

# Example of Student-Written Strategic Audit

*(For the 1993 Maytag Corporation Case)*

## I. Current Situation

### A. Current Performance

Poor financials, high debt load, first losses since 1920s, price/earnings ratio negative.

- First loss since 1920s.
- Laid off 4500 employees at Magic Chef.
- Hoover Europe still showing losses.

### B. Strategic Posture

#### 1. Mission

- Developed in 1989 for the Maytag Company: "To provide our customers with products of unsurpassed performance that last longer, need fewer repairs, and are produced at the lowest possible cost."
- Updated in 1991: "Our collective mission is world class quality." Expands Maytag's belief in product quality to all aspects of operations.

#### 2. Objectives

- "To be the profitability leader in the industry for every product line Maytag manufactures." Selected profitability rather than market share.
- "To be number one in total customer satisfaction." Doesn't say how to measure satisfaction.
- "To grow the North American appliance business and become the third largest-appliance manufacturer (in unit sales) in North America."
- To increase profitable market share growth in the North American appliance and floor care business, 6.5% return on sales, 10% return on assets, 20% return on equity, beat competition in satisfying customers, dealer, builder, and endorser, and move into third place in total units shipped per year. Nicely quantified objectives.

#### 3. Strategies

- Global growth through acquisition, and alliance with Bosch-Siemens.
- Differentiate brand names for competitive advantage.
- Create synergy between companies, product improvement, investment in plant and equipment.

#### 4. Policies

- Cost reduction is secondary to high quality.
- Promotion from within.
- Slow but sure R&D: Maytag slow to respond to changes in market.

## II. Strategic Managers

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### A. Board of Directors

1. Fourteen members—eleven are outsiders.
2. Well-respected Americans, most on board since 1986 or earlier.
3. No international or marketing backgrounds.
4. Time for a change?

### B. Top Management

1. Top management promoted from within Maytag Company. Too inbred?
2. Very experienced in the industry.
3. Responsible for current situation.
4. May be too parochial for global industry. May need new blood.

## III. External Environment (EFAS Table; see Exhibit 1)

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### A. Natural Environment

1. Growing water scarcity
2. Energy availability a growing problem

### B. Societal Environment

1. **Economic**
  - a. Unstable economy but recession ending, consumer confidence growing—could increase spending for big ticket items like houses, cars, and appliances. (O)
  - b. Individual economies becoming interconnected into a world economy. (O)
2. **Technological**
  - a. Fuzzy logic technology being applied to sense and measure activities. (O)
  - b. Computers and information technology increasingly important. (O)
3. **Political-Legal**
  - a. NAFTA, European Union, other regional trade pacts opening doors to markets in Europe, Asia, and Latin America that offer enormous potential. (O)
  - b. Breakdown of communism means less chance of world war. (O)
  - c. Environmentalism being reflected in laws on pollution and energy usage. (T)
4. **Sociocultural**
  - a. Developing nations desire goods seen on TV. (O)
  - b. Middle-aged baby boomers want attractive, high-quality products, like BMWs and Maytag. (O)
  - c. Dual-career couples increases need for labor-saving appliances, second cars, and day care. (O)
  - d. Divorce and career mobility means need for more houses and goods to fill them. (O)

### C. Task Environment

1. North American market mature and extremely competitive—vigilant consumers demand high quality with low price in safe, environmentally sound products. (T)
2. Industry going global as North American and European firms expand internationally. (T)
3. European design popular and consumer desire for technologically advanced appliances. (O)
4. **Rivalry High.** Whirlpool, Electrolux, GE have enormous resources and developing global presence. (T)
5. **Buyers' Power Low.** Technology and materials can be sourced worldwide. (O)
6. **Power of Other Stakeholders Medium.** Quality, safety, environmental regulations increasing. (T)
7. **Distributors' Power High.** Super retailers more important: mom and pop dealers less. (T)
8. **Threat of Substitutes Low.** (O)
9. **Entry Barriers High.** New entrants unlikely except for large international firms. (T)

## IV. Internal Environment (IFAS Table; see Exhibit 2)

### A. Corporate Structure

1. Divisional structure: appliance manufacturing and vending machines. Floor care managed separately. (S)
2. Centralized major decisions by Newton corporate staff, with a time line of about three years. (S)

