CHAPTER SIXTEEN

Maytag: Leaving a Foreign Subsidiary Free as a Bird

In an unbelievable blunder, Maytag's foreign subsidiary in the United Kingdom accomplished a horror story of decentralized management. This might also be called abdication of authority, and the consequences of such abdication.

The atmosphere at the annual meeting in the little Iowa town of Newton had turned contentious. As Leonard Hadley faced increasingly angry questions from disgruntled shareholders, a thought crossed his mind: "I don't deserve this!" After all, he had been CEO of Maytag Corporation for only a few months, and this was his first chairing of an annual meeting. But the earnings of the company had been declining every year since 1988, and in 1992 Maytag had had a $315.4 million loss. No wonder the stockholders in the packed Newton High School auditorium were bitter and critical of their management. But there was more. Just the month before, the company had suffered the public embarrassment and costly atonement resulting from a monumental blunder in the promotional planning of its United Kingdom subsidiary.

Hadley doggedly saw the meeting to its close and limply concluded, "Hopefully, both sales and earning will improve this year."[1]

THE FIASCO

In August 1992, Hoover Limited, Maytag's British subsidiary, had launched this travel promotion: Anyone in the United Kingdom buying more than £100 (UK pounds) worth of Hoover products (about $150) before the end of January 1993 would get two free round-trip tickets to selected European destinations. For £250 worth of Hoover products, buyers could get two free round-trip tickets to New York or Orlando.

A buying frenzy resulted. Consumers had quickly figured out that the value of the tickets easily exceeded the cost of the appliances necessary to be eligible for them. By the tens of thousands, Britons rushed out to buy just enough Hoover prod-

[1] Richard Gibson, "Maytag's CEO Goes Through Wringer at Annual Meeting," *The Wall Street Journal* [illegible]

ucts to qualify. Appliance stores were emptied of vacuum cleaners. The Hoover factory in Cambuslang, Scotland, that had been making vacuum cleaners only 3 days a week was suddenly placed on a 24-hour, 7-days-a-week production schedule—an overtime bonanza for the workers. What a resounding success for a promotion! Hoover managers, however, were unhappy.

Hoover had never expected more than 50,000 people to respond. And of those responding, it expected far fewer would go through all the steps necessary to qualify for the free trip and really take it. But more than 200,000 not only responded but qualified for the free tickets. The company was overwhelmed. The volume of paperwork created such a bottleneck that by the middle of April only 6,000 people had flown. Thousands of others either never got their tickets, were unable to get the dates requested, or waited for months without hearing the results of their applications. Hoover established a special hotline to process customer complaints, and these were coming in at 2,000 calls a day. But the complaints quickly spread, and the ensuing publicity brought charges of fraud and demands for restitution.

Maytag dispatched a task force to try to resolve the situation without jeopardizing customer relations any further. But it acknowledged that it was "not 100% clear" that all eligible buyers would receive their free flights.[2] The ill-fated promotion was a staggering blow to Maytag financially. It took a $30 million charge in the first quarter of 1993 to cover unexpected additional costs linked to the promotion. Final costs were expected to exceed $50 million, which would be 10 percent of UK Hoover's total revenues. This was especially damaging for a subsidiary acquired only 4 years before, that had yet to produce a profit.

Adding to the costs were problems with the two travel agencies involved. The agencies were to obtain low-cost space-available tickets and would earn commission selling "packages," including hotels, rental cars, and insurance. If consumers bought a package, Hoover would get a cut. However, despite the overwhelming demand for tickets, most consumers declined to purchase the package, thus greatly reducing support money for the promotional venture. So Hoover had greatly underestimated the likely response and overestimated the amount it would earn from commission payments. This raises the issue of loss leaders. How much should we use loss leaders as a promotional device? This topic is discussed in the following box.

