ELECTROLUX'S RISKY BUSINESS: TO RELOCATE OR NOT?

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Electrolux is a Swedish Company that began by selling vacuum cleaners in 1919 and today it is the second largest appliance manufacturer in the world. The company has expanded through the years via mergers and acquisitions. Attempts to cuts costs, centralize administration, and wring out economies of scale were made in the 1960's and 1970's to support continued strategic growth. Major efforts in the late 1990's were focused on company-wide restructuring in response to increased competition. By 2004, Electrolux had 100 worldwide sites but was experiencing plant closures, high employee turnover, decreased sales, and increases in the cost of raw materials. Electrolux expected the availability of resources to become more contentious, the average age of populations in their historic markets to increase, the trend toward smaller families to continue, and increased technological challenges related to the emergence of the Internet on the horizon.

On the bright side, there is enormous growth potential for the emerging middle classes in India and China and a growing share of disposable household income being devoted to home appliances across the world. Further, opportunities in non-traditional consumer appliances exist with many consumers interested in food and its preparation, kitchen design, and consumer appliance choices are becoming become a way of expressing individual personality. The replacement market is a steady basis for demand and Electrolux is consolidating suppliers and manufacturers by integrating relationships to serve customers at a lower cost.

In this context, Electrolux is following its main global competitors in the appliance sector or "white goods" markets, Whirlpool, GE, LG and Samsung, in moving production from high-cost countries to countries with a lower cost base. By 2003, the Electrolux management team sought to expand into Mexico, with the aim of making its products more accessible to the Mexican, Central and South American *markets. Unfortunately, Electrolux finds itself poorly prepared for the transition in creating its own manufacturing capability in Mexico and considers moving back to the United States. Here is a company with a long history of growth through acquisition looking towards internationalization as the key to sustaining its competitive advantage but faces tremendous cultural obstacles and is forced to revisit whether it was truly equipped to take on the challenges of building its own manufacturing capability in Mexico.*

INTRODUCTION

It is the year 2004, and Hans Straberg, President and CEO of Electrolux AB, are getting anxious. With over 100 sites around the world, aligning and managing the company has become quite the challenge. Employee turnover is high and company performance is down, with several plant closures in Sweden, France and the United States currently underway. After a short period of stable material costs, the company has started to see another rise in raw material prices. At the same time, consumer trends such as competition for scarce financial resources, an aging population, smaller family sizes, and the rapid emergence of the internet are radically changing the playing field.

Electrolux's primary business strategy employed up until the early 1990s was to achieve growth through acquisition. As such, many firms were acquired in the 1980s including Granges (1980), a company engaged in mines, steel works, aluminum and copper, and vehicle safety belts; Paris-Rhone (1981), a French vacuum cleaner company, and Progress (1981), a German company. It also acquired Zanussi, an Italian household appliance company, in 1984; Zanker of Germany and Duo-Therm of the United States in 1985; and White Consolidated and Poulan/Weed Eater in 1986. In addition, Electrolux acquired Thorn-EMI, a British white goods company in 1987; American Yard Products and Unidad Hermetica in 1988; and Buderus Group and Roper Corporation in 1989 (AB Electrolux, 2014, p. 5).

Throughout the 1990s and early 2000s, Electrolux AB recognized the need for consolidation, at which time, the focus shifted toward developing its appliance and professional product lines. Then, in the early 2000s, with the advent of the internet and other forms of rapid communication, globalization took center stage. Electrolux was eager to keep pace with the changing business landscape, so it started the process of transforming into a global consumer marketing company.

During this period of rapid change, the appliance industry began to see intense downward pressure on prices from consumers while at the same time customers were expecting products with the latest and greatest features. Thus, the core focus of the company shifted. What was once a solely manufacturing company was evolving into one that worked to continually provide innovative products and services, build brand awareness, and lower costs.

ELECTROLUX: THE VIEW FROM THE OUTSIDE

The aim of Electrolux was to become a global leader in the appliance industry, in the areas of innovation, brand awareness, environmental protection and sustainability. By 2004, it held the number 1 or 2 position globally in most of its target product areas. In the appliance industry, Electrolux was the market leader in Europe and Australia, and the third largest producer in the U.S. It maintained a global presence with its leading brand names such as Frigidaire, Eureka, Husqvarna, AEG and Zanussi. The company also benefited from high margins on its products for professional users, and successfully achieved economies of scale in production, logistics and product development.