### B. Corporate Culture

1. Quality key ingredient—commitment to quality shared by executives and workers. (S)
2. Much of corporate culture is based on founder F. L. Maytag's personal philosophy, including concern for quality, employees, local community, innovation, and performance. (S)
3. Acquired companies, except for European, seem to accept dominance of Maytag culture. (S)

### C. Corporate Resources

1. **Marketing**
  - a. Maytag brand lonely repairman advertising successful but dated. (W)
  - b. Efforts focus on distribution—combining three sales forces into two, concentrating on major retailers. (Cost \$95 million for this restructuring.) (S)
  - c. Hoover's well-publicized marketing fiasco involving airline tickets. (W)
2. **Finance** (see Exhibits 4 and 5)
  - a. Revenues are up slightly, operating income is down significantly. (W)
  - b. Some key ratios are troubling, such as a 57% debt/asset ratio, 132% long-term debt/equity ratio. No room for more debt to grow company. (W)
  - c. Net income is 400% less than 1988, based on common-size income statements. (W)

**3. R&D**

- a. Process-oriented with focus on manufacturing process and durability. (S)
- b. Maytag becoming a technology follower, taking too long to get product innovations to market (competitors put out more in last six months than prior two years combined), lagging in fuzzy logic and other technological areas. (W)

**4. Operations**

- a. Maytag's core competence. Continual improvement process kept it dominant in the U.S. market for many years. (S)
- b. Plants aging and may be losing competitiveness as rivals upgrade facilities. Quality no longer distinctive competence? (W)

**5. Human Resources**

- a. Traditionally very good relations with unions and employees. (S)
- b. Labor relations increasingly strained, with two salary raise delays, and layoffs of 4500 employees at Magic Chef. (W)
- c. Unions express concern at new, more distant tone from Maytag Corporation. (W)

**6. Information Systems**

- a. Not mentioned in case. Hoover fiasco in Europe suggests information systems need significant upgrading. (W)
- b. Critical area where Maytag may be unwilling or unable to commit resources needed to stay competitive. (W)

## V. Analysis of Strategic Factors

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### A. Situational Analysis (SWOT) (SFAS Matrix; see Exhibit 3)

**1. Strengths**

- a. Quality Maytag culture.
- b. Maytag well-known and respected brand.
- c. Hoover's international orientation.
- d. Core competencies in process R&D and manufacturing.

**2. Weaknesses**

- a. Lacks financial resources of competitors.
- b. Poor global positioning. Hoover weak on European continent.
- c. Product R&D and customer service innovation are areas of serious weakness.
- d. Dependent on small dealers.
- e. Marketing needs improvement.

**3. Opportunities**

- a. Economic integration of European community.
- b. Demographics favor quality.
- c. Trend to superstores.

**4. Threats**

- a. Trend to superstores.
- b. Aggressive rivals—Whirlpool and Electrolux.
- c. Japanese appliance companies—new entrants?

### B. Review of Current Mission and Objectives

- 1. Current mission appears appropriate.
- 2. Some of the objectives are really goals and need to be quantified and given time horizons.

## VI. Strategic Alternatives and Recommended Strategy

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### A. Strategic Alternatives

1. *Growth through Concentric Diversification*: Acquire a company in a related industry such as commercial appliances.
  - a. *[Pros]*: Product/market synergy created by acquisition of related company.
  - b. *[Cons]*: Maytag does not have the financial resources to play this game.
2. *Pause Strategy*: Consolidate various acquisitions to find economies and to encourage innovation among the business units.
  - a. *[Pros]*: Maytag needs to get its financial house in order and get administrative control over its recent acquisitions.
  - b. *[Cons]*: Unless it can grow through a stronger alliance with Bosch-Siemens or some other backer, Maytag is a prime candidate for takeover because of its poor financial performance in recent years, and it is suffering from the initial reduction in efficiency inherent in acquisition strategy.
3. *Retrenchment*: Sell Hoover's foreign major home appliance businesses (Australia and UK) to emphasize increasing market share in North America.
  - a. *[Pros]*: Divesting Hoover improves bottom line and enables Maytag Corp to focus on North America while Whirlpool, Electrolux, and GE are battling elsewhere.
  - b. *[Cons]*: Maytag may be giving up its only opportunity to become a player in the coming global appliance industry.