If these cost overruns had added greatly to Maytag and Hoover's customer relations and public image, the expenditures would have seemed more palatable. But with all the problems the best that could be expected would be to lessen the worst of the agitation and charges of deception. And this was proving to be impossible. The media, of course, salivated at the problems and were quick to sensationalize them:

> One disgruntled customer, who took aggressive action on his own, received the widest press coverage, and even became a folk hero. Dave Dixon, claiming he was cheated out of a free vacation by Hoover, seized one of the company's repair vans in retaliation.

[2] James P. Miller, "Maytag U.K. Unit Finds a Promotion Is Too Successful," *The Wall Street Journal* [illegible]

ISSUE BOX

SHOULD WE USE LOSS LEADERS?

Leader pricing is a type of promotion with certain items advertised at a very low price—sometimes even below cost—in which case they are known as *loss leaders*—in order to attract more customers. The rationale is that such customers are likely to purchase other regular-price items as well, increasing total sales and profits. If customers do not purchase enough other goods at regular prices to more than cover the losses incurred from the attractively priced bargains, then the loss leader promotion is ill advised. Some critics maintain that the whole idea of using loss leaders is absurd: The firm is just "buying sales" with no regard for profits.

While UK Hoover did not think of its promotion as a loss leader, in reality it was: The company stood to lose money on every sale if the promotional offer was taken advantage of. Unfortunately for its effectiveness as a loss leader, the likelihood of customers purchasing other Hoover products at regular prices was remote, and the level of acceptance was not capped, so losses were permitted to multiply. The conclusion has to be that this was an ill-conceived idea from the beginning. It violated these two conditions of loss leaders: They should stimulate sales of other products, and their losses should be limited.

Do you think loss leaders really are desirable under certain circumstances? Why or why not?

Police were sympathetic: they took him home, and did not charge him, claiming it was a civil matter.[3]

Heads rolled. Initially, Maytag fired three UK Hoover executives involved, including the president of Hoover Europe. At the annual meeting Mr. Hadley also indicated that others might lose their jobs before the cleanup was complete. He likened the promotion to "a bad accident ... and you can't determine what was in the driver's mind."[4]

Receiving somewhat less publicity was the fact that corporate headquarters allowed executives of a subsidiary such wide latitude that they could saddle parent Maytag with tens of millions of dollars in unexpected costs. Did not top corporate executives have to approve ambitious plans? A company spokesman said that operating divisions were "primarily responsible" for planning promotional expenses. Although the parent may review such outlays, "if they're within parameters, it goes through."[5] This raises the issue, discussed in the following box, of how loose a rein foreign subsidiaries should be allowed.

[3] "Unhappy Brit Holds Hoover Van Hostage," *Cleveland Plain Dealer* (June 1, 1993): D1; and Simon Reeve and John Harlow, "Hoover is Sued Over Flights Deal," *London Sunday Times* (June 6, 1993).

[4] Gibson, "CEO Goes Through Wringer," A5.

[5] Miller, "Maytag UK Unit," A9.

ISSUE BOX

HOW LOOSE A REIN FOR A FOREIGN SUBSIDIARY?

In a decentralized organization, top management delegates considerable decision-making authority to subordinates. Such decentralization—often called a "loose rein"—tends to be more marked with foreign subsidiaries, such as UK Hoover. Corporate management in the United States understandably feels less familiar with the foreign environment and more willing to let the native executives operate with fewer constraints than a domestic subsidiary has. In the Maytag/Hoover situation, decision-making authority by British executives was evidently extensive, and corporate Maytag exercised little operational control, being content to judge performance by ultimate results achieved. Major deviations from expected performance goals, or widespread traumatic happenings—both of which happened to UK Hoover—finally gained corporate management attention.

