of pricing is difficult because, looked at from a manufacturer's point of view, we have been concerned about the strength of the retailers in dealing with us. Take Zanussi - I'm trying to get into various chains and unless I actually get into a Currys or one of the others, I haven't got distribution. So I fight tooth and nail to get in there, and if I am going to sell to you if you were going to stock my product - unless I have that sort of distribution I am really no good to you, am I?

JA

Zanussi is a good example - why should one pay £50 more for a 800 rpm washing machine than you should pay for a Hoover. And this is where Zanussi I think, with all that money they spent on the 'appliance of science' actually built up a pretty good platform. They also had the Zanussi exclusive dealer network delivery vehicles and such like, so there was much going for them. We took Zanussi on board through the contact obviously when Richard Gibson joined them they were not into mail order and we had them exclusive for a couple of years. Now that was a big benefit to ourselves. That was one of the few products which we felt because of its statement in its very high profile advertising and the fact that they got across to the customer - we are something different - we could take a premium on the product - and it worked - but if we ignore Zanussi for a moment and we talk Hoover, or we talk Creda, Indesit, Merloni, there is no way that I can have products in the catalogue where they are going to be 20% higher than a comparable brand with the same specification. It's a chicken and egg situation. You have got to set out your plan. You have got to develop the market, you have to put a lot of money into a long term investment to create something different. It's all about differentiation - this is what everybody is trying to do here. I come out with the old statement, a very old one, that the trouble with individuals is that they are all the same. And what we are doing, you get someone find a lead like Rumbelows on (three year deal) It was nothing new, but it was beautifully marketed. (Don't rent, you can buy from us, we'll give it to you for three years and you can have it back). It's great, it's good marketing.

But that was an edge, that they were looking for. It was not to do with price. It was almost disguising what the offer was. I feel it's all about marketing in future, how you market your product.



**BSW**

Coming back to the point about retailers in general, if we look back 25 years ago we had a whole pile of retailers there and manufacturers had big sales forces. They chased round all these people and tried to sell. Now-a-days you could do all your calls, what is it - 8, 10, if that.

**JA**

Aren't we the total opposite of France, for example, you have 80% of your business going through 20% of your outlets - it's totally different on the Continent. This is one of the problems we are going to be up against in 1992. But there is a dramatic changing situation as you say, and what has happened? We talked about the strength of the retailers but the retailers, the likes of Dixons, Currys and Comet would not have gained that strength unless the manufacturers have condoned it and gone along with the plans that were laid before them. They were as greedy as the retailers were.

**BSW**

Interesting. It's not for me here to argue with you, I'm interested in your opinion.

**JA**

But, you know, the point you made earlier, when we saw the downturn and Dixons went through that very difficult stage with Saisho and Matsui I was delighted and I made a statement to a number of people. Maybe we were beginning to see the balance redressed. Wouldn't it be marvelous if we had a 50/50 control because it was certainly the other way. Most manufacturers were being led by a ring through the nose because if you were not in a certain outlet which had such a disproportionate amount of the business then you didn't have a range. Now look at the silly situation if we go back a few years to the Comet crisis. What happened? Every fortnight (BSW note the Comet price list) the thing came out and everybody used to reduce their prices to that lead. We've now got it with Argos.

If Argos print a price on the small appliance particularly which is below what the retailer expect it to be at the retailer would delist that product unless you gave him a price enabling him to go out at the latest Argos printed price with no loss of margin. Now Argos has a lot to answer for, and that's a retailer in my opinion who I do not feel are being controlled by some of the major small appliance manufacturers.

**BSW**

But doesn't it come down to what I was saying earlier, this sort of buying power situation where you got a Currys who can buy so many washing machines or an Argos, they are going to come along and here I am sitting - you are the buyer - and I say to you "my order this year, 50,000 washing machines", and you say, well look I want 30% margin or whatever he wants, and if you don't give it to me I am going to take my business elsewhere. And even if you are Hotpoint or somebody like that it's very difficult to fight that.

Did you agree with the Dixons/Currys defense of the Kingfisher deal? Do you think it's better with them split apart or should they have gone together - you know the Monopolies and Mergers Commission Report? It is the same story isn't it really?

**JA**

Well, yes, it is better when they are apart but I always have the belief that if that acquisition had gone through it would never have been left in the structure that it was at this moment in time, you know. Something would have happened to Comet or the other.

**BSW**

But surely it would have increased their buying power.

**JA**

I agree, but I don't think that is a good thing.

**BSW**

The Monopolies and Merger's Commission incidentally were worried that the prices would go up. I didn't see it that way. I think quite honestly if the merger had taken place we would have ended up in a position where they would have screwed the prices down again.

**JA**

I think they would have screwed the prices down. I think they would have gone out of very competitive prices to erase yet more of their competition before they then went on the track - they became so important a supplier as the old Woollies syndrome, build them up to a point where you pull the rug underneath them. Unless you provide at almost ex-factory cost then forget it, you are out of the ranging.

**BSW**

Just changing the topic because I realise we have to watch the time. In relation to government, do you think that the government, in your view, have assisted this industry in any way over the past 25 years? Have they given us any help do you think - compared with what perhaps some of the Continentals have got, you mentioned the Italian industry as well?

**JA**

I would say not - I have to consider that question - but I am thinking of the old hire purchase when that legislation was removed, there is nothing that comes to my mind which, very wrongly, encouraged British manufacturers to fight the competition. We have already touched upon Italy. They had an unfair advantage do too, of course, the Japanese in my opinion.

**BSW**

Within the EEC itself do you think other governments gave national protection to their industries?

**JA**

Certainly, Brian. I have never known any country so nationalistic in every way, I mean to say, the video recorder import deal where they stuck the import base at the farthest part of any port and then put restrictions on it. Most certainly France would protect their own interests far greater than we would do. We are seen, in my opinion, very much as the dumping ground for Far East product. In a way, Brian, in a around-about that sort of way, this may have proved in the long-term an advantage now there are so many Japanese manufacturers set up in this country has been the only way they can get into Europe.

**BSW**

Yes, that's probably true.

**JA**

You know only too well that our biggest exporters are the Japanese on brown goods. Exporters, not importers, to UK.

**BSW**

The issue from our point of view, looking at the industry as a whole together, the points that you have raised are that the government view the fortunes of the appliance industry as a low priority. It is very interesting in terms of the Monopolies and Mergers Commissions conclusions on the Dixons/Currys deal that I think are actually wrong. They got to the right decision for the wrong reasons. One of the things we hope we would be able to get out of this is that the University can put forward a view that may get the government on a more direct and proper track rather than talking about all these other things.

From what you say, and I don't want to prompt you, but do you feel in any way that UK manufacturers have really retaliated regarding the threat of imports or have they just taken it all lying down? Is there any one manufacturer that comes to mind that might have done something?

**JA**

This moment in time, Brian, no - not one I'm afraid.

**BSW**

They got beaten up, really.

**JA**

Maybe there should be one but it doesn't come immediately to mind. If I start scratching then the answer has got to be no.

**BSW**

Again, would you agree that the UK distribution system militates towards making import penetration easier? I think you said that earlier - in another way.

**BSW**

Well, let me just bring some more broader based points into this. Do you think there is something wrong with our academic and industrial training of people? You talked about design. You mentioned Japanese design and things like that. Have we got it wrong in this country?

**JA**

I think we have as far taking some good ideas and developing them. That's where I feel that government resources should be spent and maybe set up in conjunction with the industry. When you look at the products which are on the high street retailers shelves and which are in customers' homes these days and the number of products that have actually originated from a seed of an idea in the UK quite frankly we are so far behind. It's all to do with investment at the end of the day. If the manufacturers of publicly owned companies who have to report to shareholders....

Let me take Philips, I have a great deal of respect for Philips as a company because I believe that they have an objective to probably to be everything to everybody. I find them the most frustrating account to deal with, at the same time I find them the most stimulating account to deal with. I never visit Holland without finding out something new about their operation or what they are trying to achieve or what their objectives are. They are certainly very much in the forefront of development. They are coming to the rue day that they went down that path, albeit their resolve to this moment of time. There are far too many manufacturers around who are picking up the idea rather than originating any ideas and capitalising on them. Let's face it, this in the old days is where we used to criticise the Japanese but haven't we seen a change about there now. The ideas are actually originating out of Japan now.

**BSW**

Isn't it a function though - you talked about public companies, if you take our company for example, we have to produce an improvement in profits each year come what may, for if we don't the city thinks we are bad guys or we get taken over. Don't you think that militates against investment in Europe?

