

Whirlpool spins a new competitive strategy by optimizing business resources worldwide.

Overview

- **Challenge**
Whirlpool needed to strengthen its long-term position in the intensely competitive appliance market while maintaining its margins through productivity enhancements in the face of sharply rising input costs.
- **Why Become an On Demand Business?**
Whirlpool needed the ability to dynamically adapt key elements of its strategy to changing market conditions, while executing on a platform of highly efficient, low-cost and integrated global operations.
- **Solution**
Whirlpool and IBM created a solution that provides a unified view of realtime finance and procurement information. IBM also worked with Whirlpool to define and implement a set of optimized global business processes running on a consolidated IT platform.
- **Key Benefits**
 - *5% reduction in overall IT costs in each of the past four years*
 - *Improved responsiveness to external business factors*
- >> **On Demand Business defined**
"An enterprise whose business processes—integrated end-to-end across the company and with key partners, suppliers and customers—can respond with speed to any customer demand, market opportunity or external threat."



Whirlpool Corporation is the world's leading manufacturer and marketer of major home appliances. The company markets Whirlpool, KitchenAid, Brastemp, Bauknecht, Consul and other major brand names to consumers in more than 170 countries and employs 68,000 worldwide.

With revenues of more than \$13 billion, Whirlpool Corporation (www.whirlpool.com) is the world's top home appliances manufacturer. A global company in every sense of the word, the company has a market presence in more than 170 countries and operates nearly 50 manufacturing and technology research centers around the world. Fueled by a strong brand, steady innovation and an increasing focus on customer loyalty, Whirlpool's top-line growth has been stellar, with annual sales increases of over \$1 billion in each of the past four years. These factors will continue to

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– *Esat Sezer, CIO and Corporate Vice President, Whirlpool*

On Demand Business Benefits

- Improved ability to manage the company and optimize performance on a global basis by virtue of standardized business processes
- Improved responsiveness to external business factors and more granular business planning capabilities via realtime business intelligence
- More variable and predictable IT costs by virtue of flexible hardware and software pricing from IBM
- 5% reduction in overall IT costs in each of the past four years resulting from consolidated and standardized systems and processes

“The question for us was how to manage all of the external factors that were creating margin pressure across the whole industry—and do so in a way that enabled us to turn it into a source of competitive advantage.”

– Esat Sezer

represent the cornerstone of the company’s competitive strategy going forward. But for Whirlpool—and the other major players in the global appliances market—the more prominent challenge has been sustaining the bottom line in an increasingly hostile business environment.

Whirlpool’s margin pressures can be traced to three key factors. The first is the steady encroachment of several Asia Pacific competitors whose sourcing-driven cost advantages have increased the importance of cost control across the industry. The second has been the dramatic increase in the cost of key inputs such as steel and resins, which together with soaring fuel and transportation costs, constitute a huge portion of an appliance’s embedded costs. With these forces more likely to intensify than abate, Whirlpool needed to act decisively to stay strong on both the top and bottom lines. The third factor is an increasingly demanding and powerful trade customer base, which demands low cost products and a continued stream of innovation.

Low costs not enough

Not surprisingly, a major part of Whirlpool’s response has been to expand its manufacturing and research operations into lower-cost regions such as China, India, Central Europe and Brazil—a strategy that has clearly strengthened its cost position. But in the bigger picture, these operations in fact represented the building blocks of a broader, more nuanced vision of how it would create a sustainable advantage over its competitors. The main thrust of this vision was to differentiate based on innovative product development and a strong customer focus, and to execute on a platform of highly efficient, low-cost and integrated global operations. Just as important was the need for Whirlpool to channel resources in a way that reflected these priorities. Put another way, Whirlpool’s view placed business functions into one of two categories: the relatively few that were true sources of competitive advantage and the majority that weren’t—yet whose core importance demanded sound execution at the risk of market penalty. The idea was to maximize the resources available to invest in differentiable capabilities—like product development—by executing its everyday business functions as efficiently and cost effectively as possible. That was the guiding framework.

Within this framework, Whirlpool had formulated a more aggressive optimization strategy based on improving its day-to-day tactical decision-making capabilities. The idea was both simple and powerful: making business intelligence more transparent across the company would give Whirlpool the means to adapt its operations to a wider range of external factors, and do so more rapidly and effectively. Thus, while “macro”

factors like changes in commodity prices, fuel costs and container availability may be beyond the control of appliance manufacturers, Whirlpool nonetheless wanted to *manage* these changes in a way that dynamically optimizes its sourcing decisions and minimizes any negative impact on margins—an advantage its competitors didn't have. Whirlpool also sought to apply this approach on the demand side by creating a more granular level of visibility into its own worldwide product margins. By knowing which products, brands and channels—even features and functions—produced the highest margins, and by knowing their sensitivity to currency shifts, Whirlpool could dynamically manage its go-to-market strategy in a way that maximizes its overall margins. Overall, these innovations enabled Whirlpool to in effect change its business model, since it now had the means to adapt its business fluidly in the face of a changing marketplace.