Extensive decentralization has many advantages: First, top management effectiveness can be improved because time and attention is freed for presumably more important matters; second, subordinates are permitted more self-management, which should improve their competence and motivation; and third, in foreign environments, native managers presumably understand their unique problems and opportunities better than corporate management, located thousands of miles away, possibly can. But the drawbacks are as we have seen: parameters within which subordinate managers operate can be so wide that serious miscalculations may not be stopped in time. Because top management is ultimately responsible for all performance, including actions of subordinates, it faces greater risks with extensive decentralization.

"Since the manager is ultimately accountable for whatever is delegated to subordinates, then a free rein reflects great confidence in subordinates." Discuss.

BACKGROUND ON MAYTAG

Maytag is a century-old company. The original business, formed in 1893, manufactured feeder attachments for threshing machines. In 1907 the company moved to Newton, Iowa, a small town 30 miles east of Des Moines, the capital city. Manufacturing emphasis turned to home laundry equipment and wringer-type washers.

A natural expansion of this emphasis occurred with the commercial laundromat business in the 1930s, when coin meters were attached to Maytag washers. Rapid growth of these coin-operated laundries took place in the United States during the late 1950s and early 1960s. The increased competition and soaring energy costs of the 1970s hurt laundromats. In 1975 Maytag introduced new energy-efficient machines and "home style" stores that rejuvenated the business.

The Lonely Maytag Repairman

For years Maytag reveled in a marketing coup, with its washers and dryers enjoying a top-quality image, thanks to ads in which a repairman laments his loneliness because of Maytag's trouble-free products. The result of this dependability and quality image was that Maytag could command a price premium: "Their machines cost the same to make, break down as much as ours—but they get $100 more because of the reputation," grumbled a competitor.[6]

During the 1970s and into the 1980s, Maytag continued to capture 15 percent of the washing machine market and enjoyed profit margins about twice that of competitors. Table 16.1 shows operating results for the period 1974 to 1981. Whirlpool was the largest factor in the laundry equipment market, with a 45 percent share, but this was largely because of sales to Sears under the Sears brand.

Acquisitions

For many years, until his retirement December 31, 1992, Daniel J. Krumm had influenced Maytag's destinies. He had been CEO for 18 years and chairman since 1986, and his tenure with the company encompassed 40 years. In that time the home-appliance business had encountered some drastic changes. The most ominous occurred in the late 1980s with the merger mania, in which the threat of takeovers by hostile raiders often motivated heretofore conservative executives to greatly increase corporate indebtedness, thereby decreasing the attractiveness of their firms. Daniel Krumm was one of these running-scared executives, as rumors persisted that the company was a takeover candidate.

Largely as a defensive move, Krumm pushed through a deal for a $1 billion buyout of Chicago Pacific Corporation (CPC), a maker of vacuum cleaners and other appliances with $1.4 billion in sales. As a result, Maytag was burdened with $500 million in new debt. Krumm defended the acquisition as giving Maytag a strong foothold in a growing overseas market. CPC was best known for the Hoover vacuums it sold in the United States and Europe. Indeed, so dominant was the Hoover brand in England that many people did not vacuum their carpets, but "hoovered the carpet." CPC also made washers, dryers, and other appliances under the Hoover brand, selling them exclusively in Europe and Australia. In addition, it had six furniture companies, but Maytag sold these shortly after the acquisition.

Krumm had been instrumental in transforming Maytag, the number four U.S. appliance manufacturer—behind General Electric, Whirlpool, and Electrolux—from a niche laundry-equipment maker into a full-line manufacturer. He had led an earlier acquisition spree in which Maytag had expanded into microwave ovens, electric ranges, refrigerators, and freezers. Its brands now included Magic Chef, Jenn-Air, Norge, and Admiral. The last years of Krumm's reign, however, were not marked by great operating results. As shown in Table 16.2, revenues showed no gain in the 1989–1992 period, while income steadily declined.