**JA**

Very much so, absolutely, couldn't agree more. Because you are looking at 12 months ahead rather than five years ahead, and without some sort of government sponsorship or some industry financial aid I think we are going to be in the same boat all the time.

**BSW**

It's interesting what you say. Do you think then that the contraction of the UK manufacturing base will continue with the steady increase in imported brands? Do you think that is the way it is going to go now?

**JA**

I see little alternative than the short to mid-term. I think we will then reach a point where those remaining will probably be the most effective. I think we are going through a culling operation almost at this moment of time - and I am not saying that all of it is wrong. There are some people out there who shouldn't be there in my opinion. I think that applies to both the retailer and the manufacturing side. Surely though, this malaise is making itself felt around the world. We are seeing, whilst I mentioned a little while ago about Pioneer and Sony being so successful, we have seen in the last couple years the likes of Akai part of the enormous Mitsubishi going through some enormous problems. It seems that the industry in which we are discussing in this moment of time is over-subscribed in both areas, both in manufacturing and in retailing. There is too much fighting too small a market. Everybody - the objective is to try and get a larger slice of the best standing and almost a declining cake. Now the only way we seem to be able to do that, because there hasn't been the success over the past few years which you have touched upon to invest money in R&D they are doing it on the age-old fashion, offer the lowest price. It's got to come to an end.

I mentioned Philips, let's look at another company, also very aggressive in their R&D and their ideas and developments, and that's Braun. They are somebody else who can command a premium for the product coming back earlier the second division people. They are not the people who would launch a product onto the market. They are the second copy outlet. Let's just take one - we'll talk in companies, I won't talk individuals -take the Pifco group. I don't think they have ever come up with a new idea in their life, but they are very, very quick at responding to what is happening in the market place and bringing out a 'me too' product at a fraction of the price without having got involved in development. Everybody supports it. I find it rather tragic quite frankly.

**BSW**

We don't really have any patriotic tendencies here for British products.

**JA**

I'm afraid we have everything but, it seems to me and we don't build up. We, as a company, went down a path a few years back particularly on Hotpoint by using the British flag and saying it was British made. Now one can do that in certain areas but when you get into audio and television and such like, it is almost a deterrent to say it is British which is a terrible indictment. People expect Japanese technology and everything else. I find it rather tragic.

**BSW**

On the white goods did it help at all, the British....



**JA**

Although I think it didn't do any harm on Hotpoint, let me put it this way, I would not have put the Italian flag against Indesit.

I think we needed to do it because everything was seen as being Italian. The other leading brand names were bringing in merchandise as did Hotpoint as well, of course, on some products.

**BSW**

Coming back to your earlier point, I think I've got it right, you were saying that you believe that the emphasis in terms of selling proposition has changed, although price is important?

**JA**

It is not the deciding factor that it was as recently as two years ago on making a purchase. I think that the retailer has moved away from that. It is all the possible hidden benefits. It's all looking for a marketing edge. It might be, Brian, that the consumer will benefit in the short/mid-term period. But if they are going to provide a service somebody has got to pay for it. Now where does it come from? When the retailers recognise that the customers are going back there because they received good service on the previous product, then the prices will be allowed, hopefully, to rise. Now, does that mean that the retailers will allow the manufacturers to increase the price? Anybody who walks in here and starts talking about increases, the first thing we do is look at inflation the next thing we do is look at where they stand against their competition, and, of course, any buyer will lay the competition pricing against that manufacturer. I'm not doing a very good negotiating job here - you come in next week with price increases I would take a totally different tack.

**BSW**

You buy a lot from overseas and particularly within Europe, I am thinking of Switzerland and so on although they are not in the EEC, do you think if we join the EMS will that help at all from your point of view?

**JA**

I would have thought so, yes. We don't, incidentally, buy a lot out of Europe. Not on a direct basis, Brian. We buy a lot from the Far East on the fashion side, but in this area we do not buy a lot directly out of Europe. But yes, it would. I think it would give us stability obviously to remove the currency fluctuation. It's got to change so dramatically, not in 1992, it won't happen overnight. Everybody seems to think a door is going to open and everybody dives through it. It will take some time to develop. Without a doubt there is tremendous opportunity. At this moment of time I would be bold enough to say that as far as the UK is concerned there is far more risk than there is opportunity, because I believe that we are rather slow at responding to it. Although I read in a recent report that Europe seem to be way behind as far as management perception of 1992. I mentioned France earlier, I think it's a wonderful example, where their distribution and power of retailing is almost the exact reverse of ours. Now that is a wonderful opportunity for the French to get a 'toe-in-the door' here and, as you know, on the mail order side where I feel particularly vulnerable because the catalogue could be international. You could have dual pricing, once EMS is on board you could have a standard pricing, you know, we carry the different tariffs for different countries. As you are probably aware, La Rednit, I believe if they don't have it they are certainly in the process of acquiring an controlling interest in Empire.

**BSW**

Isn't there some scope, I don't want to get too specific, for a mail order company in this country to link up within Europe? I know you were talking about France coming in here, but the products are the same.

**JA**

The answer to that has got to be yes. But do you link up with another major company? The powerful ones and the Germans. They are the biggest mail order company in Europe. I doubt they would welcome a link up with any body over here. They would want to do it totally on their own.

**BSW**

One of the ways of defending your position here.....

Am I right that the biggest mail order markets in Europe are here and in Germany? So, surely, the way to defend your position here is to link with somebody in Germany which then allows you to agree 'shooting rights' if you will in the two countries.

**JA**

I wouldn't argue with what you say. I did say just a moment ago that I feel there is far greater risks in the UK and there is opportunity.

**BSW**

This isn't meant to be strategic thing in that respect but I think that there has got to be some scope. Like we as a manufacturer looking for relationships within Europe and to stop this, if you like, to make the competition more controlled. For example, in the lock business, Yale, it sells in over 120 countries. We desperately need a decent tie-up with the German manufacturers. Talk about France if you like, with all the reservations you have about France, are exactly the same with a manufacturer. We need a tie-up in Germany and it is possible that we are going to get the tie-up in Germany through East Germany.

**JA**

That's an interesting one. I hadn't thought that on through.

MEETING WITH JIM COLLIS, DIRECTOR GENERAL OF THE ASSOCIATION OF MANUFACTURERS OF DOMESTIC ELECTRICAL APPLIANCES (AMDEA), ON TUESDAY 8TH JANUARY 1991.

**BSW**

Jim, you've been in the industry for some years really, haven't you.

**JC**

Well, I have been in either associated industries like consumer electronics for many years and, in fact, if you span the sixties through the nineties: In the sixties and seventies I was in the consumer electronics industry and I have really only been in this white goods industry for the last eleven or twelve years. Many of the problems are the same - many of the characteristics are the same. For example, most of the retailers are the same. Most of the methods of distribution are the same. Most of the government impacts have impacted equally on both those two industries. So on a whole I suppose I've been around for quite a long time.

**BSW**

Yes, you've been Director General here for twelve years. So I think you are probably well qualified to comment on some of the areas that we really want to get into this morning. Probably the key thing for any industry is profitability. What, in your view, are some of the key factors that have affected either the good profitability or negative profitability, the losses, within the industry over the past 25/30 years?

JC

I have been quite clear for a long time that the government action of the late sixties and through the seventies has been the chief factor in allowing our industry to become dominated by importers. When I say government action, I mean our product area was subject to purchase tax and credit restrictions. Someone could look it up, but I think there were something like fifteen changes in just the initial deposit required to be paid on hire purchase arrangements over a period of about 8 or 9 years. The whole area of what was called 'Stop - Go' but which government sources called fine tuning, was responsible for making it impossible to plan. I can recall when I was Managing Director of a consumer electronics company we would sit around table on budget days listening to the Chancellor and at the end of his speech we would be faced with either closing a factory or trying to work out how to double our production. It was always something like that.

So false markets were developed and when they were seen to be false in a plus area they were chopped back again. When you had a situation where, for example, you moved suddenly ..... One of the best examples of a government action that killed chunks of our industry, damaged it, was the celebrated Heath - Barber dash for growth - which was 1972/73 where, for example, for major white goods, we went overnight from the requirement to pay 30% down and the rest over two years to no requirement at all, only ones set by the shop. Now that released the pent up demands for products like the colour television sets then and also, particularly, washing machines. So you went from an actual market, again you could look up the figures, but I suspect that the actual market was running at around a million units a year. The potential the following year was two and a half million. In fact, nearly two and a half million were sold. But it was quite impossible for you to take enough action to increase your production to meet that demand.

The major retailers, and I am thinking of people like Comet and others therefore had to go elsewhere. Where did they go? They went to Italy. That was the great break through for the Italians. The Italians did have well designed products and they took their opportunity.