Managing the global business

To reach this point, Whirlpool knew that unifying its disparate regional operations into a common global platform was essential, and that the key to achieving this was to standardize its processes, data and systems. The company's SAP ERP environment, the platform for all of its core business applications, would be the focal point of standardization activities. To assist in this transformation, Whirlpool engaged IBM, citing IBM Business Consulting Services' track record in business process redesign and SAP expertise. The IBM team approached the effort from two angles. The first and most fundamental task was to define a global data standard that would be applicable to all processes worldwide. Once this was established, a similar approach was applied to key process definitions (e.g., transfer pricing, freight and warehouse cost allocations). The team then translated the new data and process framework to Whirlpool's SAP environment, thus creating a single ERP solution where separate regional systems had existed before.

The showcase of the new solution is a decision-support dashboard known as Business Performance Management (BPM), which provides a unified view of realtime finance and procurement information. Using BPM, Whirlpool employees around the world can automatically track, drill down on and analyze key metrics drawn from the global SAP platform and use them to optimize their decision-making. Whirlpool's global process improvement initiative has also vastly improved the efficiency of product development by enabling engineers from Brazil, China or Europe to access and share the same technical data, thus strengthening its ability to bring new products to market faster. The broader benefit—across the entire range of Whirlpool's processes—is flexibility to *rapidly* deploy new capabilities on a worldwide basis to seize opportunities and sustain competitive advantages in the global marketplace.

But while differentiation is critical to maintaining strong margins, recall that it represents only half of the Whirlpool transformation story. The other half is the optimization of unsung, yet mission critical processes that are the foundation of its

Key Components

Software

- SAP R/3
- IBM DB2® Universal Database™
- IBM Tivoli® family of products

Servers

- IBM eServer™ pSeries®
- IBM eServer zSeries®

Services

- IBM Business Consulting Services
- IBM Global Services – Strategic Outsourcing

Timeframe

- 6 months (first phase)
 - Expansion ongoing
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“Even though our processes were best-in-class at a regional level, it was still not good enough. We knew we needed to optimize the entire business on a global scale.”

– Esat Sezer

business day after day. Here again, SAP standardization efforts have played a key role by enabling Whirlpool to manage its business globally, resulting in higher efficiency and lower costs—and thereby more resources to invest in securing competitive advantage. Another important source of resource efficiency in the project was an overhaul of Whirlpool's global infrastructure strategy. As with processes, the goal of the initiative was to simplify the management of Whirlpool's systems, improve their flexibility and lower their cost. In the wake of the project, the company now operates a single data center in Benton Harbor, Michigan (down from a high of 40) managed remotely by IBM Global Services staff located in Brazil. Once a patchwork of disparate systems, its infrastructure now consists of IBM eServer pSeries and zSeries servers, with IBM DB2 providing core database functionality for SAP and IBM Tivoli products providing systems management. The infrastructure's resource efficiency was further enhanced by IBM's flexible financing arrangement, including an Open Infrastructure Offering for server hardware that enables Whirlpool to ramp up capacity quickly, avoid large upfront expenditures and keep costs variable and predictable.

The benefits Whirlpool has accrued from its new solution are directly in line with its goals of freeing up resources, and then using them to strengthen competitive performance. The first is evident in the way it has reduced its overall IT costs by 5 percent in each of the past four years, over which time it has achieved nearly double-digit revenue growth. These cost savings represent the combined effect of standardized and consolidated systems, which have streamlined and simplified systems management and enabled Whirlpool to shift its IT focus and resources toward growth-related initiatives. In addition, with more and better information available to its employees, Whirlpool is now better positioned than its competitors to continuously optimize its core processes by making the right decision at the right time anywhere in the world. The company has made the most of it. CIO and Corporate Vice President Esat Sezer sees the best evidence of this as Whirlpool's ability to maintain its gross margins in the face of increased material costs and the continued increase in competitive pressures from new competitors and trade customers. "Our vision—of optimizing our business resources by directing them to where they matter most—has succeeded in producing more value for our business," says Sezer. "By helping us to execute on it, IBM has made us a far stronger global competitor."

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