TABLE 16.1 Maytag Operating Results, 1974–1981 (in $ millions)

	Net Sales	Net Income	Percent of Sales
1974	$229	$21.1	9.2%
1975	238	25.9	10.9
1976	275	33.1	12.0
1977	299	34.5	11.5
1978	325	36.7	11.3
1979	369	45.3	12.3
1980	346	35.6	10.2
1981	409	37.4	9.1
Average net income percent of sales: 10.8%			

Source: Company operating statistics.

Commentary: These years show a steady, though not spectacular, growth in revenues and a generally rising net income, except for 1980. Of particular interest is the high net income percentage of sales, averaging 10.8% over the 8-year period, with a high of 12.3%.

[6] Brian Bremmer, "Can Maytag Clean Up Around the World?" *Business Week* (Jan. 30, 1989), p. 86.

Trouble

Although the rationale for internationalizing seemed inescapable, especially in view of a recent wave of joint ventures between U.S. and European appliance makers, the Hoover acquisition was troublesome. It was a major brand in England and in Australia, but Hoover had only a small presence in Continental Europe. Yet this was where the bulk of the market was, with some 320 million potential appliance buyers.

The probabilities of the Hoover subsidiary capturing much of the European market were hardly promising. Whirlpool was strong, having 10 plants there in contrast to Hoover's two plants. Furthermore, Maytag faced entrenched European competitors such as Sweden's Electrolux, the world's largest appliance maker; Germany's Bosch-Siemens; and Italy's Merloni Group. And General Electric had also entered the market with joint ventures. Europeans' fierce loyalty to domestic brands raised further questions as to the ability of Maytag's Hoover to penetrate the

TABLE 16.2 Maytag Operating Results, 1989–1992

	Revenue	Net Income	% of Revenue
	(000,000)		
1989	$3,089	131.0	4.3%
1990	3,057	98.9	3.2
1991	2,971	79.0	2.7
1992	3,041	(315.4)	(10.4)

Source: Company annual reports.

Commentary: Note the steady erosion of profitability, while sales remained virtually static. For a comparison with profit performance of earlier years, see Table 16.1 and the net-income-to-sales percentages of this more "golden" period.

European market without massive promotional expenditures, and maybe not even then.

Australia was something else. Hoover had a good competitive position there, and its refrigerator plant in Melbourne could easily be expanded to include Maytag's washers and dryers. Unfortunately, the small population of Australia limited the market to only about $250 million for major appliances.

Britain accounted for one-half of Hoover's European sales. But at the time of the acquisition, its major appliance business was only marginally profitable. This was to change: After the acquisition it became downright unprofitable, as shown in Table 16.3 for the years 1990 through 1992, as it struggled to expand in a recession-plagued Europe. The results for 1993, of course, will reflect the huge loss for the promotional debacle. Hardly an acquisition made in heaven.

Maytag's earlier acquisitions also were becoming soured. Its acquisitions of Magic Chef and Admiral were diversifications into lower-priced appliances, and these acquisitions did not meet expectations. But they left Maytag's balance sheet and its cash flow weakened (see Table 16.4). Perhaps more serious, Maytag's reputation as the nation's premier appliance maker became tarnished. Meanwhile, General Electric and Whirlpool were attacking the top end of its product line. As a result, Maytag found itself in the number three or number four position in most of its brand lines.

TABLE 16.3 Operating Results of Maytag's Principal Business Components, 1990–1992

	Revenue (000,000)	Income[a] (000)
1990		
North American Appliances	$2,212	$221,165
Vending	191	25,018
European Sales	497	(22,863)
1991		
North American Appliances	2,183	186,322
Vending	150	4,498
European Sales	486	(865)
1992		
North American Appliances	2,242	129,680
Vending	165	16,311
European Sales	502	(67,061)

[a] This is operating income, that is, income before depreciation and other adjustments.

Source: Company annual reports.

Commentary: While these years had not been particularly good for Maytag in growth of revenues and income, the continuing, and even intensifying, losses in the Hoover European operation had to be troublesome. And this was true even before the ill-fated early 1993 promotional results.