Electrolux avowed that its purpose was to "make a positive, everyday difference in people's lives and for our planet," while its vision was to be the best appliance company in the world as measured by its customers, employees and shareholders. Its core values included customer obsession, passion for innovation and a drive for results (https://www.egate.electrolux.com/External/Starting_at_Electrolux/). For its customers, these values meant staying within the top three of consumer brands and occupying the number one or two spot in key market segments. For its employees, Electrolux aimed high in terms of creating effective employee engagement programs and increasing job satisfaction. Finally, for its shareholders, Electrolux strived to maintain long-term sustainable growth.

In aspiring to be a premium brand, Electrolux strived to offer customers a first-class service experience. Over the course of its history, the company had evolved from a purely manufacturing company to a consumer-driven company. Axel Wenner-Gren, Electrolux's founder, once challenged his employees to "remember that we are in the field not only to sell our machines but to give service and to make Electrolux an institution – second to none in its line of activity. It is an obligation to fulfill and a challenge to give the best that is in us."

Electrolux relied heavily upon consumer insights to provide innovative products that required less energy and water consumption, made less noise, were easier to use, and had dynamic designs which were clearly differentiated and physically better than any competitor's products. To fulfill this obligation and better meet this challenge, Electrolux's product quality teams went as far as visiting customer homes to observe them and find out first-hand what they needed while also testing appliances and gaining valuable feedback for research purposes. Additionally, Electrolux prided itself on its superior design and technical expertise--a direct result of its commitment to actively increasing investments in product development. Possessing a skilled engineering team gave Electrolux a major advantage in a highly competitive and ever-changing industry. Furthermore, with its well-established assembly processes, Electrolux efficiency produced very high product volumes, giving it a production capacity and output unmatched in the appliance industry at that time.

Electrolux foresaw the enormous growth of the middle class in emerging countries such as India and China and as a significant global trend. In fact, one billion more middle income earners are expected by the year 2020 -- approximately a 40% growth rate (https://www.egate.electrolux.com/External/Starting_at_Electrolux/). This, combined with a low penetration rate of home appliance ownership creates a tremendous opportunity for Electrolux. A growing share of disposable household income is devoted to the home, and to the kitchen. Many consumers are interested in food and its preparation, and kitchen design and appliance choices have become ways of expressing personalities. As appliances become more intelligent and interactive with information systems, consumers want products that are not only more useful, but also provide greater convenience and reliability in the home. For many consumers, aesthetic values are just as important as functionality. Lifestyles, fashions and trends in decoration are becoming more important, even for kitchen appliances.

The replacement market is a steady basis for demand, as approximately 70% of all appliances sold are a replacement for an existing unit. The remaining units sold are mainly purchases for new homes. Demand is affected by housing starts, trends in disposable household income and the number of households. While the degree of saturation, i.e. the share of households that have cookers, refrigerators and other appliances, is high in traditional markets in Western Europe and North America, it is considerably lower in Eastern Europe and Asia which presents an excellent potential area for growth.

These trends have brought enticing opportunities to the appliance industry. At the same time, pressure for change is being generated by greater globalization and competition from producers in low-cost countries. A trend to bigger and more international retail chains as well as to larger retail stores take market share from traditional dealers. The appliance retail industry is expanding geographically, becoming more international, and consolidating their purchases to fewer suppliers. The flow of products between producers and retailers is also becoming more integrated. Large volumes and efficient flows enable firms to serve customers at a lower cost.

ELECTROLUX: THE VIEW FROM THE INSIDE

Driving down costs was an ongoing initiative across all areas of Electrolux. In 2004, Electrolux employed more than 50,000 people worldwide, and reducing costs was considered every employee's responsibility. Steps were taken to foster long-term cost management processes, whereby the organization adopted a one-company global process approach. While this initiative was communicated throughout the organization as a top priority, the reality was an organization riddled with costly redundancies and inefficient processes.