They had not really had any great success breaking into our market with their unknown brand names, Indesit, for example, Zanussi. All of a sudden they were able to come in.

The Italian industry had been growing fairly rapidly, in a steady planned way. Alright, so they may be losing money, too, being subsidised as we claim in terms of their steel etc.

But in spite of that there was a sudden release of market demand. I remember going to a meeting of the radio industry council at which a fairly senior civil servant accused manufacturers of having let the country down by failing to respond to the tremendous opportunity we had been given. In fact, the opportunity had been given six months and in that time production had increased by 50% - or 150% rather - and yet we were accused of not being able to cash in.

There were a lot of by-products. Again if we come back to consumer electronics - and it certainly happened in some small appliances, too - everybody stopped making radio sets because the profit earner was colour television or in case of yourself in relation to your own experiences at Mexborough, (BSW Note: Morphy Richards) profit earners would have been cookers and washing machines at Peterborough. So you concentrated, at Mexborough on portable irons, toasters, or something else or did no development and kept "all hands to the pumps" in your major production area.

Of course, three years later - and the economy was greatly overheated - the chop came. The market went from 3 million odd back to 1.5 million and from 2 million odd back to just over a million. Now the Italians didn't go away because they had managed to establish themselves. In fact, because their market was still growing they were able to offer much more competitive prices to retailers and the manufacturers were cutting back into a non-profit situation which is why you began to get the disappearance of a number of well-known brands. I do think that the key area was that period of the sort of sixties and seventies. And I suppose it went right on until Dennis Healy was forced to accept the IMF conditions and he acknowledged that so called "stop - go" and "fine tuning" was damaging the economy.

So since that period, I think UK manufacturers have begun to have more confidence and in fact in major product areas we've obviously held our own in terms of market share.

**BSW**

Remember you were involved like me in the NEDC meetings. Do you think demise of those meetings, that forum between management, union, government and so on, really was a loss to the industry?

**JC**

No, I don't at all. In fact, I always felt at that particular forum was singularly useless at least towards the end of it's period. The reason that it was, I was always trying to persuade, what they really should not have talked about, was macro economic policies.

What the NEDO wanted was a grand plan, for the next ten years. Well, of course, the people sitting round the table even though they were the chief executives of British industries they were not the decision makers. For example, Chiam Schreiber was not in a position to commit in advance Hotpoint because basically it depended how Hotpoint fitted within the overall GEC policy. The Managing Director of Hoover had a whole succession of different American masters - Jimmy James of Electrolux had a lot of authority but basically decisions were being taken by guys back in Sweden.

Everybody was sitting around the table and the NEDO boys always try to say now you know long-term strategy for the UK industry and I would say we can't make it.

So to do a plan for the UK industry was never sensible. Some of the other things which NEDO tried to get into was like better training, workshop managers, some kind of R & D coordination.

So I didn't feel that our particular EDC was effective and when candidates were "up for the chop" I told Brian Quilter that ours was not one for keeping.

**BSW**

A number of people I have spoken to though, Jim, have expressed the view that because of the nature of British industry in general, they are generalising here, and indeed the nature of the financial city aspect to industry in general in this country all our planning of necessity has to be short-term because everybody is looking for profits tomorrow. There is nobody willing to wait while development is done and so on. Now, apart from the aspects that you have raised which are government inspired market changes what about the general - do you have a view on - ?

**JC**

I think I would agree that all British industry is affected by the termism of the city. Now I know it's - I say that quickly - a fashionable thing to say - but which UK bank, for example, would take the attitude of the Japanese banks in terms of lending at fairly low interest rates for a very long period of time. Incidentally, the Japanese banks having lent money demand regular contact with the manufacturers. They don't then try to dictate how they should run their company. Now, UK banks having lent the money express no more interest until they see a set of accounts which indicate a particular company may be in trouble.

As far as our industry is concerned I think we have a slightly different situation because so much of our industry was run by companies within a group and Electrolux is one example although, of course, where appliances are an important part of the group.

GEC is another example where appliances are the least important part of the group.

**BSW**

We are referring there, of course, to Hotpoint.



**JC**

Yes, and of course Morphy Richards. What chance was getting Weinstock interested in a formal proposal related to Morphy Richards? So, basically, all he was doing was doing perhaps what UK banks do to other companies - to see what the bottom line was and if it wasn't satisfactory they would chop it out or do something to match it. I think that on the other hand the Thorn group, I suppose, hid their inefficiencies of their nationwide operations for a long time within their consolidated group figures. They never dug it out. Jules Thorn never broke down his accounts in a fair amount of detail so they had an inefficient white goods business.

**BSW**

You are talking there of TRICITY.

**JC**

I mean, I suspect they were allowed to run inefficiently and unprofitably at a time when Thorn were perhaps making a vast amount of money out of lighting - so it didn't matter too much.

So maybe, although in one sense, your initial point was short-termism and concentration on legal results. The converse was that some of our major companies were probably being neglected to some extent because their parent company did not regard them as the most important part of the group so they wouldn't have suffered from short-termism. In their case, I think what happened was that when other parts began to run into difficult times all of a sudden the spot - light was put upon the white goods operation and very often they seemed to be in a state of rather severe decay.

**BSW**

Yes, given that is true probably for a number of different companies, it can be documented and shown that several companies actually did make money during the eighties and seventies. What was special about them looked at from where you stood?

**JC**

I suppose in hearing me and despite what a number of managing directors have said to me, it was possible and still is possible - and we won't talk about problems with retailers at the moment - to run a competitive operation in major white goods if you want. If you invested money in proper equipment and if you really got to grips with labour situation and the productivity, I think you can still run a very profitable operation in the UK. I'm not talking about this year when the market is 25 - 30% down but basically one or two companies have shown it to be possible.

The best example has to be Hotpoint. There are reasons why Hotpoint was able to get themselves into that position - and to Hoover also into that position possibly.

At least they've got modern plant, modern equipment and not stuck with old buildings or paint spray shops, occupying vast acres of land.

So I would have thought with good management and investment it is possible when people like Martin Naughton of Glen Dimplex pick up companies that have gone bust and then turn them into very profitable operations.

I mean look at the best example of all recently is Crosslee. Now Crosslee was a management buyout from Philips Halifax. Philips decided to close the Halifax factory on grounds of, I suspect that it was the least efficient of their factories. Now there were other reasons. It was least efficient because it wasn't terribly big, there was no room for expansion, it was old and there were other reasons probably. It was taken over by a management team and, of course, it became responsible for their own overhead rather than having to send a cheque to Eindhoven for their share of the Philips overhead. They've become a very profitable operation with more than 50% of their sales in European market.

**BSW**

This is in tumble dryers.

**JC**

In tumble dryers. Now I have heard - and you've heard - people say that there is no European tumble dryer market - peculiar British market - and these guys have sold hundreds and thousands of tumble dryers in Germany and in other particularly northern parts of Europe. It actually forced German manufacturers to think about making tumble dryers. So I think it is possible for UK manufacturers to survive and be competitive. But clearly the other areas, the margins are very tight - very tight in the UK market.

German manufacturers get significantly bigger margins from their products in their own market than our people do in this market.

**BSW**

Yes, we are probably moving on to the retail philosophy and so on. But I would just like you to comment in moving into that. Probably one of the biggest things that changed in the retail trade in the sixties and therefore on to now is the removal of the RPM. I mean that changed everything, didn't it?

**JC**

Yes, and of course the existence of RPM brings a false sense of security to manufacturers and retailers and probably it was the most dramatic change of all in terms of government changes in legislation.

**BSW**

Do you feel that any government in the last 25 or 30 years had exerted any form of protectionism in favour of the British industry?

JC

Not in our industry, no. I suppose the only industry that had any public support was the car industry and to some extent ship building. I don't think any government help came to UK manufacturers other than by incentives to build in deprived areas. It always seemed to me that if you could only justify going into production as a result of getting a cheap rent - down in the back end of Wales - the chances are you've got a poor business. I suppose the regional grants did help manufacturing industry, but that did occur rather earlier than later in a period when we were in expansion. I can't think of any protection that we as UK manufacturers obtained. For example, we made a very big effort at one stage to put forward anti-dumping cases against the Italians. We got "no joy" from the government at all. A NEDO report investigating the Italians just came back and said that there was no evidence of protectionism and they were better at manufacturing than we were. There might have been an element of truth in that but we knew at the time that the Italian industry was heavily subsidised in terms of steel. After we joined the common market I led a team from Hoover to the Commission in Brussels and we had very good conversations with the commissioner - we put forward our evidence as to Italian support and he said "Yes, well we know that - we know the Italians are giving subsidies - we will try to persuade the Italians to stop doing it. However they will probably say "Why can't you get the British to get their act together?" We had no support from the Department of Trade and Industry - we did it off our own bat. It's difficult to say one should be protected by government and I do believe there should be free trade. I do believe the British Government, over the past thirty years, have interpreted that much more generously in relation to foreign competition than any other governments.