### B. Recommended Strategy

1. Recommend pause strategy, at least for a year, so Maytag can get a grip on its European operation and consolidate its companies in a more synergistic way.
2. Maytag quality must be maintained, and continued shortage of operating capital will take its toll, so investment must be made in R&D.
3. Maytag may be able to make the Hoover UK investment work better since the recession is ending and the EU countries are closer to integrating than ever before.
4. Because it is only an average competitor, Maytag needs the Hoover link to Europe to provide a jumping off place for negotiations with Bosch-Siemens that could strengthen their alliance.

## VII. Implementation

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- A. The only way to increase profitability in North America is to further involve Maytag with the superstore retailers; sure to anger the independent dealers, but necessary for Maytag to compete.
- B. Board members with more global business experience should be recruited, with an eye toward the future, especially with expertise in Asia and Latin America.
- C. R&D needs to be improved, as does marketing, to get new products online quickly.

## VIII. Evaluation and Control

- A. MIS needs to be developed for speedier evaluation and control. While the question of control vs. autonomy is "under review," another Hoover fiasco may be brewing.
- B. The acquired companies do not all share the Midwestern work ethic or the Maytag Corporation culture, and Maytag's managers must inculcate these values into the employees of all acquired companies.
- C. Systems should be developed to decide if the size and location of Maytag manufacturing plants is still correct and to plan for the future. Industry analysis indicates that smaller automated plants may be more efficient now than in the past.

**EXHIBIT 1** EFAS Table for Maytag Corporation 1993

External Factors	Weight	Rating	Weighted Score	Comments	
	1	2	3	4	5
<b>Opportunities</b>					
▪ Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover	
▪ Demographics favor quality appliances	.10	5.0	.50	Maytag quality	
▪ Economic development of Asia	.05	1.0	.05	Low Maytag presence	
▪ Opening of Eastern Europe	.05	2.0	.10	Will take time	
▪ Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this channel	
<b>Threats</b>					
▪ Increasing government regulations	.10	4.3	.43	Well positioned	
▪ Strong U.S. competition	.10	4.0	.40	Well positioned	
▪ Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally	
▪ New product advances	.05	1.2	.06	Questionable	
▪ Japanese appliance companies	.10	1.6	.16	Only Asian presence in Australia	
<b>Total Scores</b>	<u>1.00</u>		<u>3.15</u>		

**EXHIBIT 2** IFAS Table for Maytag Corporation 1993

Internal Factors			Weighted Score	Comments
	1	2		
<b>Strengths</b>				
▪ Quality Maytag culture	.15	5.0	.75	Quality key to success
▪ Experienced top management	.05	4.2	.21	Know appliances
▪ Vertical integration	.10	3.9	.39	Dedicated factories
▪ Employer relations	.05	3.0	.15	Good, but deteriorating
▪ Hoover's international orientation	.15	2.8	.42	Hoover name in cleaners
<b>Weaknesses</b>				
▪ Process-oriented R&D	.05	2.2	.11	Slow on new products
▪ Distribution channels	.05	2.0	.10	Superstores replacing small dealers
▪ Financial position	.15	2.0	.30	High debt load
▪ Global positioning	.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
	.05	4.0	.20	Investing now
<b>Total scores</b>	<u>1.00</u>		<u>3.05</u>	