Electrolux encouraged employees to challenge convention and reinvent processes in their daily work, including everything from how to conduct a meeting to designing a business model. Every employee was urged to consider how their work fit within the overall strategy of the company. In theory, this sounds great, but in practice, it was not clear if this strategy was appropriately communicated across all functional areas. With a high level of management turnover, team building was weak or non-existent. Efforts to unify operations, coordinate strategies, or collaborate between units rarely succeeded.

Employee morale was perceived as low. There was a clear disconnect between headquarters and plant-level operations. With limited vertical communication and direction, individuals were given little structure to follow and do what is in their best interests. While in many cases, a laissez-faire management style can be empowering for employees, in the case of Electrolux, it created a dangerous silo effect throughout the organization.

MOVING TO MEXICO

In 2003, at a time when U.S. companies were relocating abroad by the hundreds, Electrolux held on to its Greenville, Michigan factory. With its 2,500 seasoned employees in a town with a population of less than 8,000 residents, the company was by far one of the biggest employers in the city. With little local competition for resources, the presence and power of the active labor union was surprisingly strong. Thus, there was a high amount of pressure to maintain or increase wage rates for the union employees. Unfortunately, these high labor costs, combined with rising material costs and declining sales resulted in a long period of lost profits at the Greenville plant. The factory simply could not turn a profit. For several years, rumors spread that the plant would be closing, but no one dared to believe them. So, on that otherwise typical January day in 2004, with some 2,500 employees present, the management made the announcement that the plant would be closing, and life as they knew it would be forever changed (http://www.freerepublic .com/focus/f-news/1059154/posts).

Almost immediately, an ad hoc team of managers across various functional areas was formed to plan the next steps forward. This "transition team" determined that, its primary objective would be to further rationalize the firm's value chain by locating its next refrigerator plant in a country with the most favorable combination of cost, quality and logistical considerations. The country of choice was Mexico with particular interest in operating in a maquiladora where special incentives might be available. Regarding costs in particular, the team chose to focus on labor, transportation, utilities and real estate expenses (J. Burroughs, personal communication, July 16, 2015). Many meetings were then conducted, and a third-party consulting group was contracted to gather information from government representatives, maquiladora representatives, utility providers, logistics operations, appliance suppliers and real estate developers. In Mexico, a maquiladora is a manufacturing operation, where factories import certain materials and equipment on a duty-free and tariff-free basis for assembly, processing, or manufacturing and then export the assembled, processed and/or manufactured products, sometimes back to the raw materials' country of origin. One may think of them as a special economic zones as established in many other countries.

When Mexico set up the first maquiladoras half a century ago, they were sweatshops that simply bolted or stitched together imported parts, then exported the assembled product across the border to the U.S. (Figure 4). The U.S. got cheap goods; Mexico got jobs and export revenues (http://www.economist.com /node/21588370/print). Mostly American-owned, and existing in border states, maquiladoras imported raw materials on a duty-free basis, and then exported the assembled products. This not only lowered the cost of goods in the U.S., but also provided jobs that pay more than the Mexican average, which at that time, was typically a range of USD $8 to $16 per day for unskilled and skilled assembly line workers. Electrolux was prepared to offer workers USD $3 per hour, which, compared to the USD $15- $20 it would cost for an equivalent American worker, presented a huge cost- saving opportunity for the firm.

To take advantage of tax incentives, the Electrolux management decided that the new plant would operate as a maquiladora (Figure 3). After performing high-level market and financial analyses of Mexico's appliance manufacturing industry, the city of Juarez, located just south of the U.S. / Mexico border in the Mexican state of Chihuahua, was chosen as the winner. Of all the cities that Electrolux considered, Juarez offered the lowest labor costs. In addition, there is no union affiliation requirement in the maquiladoras, in fact, only 5% of maquiladora workforce is unionized. This can be explained in part by the coordinated efforts among maquiladoras to control wage inflation. One analysis showed that employee turnover had been decreasing and absenteeism was measured at a very low 1.36% as of April 2003. Furthermore, the potential for access to future resources was promising, as there were 15 institutions of higher education, and other technical and engineering schools in the area. In fact, the state of Chihuahua ranked second in terms of Research and Development (R&D) in Mexico. At the time, the new Electrolux factory was one of Mexico's largest industrial projects, representing an investment of more than 100 million U.S. dollars. The new factory boasted a manufacturing capacity of more than 2,000,000 refrigerators annually, and was expected to result in savings of between 2.5 and 3.5 billion dollars per year by 2010 (http://www.electroluxgroup.com/en/new-refrigerator-factory-opens-in-mexico-1703/).