I was just saying that the public given the directive I think there is a great danger that the only government that's certainly going to take any notice of it is the UK government. I must say I don't see the French government giving much opportunity in the public field for non French manufacturers. That doesn't affect our industry because we are not in the public procurement field.

**BSW**

Let's switch to distribution/competition. Have I, under that heading of government and government actions, covered the sort of things that you wanted to say?

**JC**

I think that you've talked about national protectionism within the European Community. Of course we have had some help from the European Community in that we did mount some anti-dumping cases which were successful mainly against Eastern European manufacturers. We did one on freezers and refrigerators which was successful.

We did one on vacuum cleaners. If you want to know the definition of successful, the definition of successful as far as UK manufacturers were concerned was that, for example, a particular mail order house buying vacuum cleaners from Poland. After the duties were put on the Polish product into the EEC went back to the UK manufacturer they previously been using, because they got a better price. When, incidentally, the Polish manufacturer's representative, who is a Swiss, tackled me following Domotechnica and complained bitterly as a result of our dumping case, he had lost business, I was able to say to him well that's exactly why we brought it in the first place.

So there have been some protection but we, for example, got no protection from the Commission really when we tried to mount a dumping case against Korean and Japanese microwave manufacturers. Interestingly enough, as you probably know, the rules for dumping are that you've got to prove both dumping in terms of price and also injury and the provisional results of the detailed European study was that the Japanese were dumping in relation to price but not causing us any injury, whereas the Koreans were causing us injury but, in fact, not dumping.

But I think there is very little chance these days in mounting a successful dumping place in the community for the kind of product area we are in. Now if it's soda ash or a basic raw material then it's easy to do the pricing. To do it even with our anti-dumping case against the Eastern Europeans on refrigerators or vacuum cleaners we ran into great problems because they would say well we don't have a return button on our vacuum cleaners and I would get calls from Europe saying how much is the return button. So I think that there have been some effort within Europe from time to time but not much within the UK.

As to technical standards I think it's not true to say that technical standards militate against free trade in the EC anymore in our product area. I mean there are still some differences, Our 240V system - you've got to make, certainly in major white goods, different products have some differences that haven't worried the importers and hasn't worried us in export markets. When I say worried, I mean something that can be done easily. You've got to decide to actually do it.

## **BSW**

But in the seventies and eighties surely the technical differences did create a trade barrier. Did it not?

## **JC**

No, they didn't. You see, our products are covered by the low voltage directive which was 1973 and the famous Cassis de Dijon case and also a follow up on -Cremenini Vrankovic- both upheld the validity of low voltage directive and really from the mid seventies onwards it was, in theory, not possible to keep to give out UK products from Europe or visa versa. Of course what there was, there was the question of certification and the costs to industry of that. In Germany, for example, there was no way you could get a product into the German market and that's even true now without VDE approval. Now VDE approval is not mandatory in terms of selling into Germany. It's just that no retailer or consumer will buy a product that is not VDE approved. So it's a sort of subtle barrier to trade.

Conversely, of course, there was no need to obtain BEAB approval in order to get into a lot of major UK retailers. The only retailer in the UK that demanded BEAB was the electricity boards.

**BSW**

The Electricity Boards themselves.

**JC**

In fact, that sort of non tariff barrier to trade existed that way round. You had to take your product and get VDE approval. On the other hand that barrier has been demolished now through the CENELEC certification agreement which is working quite well. Although there are still some delays in some countries these basically will not hold up anybody who is determined to make the effort in the market place.

**BSW**

So really that's all come down and it's moving quite well.

Shall we move on into distribution because, of course, things have changed quite dramatically, haven't they over the past twenty years? It really is a question, Jim, of how you see it.

JC

There are two elements I think in this and to some extent they both relate to the government's manipulation of the economies. If I could take a some a example, Comet. Now Comet was a fairly new concept for the UK - warehouse operation on the outskirts of town and on a trading estate with no real display of the product. In order for them to succeed initially it was important for them to be able to sell branded products and to put the well known brands in their newspaper advertisements because a person was not necessarily going to drive out to a warehouse to buy a product which he hadn't heard of - but he would go out to buy a product that he had heard of. So on that side, when the great boom arose, a lot of the manufacturers have never really liked supplying Comet anyway because it was a hassle to keep on selling lower prices than other people, so they began to cut them off. So in order to survive Comet had to go around and look for imported products, brand name product or even one or two products on which they put their own name on. Although they were never very keen on doing that - they never really did that.

The Dixons operation was somewhat different. Dixons had built up their photographic business initially with branded products -but then they developed their own brand name, and I forget what it was for photographic products. And so the OEM business developed. Now interestingly enough, a lot of UK manufacturers in the early days began to get into OEM and in the brown goods business I think that's what killed them.

Fortunately, a lot of big players in the white goods industry refused to get involved. Now, when I say fortunately, it had two effects. First of all they would say to Dixons and to the catalogue houses - mail order goods - no, we are not going to make products for you as our standard product at a cheaper price with your brand name on, because that is very damaging. I have seen this happen.



I remember in my own business at one stage - which was Bush Radio which probably had the highest brand name concept - we actually did make some products for the Co-op under their brand name which I think was Defiant. It was a very small part of the market but we had been doing it for donkey's years, I had been into the Co-op and seen the salesman sell a Defiant product to a customer by saying that the product was made by Bush, exactly the same as Bush but it's 50 cheaper.

Now, because the UK manufacturers wouldn't go into OEM in white goods, of course, that forced the Dixons, etc. to go abroad and look for people abroad who would do it and basically the brown goods side went out to the Far East, and they've done that for microwaves as well.

They also did it as a self-protection device because after the abolition retail price maintenance and with John Lewis concept of "we are never knowingly undersold", advertising in retailers and by our industry never having been a feature, they had to protect themselves from - the lowest price if you can find it cheaper anywhere come back and we'll fund the difference - ploy. At least the product sold under Matsui or Sansui because it's your own you are not going to be under-cut on that. So retailers to some extent were in the free for all that followed RPM. I don't necessary blame them. Of course, it enabled them also to do some very, very aggressive buying and they are able to buy (say) Matsui in Japan and then buy Matsui in Korea and now buy Matsui from Thailand or wherever, and it's still Matsui product. There is no resemblance in the product that's called Matsui last year or the year before.

They only ran into trouble when they got a product which they had made in Yugoslavia and put Matsui on that and they actually advertised it using the phrase - Japanese Technology - and they were forced to withdraw. They weren't forced to take the name Matsui off the product that's made in Yugoslavia even though the consumer believes its probably made in Japan and Japan has a good image.

Now, interestingly enough in white goods I think it's fair to say that the senior executives at Dixons will say that unlike brown goods where you've got to have the whole shop, Matsui and Sansui and various other brand goods, they cannot operate in white goods without Hotpoint and Hoover and the well-known brands. It has forced them to some extent to change their standards. Of course, the other problem for UK industry - but it presents a problem for retailers as well - is if you get a sudden slump as it has now, you cut off your UK supplier overnight. You cut off Hoover deliveries, you cut off Hotpoint. You can't actually cut off Matsui deliveries because you've placed a firm order for "x" million Matsui and half of them are on the water or they have arrived. Its very brutal, if they cut them off by saying that's our last order and delay some of it, the overseas supplier may never take an order from them again. Nevertheless they find themselves in a situation where they are overstocked and it could be catastrophic.

I think the latest indications are that Dixons, for example, are over the worst now but certainly and it certainly must have been very severe for them at the time.

I suppose that's why they suffered and became vulnerable to the Kingfisher thing from which they were saved by the Mergers and Monopolies Commission.

## **BSW**

Did you agree with that decision by the MMC?

## **JC**

When I heard of the bid I was convinced that it would (a) have to go to the Monopolies and Mergers Commission (b) they would reject it. I did say it to a very senior executive of the Kingfisher Group and they were totally convinced that I was wrong and, in fact, one of their very top people afterwards came to say to me that I was the only person who consistently said you it would fail. I don't personally believe that but I'm sure no one would believe me.

British manufacturers were in an ambivalent position of, I think it's fair to say that they found it easier to deal with the Kingfisher Group - than with the Dixons Group.