TABLE 16.4 Long-Term Debt as a Percent of Capital from Maytag's Balance Sheets, 1986–1991

Year	Long-Term Debt/Capital
1986	7.2%
1987	23.3
1988	48.3
1989	46.8
1990	44.1
1991	42.7

Source: Company annual reports.

Commentary: The effect of acquisitions, in particular that of the Chicago Pacific Corporation, can be clearly seen in the buildup of long-term debt. In 1986 Maytag was virtually free of such commitments; 2 years later its long-term debt ratio had increased almost sevenfold.

ANALYSIS

Flawed Acquisition Decisions

The long decline in profits after 1989 should have triggered strong concern and corrective action. And perhaps it did, but the action was not effective because the decline continued, culminating in a large deficit in 1992 and serious problems in 1993. As shown in Table 16.2, the acquisitions brought neither revenue gains nor profitability. One suspects that in the rush to fend off potential raiders in the late 1980s, the company bought businesses it might never have bought under more sober times and that it also paid too much for these businesses. Further, they cheapened Maytag's proud quality image.

Who Can We Blame in the UK Promotional Debacle?

Corporate Maytag management was guilty of a common fault in its acquisitions. It gave newly acquired divisions a loose rein, letting them continue to operate independently with few constraints: "After all, these executives should be more knowledgeable about their operations than corporate headquarters would be." Such confidence is sometimes misguided. In the UK promotion, Maytag management would seem as derelict as management in England. Planning guidelines or parameters were far too loose and under-controlled. That subsidiary management could burden the parent with $50 million of unexpected charges, and to have such a problem erupt with no warning, borders on the absurd.

Finally, the UK executives' planning for this ill-conceived travel promotion defies all logic. They vastly underestimated the demand for the promotions offer and greatly overestimated paybacks from travel agencies on the package deals. Yet it took no brilliant insight to realize that the value of the travel offer exceeded the price of the appliance—indeed, 200,000 customers rapidly arrived at this conclusion—and that should have seen that the promotion could prove to be extremely costly to the company. Was it a miscalculation or complete naivete on the part of executives and their staffs, who should have known better?

How Could the Promotion Have Avoided the Problems?

The great problem resulting from an offer that was too good could have been avoided without scrapping the whole idea. A cost-benefit analysis would have provided at least a perspective as to how much the company should spend to achieve certain benefits, such as increased sales, greater consumer interest, and favorable publicity. See the following information box for a more detailed discussion of the important planning tool of a cost-benefit analysis.

INFORMATION BOX

COST-BENEFIT ANALYSIS

A cost-benefit analysis is a systematic comparison of the costs and benefits of a proposed action. Only if the benefits exceed the costs would we normally have a "go" decision. The normal way to make such an analysis is to assign dollar values to all costs and benefits, thus providing a common basis for comparison.

Cost-benefit analyses have been widely used by the Department of Defense in evaluating alternative weapons systems. In recent years such analyses have been sporadically applied to environmental regulation and even to workplace safety standards. As an example of the former, a cost-benefit analysis can be used to determine if it is socially worthwhile to spend $X million to meet a certain standard of clean air or water.

Many business decisions lend themselves to a cost-benefit analysis. It provides a systematic way of analyzing the inputs and the probable outputs of particular major alternatives. While in the business setting some of the costs and benefits can be quantitative, they often should be tempered by nonquantitative inputs to reach the broadest perspective. Schemerhorn suggests considering the following criteria in evaluating alternatives:[7]

- *Benefits.* What are the benefits of using the alternatives to solve a performance deficiency or take advantage of an opportunity?
- *Costs.* What are the costs to implement the alternatives, including direct resource investments as well as any potential negative side effects?
- *Timeliness.* How fast will the benefits occur and a positive impact be achieved?
- *Acceptability.* To what extent will the alternatives be accepted and supported by those who must work with them?
- *Ethical soundness.* How well do the alternatives meet acceptable ethical criteria in the eyes of multiple stakeholders?