SETTING UP SHOP IN MEXICO'S "MOST VIOLENT CITY"

Juarez was already home to 302 maquiladoras – one of the largest concentrations in the country, giving it a population of 1.29 million and a labor force of 513,000 people. Furthermore, Juarez possessed the lowest labor and construction costs, and relatively low outbound transportation costs, as compared with other potential sites. Along with many other multinational companies, Electrolux' decision to expand into Mexico enabled Ciudad Juárez, which has both the highest level of violence and the largest number of maquiladoras, to add 1.3 percent more jobs, to a total of 176,824. The growing investment in maquiladoras had resulted in the creation of many jobs in some of Mexico's hardest-hit cities, a bright spot in an otherwise bleak stream of shootouts, departing small businesses and fear of random death. Economists thought Mexico's growth would be even stronger without the cartel violence, which within the last five years had left more than 40,000 people dead (Archibold, 2011).

The city also presented various transportation advantages for the firm. In terms of proximity to the U.S., Juarez provided convenient access through its U.S. twin city, El Paso, via I-10 and I-25, and was relatively close to California for Asian inbound shipments. Additionally, to sweeten the deal, the state of Chihuahua promised Electrolux that it would install a new rail line which would lead directly to the new plant. With its five border crossing points, and the implementation of state-of-the-art technology to reduce border crossing times to 5 minutes, Juarez seemed like the clear winner in terms of its benefits in transportation (Ernst & Young LLP, 2003).

While there are many advantages in choosing Juarez, several disadvantages were apparent. First, was the overall low educational level of the population. In 2004, 24% of the population aged 15 and older had not completed primary education, and the average level of education attained was approximately the sixth grade. In addition, the population was very transient, which might translate to higher expectations for employee turnover. Lastly, and arguably the biggest disadvantage of the city, was its level of violence.

Despite these concerns, on July 1, 2005, Hans Stråberg, president and CEO of Electrolux, opened the Group's new world-class refrigerator factory in Ciudad Juárez, Mexico. Ultimately, setting up shop in Juarez would not only enable Electrolux to achieve lower manufacturing costs, but would also allow it to benefit from reduced trade tariffs, lower transportation costs, and better access to raw material and component sources throughout Central and South America (Figure 2).

THE REALITIES OF INTERNATIONALISM

Though costs such as logistics, labor and land were carefully accounted for, the team encountered unforeseen costs in doing business in Mexico. For example, as Mexico's standard of living is lower than the Unites States, Mexican workers did not routinely own personal vehicles, and as such, their employers were expected to supply transportation, meals, and on-site medical professionals to provide the bulk of their medical care (T. Vining, personal interview August 7, 2015).

Additionally, there were clear cultural differences present from day one. Not only were there language barriers, but the team noticed differences in the way people did things, and even how the government dealt with people. According to Mr. Vining, "someone was always trying to get money out of us, tell us what to do and how to do it." This type of government intervention proved to be quite the inconvenience. While regulations such as the Foreign Corrupt Practices Act in the United Sates protected businesses against too much government power, in Mexico these lines were not quite so clear. At one time, the governor of the state of Chihuahua attempted to advise Electrolux regarding which contractor it should choose for the project. Ultimately, Electrolux established a bidding process through which five different building contractors were allowed to bid for the opportunity to win the job. This presented clear challenges for the project, however the team stood firm and ultimately made a decision based upon the company's ethical guidelines.

It could also be said that Electrolux failed to capture the total cost and net present value of the project when making final site selection decisions. For example, the cost of oil was rising, and transportation costs such as the cost of customs clearing as well as other logistics costs were not considered. Indeed, some of those working on the project felt that due diligence was not performed on the front end in making the decision to select Juarez. According to Tom Vining, Vice President of Engineering at the time, a large portion of the number crunching was not done until the project was well underway.