One of the great ploys being made by Kingfisher group was that they would become much less to reliant on OEM, more supportive of brand names than Dixons had previously been. Now that's quite an attractive sort of bribe in a way to go to a UK manufacturer and say look, instead of having 50% of our products under our own in house brand name we immediately reduce this to 25%.

So on the other hand the UK manufacturers recognised that the buying power of the new grouping would be even more enormous. Now there were two views about that. Some people were saying well the buying power of Dixons now is so enormous anyway, and Comet and Kingfisher are so big that it really won't make much difference

So very few people were prepared to put their heads above the parapet and in terms of submission to the Commission itself, AMDEA, made no submission. Because there was no consensus view amongst our members and anyway I think as a trade association we could take the view there that this was a trading relationship between our members and their customers. All that we did say to the OFT was that we would look at some of the figures and we also supplied them with other figures where they needed them - just in the interest of making sure they got the figures right.

## **BSW**

For what its worth I think the buying power of that group had it gone through would have been enormous. I mean there would not have been anybody to compete with it. I think there was a danger which in a round-about way the Commission saw. They didn't use that reason but I think there is a danger that they would have been so powerful they would have screwed everybody in sight.

## **JC**

Yes, I think that's right. I mean in certain market areas, not so much in major white goods but quite strong there too, they would have totally dominated.

Of course, the other major thing with our industry is the privatisation of electricity. Now the Electricity Council when they were the dominant part of the industry, operated a strong Buy British policy. They rationalised this on a number of grounds not the least is that significant users of the electricity load are factories, and UK factories making UK products were of benefit to the electricity supply industry.

They also did feel that they had an obligation to UK manufacturers. They also, as I say, were the ones who have insisted upon BEAB approval which they did on two grounds, one of which was to support the BEAB operation, but also because they to an extent which other retailers were not supporting BEAB. They also felt very vulnerable if, for example, the product that they sold caused an accident because it turned out not to be safe they felt that as a public body, which is what they were, they are much more vulnerable to criticism. They had to be squeaky clean in all respects.

Now, of course, we have the separate companies, they are beginning to operate in totally separate ways. There is no co-ordinated policy. They have the Electricity Association which is just like us, only they have rather less members than we do, although their members are very big businesses. At the moment they are all being a bit macho. Each buyer sees himself as a major buyer.

Gradually they will move to a situation where they will begin to operate as a buying group, I'm sure in a way that SPAR and CIH etc. do.

I think that they will begin to see that this isn't a reasonable way for them to operate. I am sure they will start to move their way, first possibly in their consortium - one or two of them are beginning to think like that. Because, although they may be big in their area - I mean if they are going to compete with Currys and others well they're going to have to do it on a national basis. We would have to see how that develops. Whether they would be as supportive of BEAB, I don't know. In fact, of course the whole European situation is moving towards the situation where basically I think some kind of certification will become mandatory for safety and possibly even for performance. Performance in relation to those products which are affected by green issues.

**BSW**

You haven't used the word but I assume you would agree there has been a consolidation of the retailers in the high street in this industry and whilst it's not proceeding at the moment for obvious reasons I think there is an increase in loss of the small dealer probably just by coming out of his business because it's not profitable at the moment.

**JC**

Yes, I think it's fair to say that the percentage of the market held by small dealers now is slightly higher than I would have thought the past ten to twenty years ago. Now some of them do seem to hold on quite well and I think that does relate to some extent to service. It is a strange thing to say because basically in major white goods most service is provided by the manufacturer and yet I think that certain consumers still feel more comfortable buying their product from an independent retailer whose been in their town - I know this probably doesn't apply to larger cities - who's had his shop their a long time and they know that the manager, however efficiently it's run, the manager of Dixon or Comet is likely to be a different guy when they go back for service.

The independent dealer has held on particularly well. I think the support given by Hotpoint, for example, and one or two other companies and particularly the importers, AEG is a good example of that. But independent retailers, small retailers, basically can play no major part in the market place but they have held on rather better than I would have thought.

**BSW**

I think the distribution system that we have here is somewhat unique in the European Community isn't it, because you can come and see about six or eight buyers here and you've got almost national distribution.

**JC**

Yes, absolutely. Of course, selling to one or two large retail groups who have their own servicing organisation saves you time.

Thus you come in as an importer. If you can get in there you don't have to set up a service operation, you don't have to do anything. You have a very tough bargain on the price and you probably have a very tough bargain on the percentage and the additional spares you have to send free.

Now to go into France used to be the case and probably still is that you've got to set up service operations all over the country. You can't just go to somebody's house and think you can get national distribution, because you can't. In Germany, of course, it's even more difficult because of the positions of the towns, unless you've got a service operation where you end up, and you'll probably find it very difficult to make any real progress.

**BSW**

I think the margin squeeze here is going to militate again in a downward sense on the profitability of the industry, isn't it, unless you can be particularly adept as perhaps Hotpoint and other have been in the last 10 years really?

**JC**

I would agree with that. Of course, the other converse is now that Kingfisher for example have been thwarted in their attempt to expand in the UK, are they really seriously going to go into Europe 1992 onwards. Is sensible for Stanley Kalms to decide that he really can't get much more of the UK market and try and really get involved in Europe? If so, will it affect those markets and how? I think there is a culture problem. I think also that because the margins are better in Europe for the major home based manufacturers, they will be able to protect themselves rather better than the UK manufacturers have done here.

**BSW**

Isn't it true also that the UK manufacturers in general their brands are only nationally known, they are not known throughout Europe?

**JC**

That's absolutely true. I mean, there's basically no UK brand is known in Europe at all. I suppose Kenwood is an example of a product that is known. But certainly none of the others are and to establish their brands in Europe, it's going to be quite difficult.

**BSW**

Yes, when you talk about a Zanussi, or a Miele or an AEG as you did before, I mean these are European wide brands aren't they?

**JC**

Absolutely. They have a position - I mean Miele is a good example. They are what you call niche marketeer. Their niche is the top end of the market across the whole product range. They've kept that niche because they have been innovative and they have established themselves into the product you should buy if you want to buy at the top end of the market.

**BSW**

Has in the first place any of these Japanese brands like Hitachi made any impact in the white goods area? Is it likely to develop?

**JC**

Well, up to now the answer is no. I mean, forget microwave. We know that the Japanese companies are extremely keen to develop into the white goods business and it is slightly surprising that they haven't really done so effectively yet. I think there are two or three reasons for that. One is that they do recognise that the product they sell in the UK and Europe must be in style at least engineered similarly to the European product. Of course, most cases that means something quite different to the product they make for their home market. Traditionally, the Japanese have always expanded by putting a new product in the home market first and then they really built it up and got the bugs out of it they then begin to export it. Which is in a sense a converse of a lot of UK companies - who very often send the first production order out somewhere in the sticks and then they really run into trouble. All the research shows that if they came on to the market they would get immediate acceptance by the consumers. In fact, if you did some market research now and you listed, say, twelve companies (and the research has been done), which of these companies makes washing machines, you'd probably get a higher score for Hitachi than you would for Servis and yet Hitachi don't make washing machines. The Japanese names are associated in the consumer's mind with consumer products. And so, you get Hitachi, Toshiba, Sony would get quite a high score, not as high as Hotpoint or Hoover, but certainly quite a high score. So when they come into the market place, I mean, they don't have to establish their brand names. They might not even have to say now we are in washing machines - let people assume they've always been in washing machines. They go straight into the particular features of their product. I'm sure they will come in but probably the product manufactured in Europe. I mean, they have already been doing that already. Panasonic have been making vacuum cleaners in Spain now for quite a number of years and they have a presence, certainly a decent presence, in market share in the United Kingdom. They are all made within Europe.

**BSW**

Is it not true that Hitachi are making refrigerators or something in Denmark?



**JC**

They have marketed, but in fact they are also having product made from the UK by somebody in refrigerators. I think its Frigidaire. Whereas Americans and even UK think about expansion in terms of buying an existing company, the Japanese have always been extremely careful about that. They sometimes done joint ventures but they really like to start from the green field sites.

**BSW**

Jim, on the question of innovation and design in order to produce new products, do you think that we have something wrong with our academic training here? Or do you think that we are good innovators and we can't produce it? What's your view on the situation in this industry?

**JC**

I think that there has been a problem. I think that we train and produce good electrical engineers and good electronic engineers. I think it's been difficult to persuade the students when they graduate to go into our type of industry because of so much more glamorous industry. In fact, over the past 10 years I quite frequently spoken at seminars, at schools and universities in which I have talked about the attractions of being involved in designing the kind of product that is going to be valuable in people's own home and in the homes of their friends - socially acceptable products. In fact, two days ago - and there is still some of them there - we did our interviewing of those undergraduates who've entered our design college. We run an end of year design competition. This year it was for a wall mounted tumble dryer.