What numbers would you assign to a cost-benefit analysis for Maytag Hoover's plan to offer the free airline tickets, under an assumption of 5,000 takers? 20,000 takers? 100,000 takers? 500,000 takers? (Make any assumptions needed as to costs.) What would be your conclusions for these various acceptance rates?

[7] John R. Schermerhorn, Jr., *Management*, 6th ed. (New York: Wiley, 1999), p. 61.

A cost-benefit analysis should certainly have alerted management to the possible consequences of various acceptance levels and to the significant risks of high acceptance. However, the company could have set limits on the number of eligibles: perhaps the first 1,000, or the first 5,000. Doing this would have held or capped the costs to reasonably defined levels and avoided the greater risks. Or the company could have made the offer less generous, perhaps by upping the requirements or by lessening the premiums. Such more moderate alternatives would still have made an attractive promotion but not the major uncontrolled catastrophe that happened.

UPDATE—LEONARD HADLEY

In the summer of 1998, Leonard Hadley could look forward and backward with some satisfaction. He would retire the next summer when he turned 65, and he had already picked his successor. Since assuming the top position in Maytag in January 1993, and confronting the mess with the UK subsidiary his first few months on the job, he had turned Maytag completely around.

He knew no one expected much change from him, an accountant who had joined Maytag right out of college. He was known as a loyal but unimaginative lieutenant of his boss, Daniel Krumm, who died of cancer shortly after naming Hadley his successor. After all, he reflected, no one thought that major change could come to an organization from someone who had spent his whole life there, who was a clone so to speak, and an accountant to boot. Everyone thought that changemakers had to come from outside, like Al Dunlap of Scott Paper and Sunbeam. Well, he had shown them, and given hope to all No. 2 executives who resented Wall Street's love affair with outsiders.

Within a few weeks of taking over, he'd fired a bunch of managers, especially those rascals in the UK who'd masterminded the great Hoover promotion that cost the company dearly. He determined to get rid of foreign operations, most of them newly acquired and unprofitable. He just did not see that appliances could be profitably made for every corner of the world, because of the variety of regional customs. Still, he knew that many disagreed with him about this, including some of the board members who thought globalization was the only way to go. Still, over the next 18 months he had prevailed.

He chuckled to himself as he reminisced. He had also overturned the decades-long corporate mindset not to be first to market with new technology because they would "rather be right than be first." His "Galaxy Initiative" of nine top-secret new products was a repudiation of this old mindset. One of them, the Neptune, a front-loading washer retailing at $1,100, certainly proved him right. Maytag had increased its production three times and raised its suggested retail price twice, and still it was selling like gangbusters. Perhaps the thing he was proudest of was getting Maytag products in Sears stores, the seller of one-third of all appliances in the United States. Sears' desire to have the Neptune is what swung the deal.

As an accountant, he probably should be focusing first on the numbers. Well, 1997 was certainly a banner year with sales up 10.9 percent over the previous year, while profitability as measured by return on capital was 16.7 percent, both sales and profit gains leading the industry. And 1998 so far was proving to be even better, with sales jumping 31 percent and earnings 88 percent.

He remembered the remarks of Lester Crown, a Maytag director: "Len Hadley has—quietly, softly—done a spectacular job. Obviously, we just lacked the ability to evaluate him [at the beginning]."

He knew he had surprised everybody in the organization by going outside Maytag for his heir apparent. He is Lloyd Ward, 49, Maytag's first black executive, a marketing expert from PepsiCo, and before that Procter & Gamble.[8]

WHAT CAN BE LEARNED?