**EXHIBIT 3** SFAS Matrix for Maytag Corporation 1993

Strategic Factors (Select the most important opportunities/threats from EFAS, Table 4-5 and the most important strengths and weaknesses from IFAS, Table 5-2)			Weighted Score	Duration		Comments	
	2	3		4	5		
	Weight	Rating		S H O R T	I N T E R M E D I A T E	L O N G	
▪ S1 Quality Maytag culture (S)	.10	5.0	.50			X	Quality key to success
▪ S5 Hoover's international orientation (S)	.10	2.8	.28	X	X		Name recognition
▪ W3 Financial position (W)	.10	2.0	.20	X	X		High debt
▪ W4 Global positioning (W)	.15	2.2	.33		X	X	Only in N.A., U.K., and Australia
▪ O1 Economic integration of European Community (O)	.10	4.1	.41			X	Acquisition of Hoover
▪ O2 Demographics favor quality (O)	.10	5.0	.50		X		Maytag quality
▪ O5 Trend to super stores (O + T)	.10	1.8	.18	X			Weak in this channel
▪ T3 Whirlpool and Electrolux (T)	.15	3.0	.45	X			Dominate industry
▪ T5 Japanese appliance companies (T)	.10	1.6	.16			X	Asian presence
<b>Total Scores</b>	<u>1.00</u>		<u>3.01</u>				

<b>EXHIBIT 4</b>		1990	1991	1992	1993
Ratio Analysis for Maytag Corporation 1993	<b>1. LIQUIDITY RATIOS</b>				
	Current	2.1	1.9	1.8	1.6
	Quick	1.1	1.0	1.1	1.0
	<b>2. LEVERAGE RATIOS</b>				
	Debt to Total Assets	61%	60%	76%	57%
	Debt to Equity	155%	151%	317%	254%
	<b>3. ACTIVITY RATIOS</b>				
	Inventory turnover—sales	5.7	6.1	7.6	6.9
	Inventory Turnover—cost of sales	4.3	4.6	5.8	6.5
	Avg. Collection Period—days	57	55	56	0
	Fixed Asset Turnover	3.9	3.6	3.6	3.6
	Total Assets Turnover	1.2	1.2	1.2	1.1
	<b>4. PROFITABILITY RATIOS</b>				
	Gross Profit Margin	24%	24%	23%	5%
	Net Operating Margin	8%	6%	3%	5%
	Profit Margin on Sales	3%	3%	-0%	2%
	Return on Total Assets	4%	3%	-0%	2%
	Return on Equity	10%	8%	-1%	8%

<b>EXHIBIT 5</b>		1992	1991	1990
Common Size Income Statements for Maytag Corporation 1993	Net sales	100.0%	100.0%	100.0%
	Cost of sales	76.92	75.88	75.50
	Gross profit	23.08	24.12	24.46
	Selling, general/admin. Expenses	17.37	17.67	16.90
	Reorganization expenses	.031	—	—
	Operating income	.026	.064	.075
	Interest expense	(.025)	(.025)	(0.26)
	Other—net	.001	.002	.009
	Income before accounting changes	.002	.042	.052
	Income taxes	.005	.015	.020
	Income before accounting changes	(.002)	.026	.032
	Effect of accounting changes for postretirement benefits other than pensions and income taxes	(.101)	—	—
	Total operating costs and expenses	<u>74.9</u>	<u>76.0</u>	<u>76.3</u>
	<b>Net income</b>	<b>(.104)</b>	<b>.026</b>	<b>.032</b>

**EXHIBIT 6**

## Implementation, Evaluation, and Control Plan for Maytag Corporation 1993

Strategic Factor	Action Plan	Priority System (1-5)	Who Will Implement	Who Will Review	How Often Review	Criteria
Quality Maytag culture	Build quality in acquired units	1	Heads of acquired units	Manufacturing VP	Quarterly	Number defects, customer satisfaction
Hoover's international orientation	Identify ways to expand sales	2	Head of Hoover	Marketing VP	Quarterly	Feasible alternatives generated
Financial position	Pay down debt	1	CFO	CEO	Monthly	Leverage ratios
Global positioning	Find strategic alliance partners	2	VP of Business Development	COO	Quarterly	Feasible alternatives generated
EU economic integration	Grow sales throughout EU	3	Hoover UK Head	Marketing VP	Annually	Sales growth
Demographics favor quality	Simplify controls	3	Manufacturing VP	COO	Annually	Market research satisfaction
Trend to super stores	Market through Sears	1	Marketing VP	CEO	Monthly	Sales growth
Whirlpool & Electrolux	Monitor competitor performance	1	Competition committee	COO	Quarterly	Competitor sales & new products
Japanese appliance companies	Monitor expansion	4	Head of Hoover Australia	Competition committee	Semi-annually	Sales growth outside J.