I suppose we don't attract the better engineers, or haven't in the past, because we don't pay as well as telecommunications or computer industries.

I think also to some extent our educational system is a bit too finely structured. I mean, up until recently you could be a superb electrical engineer and not have the first knowledge about electronics, and as a lot of innovation in our industry is the application of electronics, I think we were not very good at that - probably not as good as the Italians and certainly the Japanese.

Our engineering department were all headed up by electrical engineers. In fact, some parts of the industry were probably headed up by mechanical engineers. That sort of self-perpetuated. Now I think to some extent we have gone away from that now. Even within AMDEA, within the technical panels I think it's fair to say that until recently most of them would have been people who have been in the industry most of their lives but haven't had any sort of further education or training since they done their original degrees.

I think there isn't a shortage of talent. I think that we are not a glamorous industry and therefore probably can't attract the talent that there is. Although I've got a feeling that some of the younger people are more socially conscious. I do think that possibly there is some merit in designing products for the home rather than the defence industry. There is a change but I think it's quite small.

I think the other point, of course, is that when you come back to short-termism once you've come into a kind of down turn in the market place we have now and the accountants start going through the books anything that isn't generating profit will be knocked aside.

So engineering and certainly research and development begins to be pushed aside, even chopped out entirely. That has been a characteristic of UK industry, I am sure it's not - you see, take Philips, who are in trouble and (no longer in major white goods), are talking about dropping out 60,000 people - world-wide - are talking about dropping out of a number of projects as they come out of certain markets.

Now in those markets they're staying in, there is no way that they're going to chop off that research and development.

Now that's their global view, and its a view that the Japanese would certainly take.

Now whether UK companies would take that view I sometimes doubt it.

**BSW**

Do you have a view on the direction the industry will go in the nineties?

**JC**

Well, I mean the feature of the 1990's is going to be environmental issues. The politicians in all countries have decided that in order to beat the green parties, they will have to become green themselves. Even way-out scientific theories about hydrogen, the sea, warming of the earth etc. These are the nostrums of the day - most of them are not scientifically proven, but this is irrelevant. In AMDEA, I would say now that a high percentage of my own time is on these issues, energy labeling, energy minimum standards, environmental labeling, trying to establish criteria, performance criteria relating to environmental issues, becomes the major part of my work. I keep on saying to people, of course we can make washing machines that uses less electricity and uses less water and less detergent, you just don't happen to get your clothes clean. So how do you establish the performance criteria around which these new products are supposed to work?

At the extreme end we have a consumerist view which in a way says everything that involve electricity has to be discouraged. Now if you actually want to get rid of those refrigerators in their houses they might be concerned about that but they seemed determined to try and cut back the use of electricity because of global warming. The fact that the UK has use of electricity as a tiny percentage of the whole amount of CFC's used by refrigeration in tiny, has the highest profile because its a consumer product.

If as a politician I stand up and say we are concerned about using CFC's in household refrigerators, people understand. If the chap says well we've got to do something about the control of CFC's in the cleansing of printed circuit boards, no one understands it. The fact that it uses four times as much CFC's as the refrigerator is immaterial.

So in the 1990's there are going to be a significant costs to industry and we will design products, with new concepts and just to change from CFC to other benign materials which would only be considered benign until someone else says they are not.

To be specific about how the industry might develop. We have seen a great deal of consolidation but it's not finished yet. There is significant over capacity still within the European industry. There are bound to be fewer companies around in the year 2000 than there are now. There are probably only room for three or four major companies in Europe. By major companies I mean someone producing product right across the product range. At the moment I suppose there are still about twelve. So we have quite a lot of consolidation yet to happen. Now that doesn't mean that the other companies will starve. You can have a niche company which can be product orientated or it can be country orientated because we are not just suddenly getting out of one country. I see no reason why Belling, providing they make decent equipment shouldn't continue to sell a fair number of cookers. I see no reason why certain Danish refrigeration companies, one or two of them shouldn't have a nice little niche within the particular product area. I think there'll only be about four companies around and I wouldn't like to speculate about which four companies there would be, but they would not include one or two of the major companies. I don't think we could say that it will be one German, one Italian, one British, one French, I mean it would be four major companies.

Clearly, Electrolux wants to be one of them. Whirlpool wants to be one of them. If GE want to be one of them - I suppose they could be.

Now, I am not saying this will happen next year or the year after, it won't. There are still some companies in Italy, for example, where the family is still quite strong. It won't be until the family loses interest or decides that there another area of business activities that's more interesting. I mean, rumours go round all the time - I'm 'phoned by newspaper reporters saying I hear that Thompsons are trying to flog off their major white goods, may or may not be true. What I am certain of is that every major white goods manufacturer have been in conversation with every other major, and some minor, white goods manufacturer some time over the past five years.

I think we will see further consolidation and I think in retailing there will be changes in retailing, too.

I mean, we talk about percentages as a market held by one or two retailers here. We are inclined to assess the market as if we are wearing our British rather than European hat.

In France one or two of the major hypermarkets now have enormous shares in some parts of the domestic appliances including microwaves.

I'm talking more about people like Carrefour etc.

In Germany there are some bigish operations but not quite the same extent. Italy still, mainly smaller dealers. Whether that will be the case much longer I don't know. There may not be the development of out of town shopping - strong in France because there is land - come to a halt in the UK because there isn't so much land. I don't know what the situation is in Italy again, there probably isn't much land.

## **BSW**

As we're running towards the end, actually I've a couple of points I would like to ask you just on what you've said.



***APPENDIX 2***

***ANALYSIS OF DEAI BASED ON***

***PORTER FRAMEWORK***





Table 14

<b>Scale</b>	0	1	2	3	4
<b>Strength</b>	No Effect	Slight Effect	Fairly Strong	Strong	Very Strong

Table 15

**(a) Entry Barriers**

	1963-70	1971-80	1981-90
Necessary design differences (technical/statutory/consumer)	4	3	1
Significance of Brand Awareness to consumer	4	3	2
Lack of Familiarity with dist. channels	4	2	0
Effect of Govt. Policy (ref. enforcement of statutory safety standards)	1	1	1
Expected Retaliation by UK manufacturers	1	1	1
<b>Total</b>	<b>14</b>	<b>10</b>	<b>5</b>

Table 16

**(b) Supplier Power**

Costs to manf. of switching to s/cont. suppliers	4	3	2
Threat of factored appliance suppliers going direct to retail or wholesale outlets	3	3	4
Importance of large volume to suppliers	3	4	4
Likelihood of Unions or workforce at suppliers linking with manf's own employees to cause IR disruption	4	3	2
<b>Total</b>	<b>14</b>	<b>13</b>	<b>12</b>

*(Supplier in this context means the manufacturers who supply finished products to the Domestic Appliance market)*

**Table 17**

**(c) Buyer Power**  
(Retailers and Wholesalers)

Buyer concentration	1	2	4
Potential volumes to be purchased	2	3	4
Propensity of buyer to switch product source	1	2	4
Propensity of buyer to source product direct from manufacturer	0	3	4
<b>Total</b>	<b>4</b>	<b>10</b>	<b>12</b>

**Table 18**

**(d) Price Sensitivity**

Priority given by retailer to profit/margin	2	3	4
Consumer perception of Brand Identity - facilitating a price premium	4	3	2
Importance of quality in consumer's decision making process. i.e Will they pay for more quality?	2	3	4
<b>Total</b>	<b>8</b>	<b>9</b>	<b>10</b>

**Table 19**

**(e) Substitution Threat**

Retailer buyer propensity to substitute	2	3	4
Availability of substitutes from overseas	1	3	4
Concern regarding relative performance of substitutes compared to UK manufactured products	2	3	4
Significance of switching costs to retail buyer	4	3	2
<b>Total</b>	<b>9</b>	<b>12</b>	<b>14</b>

**Table 20****(f) Intercompany Rivalry**

<b>Effect of DEAI growth/ recession on intercompany rivalry</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Effect of intermittent over-capacity</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>Significance of differences in product functionality differences between manufacturers.</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>Importance of Brand Strength</b>	<b>3</b>	<b>3</b>	<b>4</b>
<b>Influence or corporate desire by each manufacturer or its owner to stay in the business</b>	<b>4</b>	<b>3</b>	<b>2</b>
<b>Exit Barriers</b>	<b>4</b>	<b>3</b>	<b>2</b>
<b>Total</b>	<b>17</b>	<b>15</b>	<b>14</b>



***APPENDIX 3***

***FORMAT OF INTERVIEW***

***DISCUSSIONS AND RESPONSE BY***

***MR HOPKINS***



## **Agenda for discussion with interviewees regarding the UK Domestic Appliance Industry**

### **Preliminary Statement**

The UK Domestic Appliance Industry (the Industry) consists of Small and Major Appliances. Since the Small Appliance sector represents less than 14% (by value), it will be assumed that the Industry consists only of Major Appliances (White Goods).