Beware overpaying for an acquisition. Hoping to diversify its product line and gain market share overseas, Maytag paid $1 billion for Chicago Pacific in 1989. As it turned out, this was far too much, and the debt burden was an albatross. Chief Executive Leonard Hadley conceded as much: "In the long view, it was correct to invest in these businesses. But the timing of the deal, and the price of the deal, made the debt a heavy load to carry."[9]

Zeal to expand, and/or the desire to reduce the attractiveness of a firm's balance sheet and thus fend off potential raiders, do not excuse foolhardy management. The consequences of such bad decisions remain to haunt a company, and the ill-advised purchases often have to be eventually sold off at substantial losses. The analysis of potential acquisition candidates must be soberly and thoroughly done, and rosy projections questioned, even if this means the deal may be soured.

Beware giving too loose a rein, thus sacrificing controls, especially of unproven foreign subsidiaries. Although decentralizing authority down to lower ranks is often desirable and results in better motivation and management development than centralization, it can be overdone. At the extreme, where divisional and subsidiary executives have virtually unlimited decision-making authority and can run their operations as virtual dynasties, then corporate management essentially abdicates its authority. Such looseness in an organization endangers cohesiveness; it tends to obscure common standards and objectives; and it can even dilute unified ethical practices.

Such extreme looseness of controls is not uncommon with acquisitions, especially foreign ones. It is easy to make the assumption that these executives were operating successfully before the acquisition and have more firsthand knowledge of the environment than the corporate executives.

Still, there should be limits on how much freedom these executives should be permitted—especially when their operations have not been notably successful. In Maytag's case, the UK subsidiary had lost money every year since it was acquired. Accordingly, one would expect prudent corporate management to have condoned less decentralization and insisted on tighter controls than it might otherwise.

[8] Sources include Maytag annual reports, and Carl Quintanilla, "Maytag's Top Officer, Expected to Do Little, Surprises His Board," *The Wall Street Journal* (June 23, 1998), pp. A1 and A8.

[9] Kenneth Labich, "What Companies Fail," *Fortune* (November 14, 1994), p. 60.

In decision planning, consider a worst-case scenario. There are those who preach the desirability of positive thinking, confidence, and optimism, whether it be in personal lives, athletics, or business practices. But expecting and preparing for the worst has much to commend it, since a person or a firm is then better able to cope with adversity, avoid being overwhelmed, and more likely to make prudent rather than rash decisions.

Apparently the avid acceptance of the promotional offer was a complete surprise; no one dreamed of such demand. Yet, was it so unreasonable to think that a very attractive offer would meet wild acceptance?

In using loss leaders, put a cap on potential losses. Loss leaders, as we noted earlier, are items promoted at such attractive prices that the firm loses money on every sale. The expectation, of course, is that the customer traffic generated by such attractive promotions will increase sales of regular profit items so that total profits will be increased.

The risks of uncontrolled or uncapped loss leader promotions is vividly shown in this case. For a retailer who uses loss leaders, the loss is ultimately capped as the inventory is sold off. With UK Hoover there was no cap. The moral is clear: Attractive loss leader promotions should be capped, such as the first 100 or the first 1,000 or for one week only. Otherwise, the promotion should be made less attractive.

The power of a cost-benefit analysis. For major decisions, executives have much to gain from a cost-benefit analysis. It forces them to systematically tabulate and analyze the costs and benefits of particular courses of action. They may find that likely benefits are so uncertain as to not be worth the risk. If so, now is the time to realize this, rather than after substantial commitments have already been made.

Without doubt, regular use of cost-benefit analyses for major decisions improves executives' batting averages for good decisions. Even though some numbers may have to be judgmental, especially as to probable benefits, the process of making this analysis forces a careful look at alternatives and most likely consequences. For more important decisions, input from diverse staff people and executives will bring greater power to the analysis.

CONSIDER

What additional learning insights can you add?

QUESTIONS

1. How could the promotion of UK Hoover have been better designed? Be as specific as you can.
2. Given the fiasco that did occur, how do you think Maytag should have responded?
3. "Firing the three top executives of UK Hoover is unconscionable. It smacks of a vendetta against European managers by an American parent.