The following discussion should be viewed from the standpoint of either a White Goods manufacturer, wholesaler/distributor or retailer operating within the industry over the period 1960-1990.

### **Topics to be Discussed**

#### **1. Affiliation of Interviewee**

##### **1.1 Profile of Interviewee**

Age

Educational background

Career

##### **1.2 From which standpoint are you viewing the Industry? (Manufacturer, wholesaler/distributor, retailer).**

## **2. Industry Profitability**

**2.1** There were many factors that affected the profitability of the Industry in the 60's, 70's and 80's. What was your view at the time of:

- a) The removal of RPM.
- b) The introduction of VAT in substitution for the Purchase Tax.
- c) Productivity.
- d) Design. (See also paragraph 6).
- e) Quality.
- f) The creation of large chains of discount stores and latterly 'SHEDS'.
- g) Investment.
- h) After-Sales Service.

**2.2** Why has Hotpoint been so successful over the past ten years?

**2.3** Why have Zanussi, Miele and others been so successful in penetrating the UK market? Do names of other successful importers come to mind?

**2.4** How important is the use of a well-known brand name.

**2.5** It is probably obvious to you but the Industry has fundamentally shown itself capable of generating only relatively small and inconsistent profits over thirty years under review. Do you have a view as to how the trend could be reversed?



### **3. Impact of Governmental Actions**

Regarding any government legislation, what was your view of:

- a) Any protection afforded to the Industry particularly prior to the UK accession to the EC.
- b) Do you consider any government during the thirty years under review has done anything to assist the Industry?
- c) Has there been, in the EC, any National Protectionism?
- d) Has this factor been fulfilled with the harmonisation of technical standards including safety and performance?
- e) Would it be helpful for the Industry if the UK joined the EMS?
- f) What would you like to see any government do to assist the Industry?

### **4. UK Distribution/Competition**

We are interested in your views regarding the UK distribution system.

- a) In what respects does the UK distribution system differ from the remainder of the EC?
- b) Do you agree that the UK distribution system militates towards making import penetration easier?
- c) Do you feel that UK manufacturers have retaliated in any way to the threat of imports from foreign sources?
- d) Is there any 'Buy British' policy on the part of retailers?

- e) In terms of the consolidation of the High Street retailers, do you consider this acts in the best interest of the Industry and/or the general public?
- f) In what respect has the role of the wholesaler/distributor changed during the period under review?
- g) Is the role of the Mail Order house changing?
- h) What is your view of the current Kingfisher (Comet) - Dixons takeover dispute and the conclusions reached by the Monopolies Commission?

**5. Pricing Policy**

In terms of pricing policy, do you think that the growing strength of the major high street retailers has, coupled with the highly competitive nature of the retail sector, artificially depressed retail prices such that both retailers and manufacturers are making insufficient profits to create medium and long term growth within the Industry and, more importantly, remain competitive within world markets?

**6. Innovation in Design**

Why have many recent new product innovations come from foreign (or European) based companies?

- a) Is there something wrong with our academic and industrial training of engineers and associated design personnel?

- b) Is the lack of new development a function of lack of available investment, since shareholders are not confident about investments in the Industry?
- c) Does the shortfall in design innovation reflect some lack of expertise in the marketing function?

## **7. Limited Number of Manufacturers**

Why is the manufacturing capability of the industry now limited to a few companies? For example, Hotpoint, Hoover, Servis, Crosslee, LEC, Dimplex\*, Morphy Richards\*, Tricity (Electrolux), Creda, Kenwood\*, New World, Stoves, Parkinson Cowan, Russel Hobbs\*, Swan\* (\*small appliances only).

## **8. Industry's Future**

How do you view the future of the UK industry? Is it likely that the contraction of the UK manufacturing base will continue, coupled with the steady growth of imported brands, at the expense of the home based brands? Will investment in UK manufacturing continue to decrease?

## **9. Trends In Customer Priorities**

With the similar products being produced by manufacturers, coupled with the very alike propositions being offered by retailers, will other factors become more important in the consumer's buying decision? For example, after sales service.

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Mr Jim Collis  
Director General  
AMDEA  
Leicester House  
8 Leicester Street  
London  
WC2 7BN

7th January 1991

Dear Jim

### **Review of UK Domestic Electrical Appliance Industry**

In order to make out meeting tomorrow more effective in terms of the available time, I felt it would be of assistance if I expanded a little on my earlier letter.

Basically, the work that has been done to date traces the development of the Industry (White Goods) over the period 1960-1990.

Your views on events that fashioned the industry over this period will be of great interest, since obviously, I am attempting to bring together opinions of persons whose views might be expected to differ.

In order to give you time to consider the nature of the issues that may arise, I have listed below some issues that either might be covered during the discussion or from which you may choose to select topics you feel are worthy of more emphasis during the discussion.

1. **Industry Profitability**
  - 1.1 **Productivity, Design, Quality, Marketing, Investment, After Sales Service. Do you have any strong views as to the performance of UK industry in any of these factors?**
  - 1.2 **Why have importers such as Zanussi, Miele and others been so successful?**
  - 1.3 **Hotpoint has been successful over the past 10 years - why?**
  - 1.4 **Is a well known 'Brand Name' really necessary for success?**
  - 1.5 **What can the industry do in the 90's to improve its overall profitability?**

2. Impact of Government Actions

- 2.1 Has any government, in the past 30 years, done anything to assist the Industry?
- 2.2 Has there been any national protectionism within the EC that has assisted or otherwise the UK industry?
- 2.3 Are technical standards and national testing procedures still militating against free trade within the EC?
- 2.4 Is it of help to the UK industry now that the UK has joined the ERM?
- 2.5 What would you like to see any UK government do to assist industry?

3. UK Distribution/Competition

- 3.1 Does the ease of distribution within the UK militate towards making import penetration easier?
- 3.2 Have the UK manufacturers retaliated in any real sense to the large numbers of imports?
- 3.3 Has there been, or is there, a 'Buy-British' policy on the part of retailers?
- 3.4 Is the consolidation of High Street retailing action in the best interest of (a) the Industry and (b) the general public?
- 3.5 Is there a continuing role for the wholesaler/distributor?
- 3.6 Is the role and future of the 'Mail Order' house changing?
- 3.7 Is the success of catalogue selling in outlets like ARGOS, a trend that might develop further in the 90's?

4. Innovation in Design

- 4.1 Is our academic and industrial training adequate for today's needs?
- 4.2 Is the relative lack of R & D investment in the UK industry a function of the incessant drive for profits today?

5. The Industry's Future in the 90's

Will the UK white goods manufacturing base continue to contract? Will import penetration continue to increase? What would you feel would be best for you?

6. Trends in Customer Priorities

With similar products being offered by most reputable manufacturers, are there any aspects which will become a major priority in the consumer's buying decisions?

Look forward to seeing you.

With kind regards.

Yours sincerely

Brian S. Wolfe

**NAME OF INTERVIEWEE: K. G. HOPKINS**

**DATE: 22ND FEBRUARY 1993**

**THE UK DOMESTIC ELECTRICAL APPLIANCE INDUSTRY**

**1. Introductory Notes**

1.1 Please view your answers from the standpoint of a Major White Goods manufacturer operating within the industry during the periods stated. Brown Goods are not the subject of this investigation.

1.2 It has been postulated by Michael Porter, in his book Competitive Strategy, that the profit performance of an industry is dependent upon the aggregated action of certain external and internal interactions or forces.

These forces are described below as applied to the UK Electrical Appliance Industry:

- a) **Market Entry Barriers:** Characteristics of the industry which make it more difficult or more costly for a newcomer to compete.
- b) **Supplier Power:** Supplier strengths which would make either more difficult or more costly for a manufacturer to obtain components, sub assemblies and finished products.
- c) **Price Sensitivity:** The impact of price, at the point of sale, in determining the volume and/or profitability of that sale.
- d) **Substitution Threat:** The degree of diversity and the performance of equivalent products offered to the retail buyer from different manufacturers.
- e) **Inter Company Rivalry:** The degree of strength of the various manufacturers causing them to compete against one another.

1.3 Now we would like you to complete the questionnaire rating the influence of various aspects of these forces (over each of three time periods) according to the following scale:

- 0 - No importance/unlikely;
- 1 - Not very important/not very likely;
- 2 - Important/likely;
- 3 - Very Important/very likely
- 4 - Mandatory/a certainty.

## 2. UK Market Entry Barriers

**Rating:** 0 - No importance/unlikely;  
 1 - Not very important/not very likely;  
 2 - Important/likely;  
 3 - Very Important/very likely  
 4 - Mandatory/a certainty.

**Timescales** 1960-80 - In the past  
 1981-90 - Now  
 1991-99 - In the future

		Period	0	1	2	3	4
2.1	Were the UK design and technical specification standards, e.g. BEAB approval, an inhibiting factor for a potential new market entrant?	1960-70 1971-80 1981-90 1991-99		✓	✓	✓	
2.2	Do you consider that the availability of a well known brand name was a significant advantage to a new market entrant?	1960-70 1971-80 1981-90 1991-99		✓ ✓		✓	
2.3	Do you consider that the lack of knowledge and unfamiliarity with the distribution channels was seen as a long term inhibiting factor for a new market entrant?	1960-70 1971-80 1981-90 1991-99				✓ ✓ ✓	
2.4	In your view, how important was any government legislation in inhibiting the access of any new entrants?	1960-70 1971-80 1981-90 1991-99				✓ ✓ ✓	
2.5	Do you consider that retaliation by existing British manufacturers to imported products was of any significance in stemming the tide of imports?	1960-70 1971-80 1981-90 1991-99	✓	✓	✓		



### 3. Supplier Power

Rating: 0 - No importance/unlikely;  
 1 - Not very important/not very likely;  
 2 - Important/likely;  
 3 - Very Important/very likely  
 4 - Mandatory/a certainty.

Timescales 1960-80 - In the past  
 1981-90 - Now  
 1991-99 - In the future

		Period	0	1	2	3	4
3.1	In assessing a UK manufacturer's production strategy, were sub-contractor suppliers seen as a likely solution to reducing manufacturing costs?	1960-70 1971-80 1981-90 1991-99		✓		✓	✓
3.2	Was vertical integration in manufacturing a more likely solution, i.e. as much as possible "in house"?	1960-70 1971-80 1981-90 1991-99	✓		✓		✓
3.3	In general, were the potential closure costs of a manufacturing unit seen as an inhibiting factor in switching supply to a sub-contractor?	1960-70 1971-80 1981-90 1991-99	✓		✓		✓
3.4	Do you consider that there was a likelihood that a sub-contractor/supplier might by-pass a manufacturer and offer product direct to the manufacturer's customer?	1960-70 1971-80 1981-90 1991-99			✓	✓	✓
3.5	In general, amongst the larger manufacturers, was it likely that suppliers would show some flexibility in allowing short-term order quantity changes in response to short-term market demands?	1960-70 1971-80 1981-90 1991-99				✓ ✓ ✓	
3.6	How would you rate the likelihood that the Unions or workforce at a supplier would link with the manufacturer's own employees to cause industrial disruption?	1960-70 1971-80 1981-90 1991-99	✓	✓		✓	

**4. The Buying Power of Retailers and Wholesalers**

**Rating:** 0 - No importance/unlikely;  
 1 - Not very important/not very likely;  
 2 - Important/likely;  
 3 - Very Important/very likely  
 4 - Mandatory/a certainty.

**Timescales** 1960-80 - In the past  
 1981-90 - Now  
 1991-99 - In the future

		Period	0	1	2	3	4
4.1	How would you rate the concentration of Retailer Buying Strength?	1960-70 1971-80 1981-90 1991-99		✓		✓	✓
4.2	Do you consider the volumes purchased by the larger buyers was one of any important to a manufacturer - i.e. could the order supply to any particular retailers or wholesalers be lost without significant impact on a particular manufacturer's profitability?	1960-70 1971-80 1981-90 1991-99	✓			✓	✓
4.3	How do you rate the likelihood that a retail buyer would decide to switch suppliers?	1960-70 1971-80 1981-90 1991-99	✓			✓	✓
4.4	How likely do you think it was that retailer buyer may have preferred to buy direct from a manufacturer rather than via a wholesaler/distributor?	1960-70 1971-80 1981-90 1991-99					✓ ✓ ✓
4.5	How important would you have rated the retailer propensity to use 'price pointing' as a tool to achieve maximum profitability for the retailer?	1960-70 1971-80 1981-90 1991-99			✓		✓ ✓
4.6	How important in the buying decision was the retail buyer's determination to buy product the lowest price?	1960-70 1971-80 1981-90 1991-99			✓	✓	✓

**5. Price Sensitivity**

**Rating:** 0 - No importance/unlikely;  
 1 - Not very important/not very likely;  
 2 - Important/likely;  
 3 - Very Important/very likely  
 4 - Mandatory/a certainty.

**Timescales** 1960-80 - In the past  
 1981-90 - Now  
 1991-99 - In the future

		Period	0	1	2	3	4
5.1	How important do you assess the profit motive was in the case of retailers in fixing retail prices, compared to achievement of market shares?	1960-70 1971-80 1981-90 1991-99		✓	✓	✓	
5.2	How important did you view retail "price pointing" in achieving sales to the consumer?	1960-70 1971-80 1981-90 1991-99			✓	✓	✓
5.3	In your view how likely was it that the use of a well-known/trusted brand name would facilitate the achievement of a price premium?	1960-70 1971-80 1981-90 1991-99		✓	✓	✓	
5.4	How important do you assess quality was in a consumer's decision making process?	1960-70 1971-80 1981-90 1991-99		✓		✓	✓

**6. Substitution Threat**

**Rating:** 0 - No importance/unlikely;  
 1 - Not very important/not very likely;  
 2 - Important/likely;  
 3 - Very Important/very likely  
 4 - Mandatory/a certainty.

**Timescales:** 1960-80 - In the past  
 1981-90 - Now  
 1991-99 - In the future

		Period	0	1	2	3	4
6.1	To what extent do you assess the likelihood that a retail buyer would offer alternative products in the periods under review?	1960-70 1971-80 1981-90 1991-99	✓			✓	✓
6.2	Do you think it likely that there would be a large number of manufacturers in a position to meet the buyer's new short term requirement	1960-70 1971-80 1981-90 1991-99			✓ ✓	✓	
6.3	Do you think it was likely that the substitute products would perform to the properly required standard?	1960-70 1971-80 1981-90 1991-99	✓			✓ ✓	
6.4	Do you think that switching costs would be seen as of any importance to the buyer?	1960-70 1971-80 1981-90 1991-99				✓ ✓ ✓	
6.5	How likely was it that the substitute products would be imports?	1960-70 1971-80 1981-90 1991-99			✓	✓ ✓	

**7. Inter-Company Rivalry**

**Rating:** 0 - No importance/unlikely;  
 1 - Not very important/not very likely;  
 2 - Important/likely;  
 3 - Very Important/very likely  
 4 - Mandatory/a certainty.

**Timescales** 1960-80 - In the past  
 1981-90 - Now  
 1991-99 - In the future

		Period	0	1	2	3	4
7.1	Do you consider that the industry was in a growth or recession phase during the periods specified? Mark G = Growth R = Recession	1960-70 1971-80 1981-90 1991-99	G G R				
7.2	How important was industry growth/recession upon the strength of inter-company competition?	1960-70 1971-80 1981-90 1991-99				✓ ✓ ✓	
7.3	How important was the effect of intermittent production demands (due to government legislation) on manufacturer's ability to compete?	1960-70 1971-80 1981-90 1991-99				✓ ✓ ✓	
7.4	How important were product differences between manufacturers in creating product differentiation?	1960-70 1971-80 1981-90 1991-99		✓	✓	✓	
7.5	How important was Brand Awareness?	1960-70 1971-80 1981-90 1991-99	✓	✓		✓	
7.6	In reviewing the periods shown, how important was corporate desire to stay in the industry?	1960-70 1971-80 1981-90 1991-99		✓		✓	✓
7.7	How important would the costs have been to exit the market?	1960-70 1971-80 1981-90 1991-99			✓	✓	✓

8. Summary

Paragraph		1971/80	1981/90	1991/99
2	Market Entry Barriers	15	11	9
3	Supplier Power	17	14	11
4	Buying Power	12	20	23
5	Price Sensitivity	9	8	11
6	Substitution Threat	8	14	15
7	Inter Company Rivalry	18	15	12