Drug smuggling was another major concern that came with even more unexpected costs. With its strong drug cartel presence, Mexico at the time (and arguably still today) was considered the "drug corridor" between South America and North America. From an operations standpoint, the management team had to consider how to secure assets, people, and incoming and finished goods. Per Mr. Vining, they had to ask themselves, "how do we protect everything coming in, sitting in and leaving the plant?" (T. Vining, personal interview, August 7, 2015).

Unlike Electrolux's experiences with acquisitions, this was a greenfield project where the entire operation was built from the ground up. As such, the new factory was built on a plot of land with no roads surrounding it. There was no infrastructure to speak of, acquiring and maintaining utilities such as water and power presented quite the challenge. Water had to be brought in by trucks, and electricity was unreliable. One time, a power line fell, and the plant was without power for an entire week. Since the project could not afford such delays, there was the added expense of purchasing several backup generators to be relied upon as an alternate power source throughout the construction process.

Electrolux was further unprepared for climate issues and building standards. A severe dust storm, triggered by the Santa Ana high winds, caused one of the main buildings to collapse. This arguably could have been avoided, had the timeline for the project not been so tight. Allocating the necessary amount of time to the construction project would have allowed the original building to have been built with more structural soundness. However, given the short deadlines for the project, the original steel building was constructed quickly, causing many steps to be overlooked. While some questioned the stability of the structure, no one could have predicted the sudden entrance and severity of the dust storm. To make matters worse, the city of Juarez experienced record downpours that year, which rendered the road-less construction site a muddy mess.

JUMPING AHEAD

Nearly two years have passed since the grand opening of the plant in 2005. Despite clear benefits to Mexico and the residents of Juarez, the new, not so fully operational Electrolux plant is not meeting production expectations. While the optimism surrounding this expansion was high, EBITDA (earnings before interest, taxes, depreciation, and amortization) margins have dropped steadily from 9 percent in 2002 to around 8 percent in 2005, with no immediate relief in sight. It would appear to longtime Electrolux operations personnel from other countries that there were no established processes and procedures. The plant was in a state of chaos with no systems in place for inventory control, no correct pricing setup for incoming parts and materials, and the plant cannot receive deliveries of critical materials. Without these materials, the machines cannot run. When machines are not running, products are not being made or sold, and employees, rather than standing idle, prefer to seek alternate employment.

This 1.8 million sq. ft. factory in Juarez was built to produce 2 million refrigerators per year. At the time of the plant closure in 2004, the Greenville, Michigan plant was producing 1.5 million refrigerators per year. Now, over 2 years later, the Juarez plant was struggling to produce even 1 million units. To turn things around, management, now a skeleton crew, had been working around the clock, most days from 4:30 a.m. until 7:00 p.m. Monday through Friday, and sometimes Saturdays (personal communication, A. Díaz, June 29, 2015).

Interestingly, language proficiency was not the biggest issue. Instead, it was job skills and education. Initially, the main objective was to find workers who could speak both English and Spanish, however, many of these people lacked the skills necessary to drive the company to success. Even if the company invested in more training for its staff, they cannot keep them. Trained workers could leverage their training at other factories for more money. The plant desperately needed more staff, but with the high risk of turnover, they needed people right away who could come in and make an immediate impact.

WHAT TO DO?

The price of Electrolux stock is falling. The Shareholders are up in arms. Electrolux was losing people, time and money. This endeavor is starting to look like a failure. Something had to be done -- and fast.

APPENDIX

OPTIONAL USE: ELECTROLUX CORPORATE CULTURE

Every organization has a mission. In fulfilling its mission, a firm must decide which specific initiatives it will pursue and what actions it will take. The way an organization thinks and decides will be very much influenced by the elements it adopts from its corporate culture. Organizational cultures take time to evolve, as "patterns of consistent behavior do not emerge overnight". Some researchers suggest that "corporate culture can be thought of as a company's 'personality'", and that "every organization— regardless of size— has a culture that influences how people behave, in a variety of areas".

Not only do all organizations have a culture, but "it is increasingly recognized by researchers, practitioners, and managers alike that corporate culture is of critical importance to organizational success." This is because corporate culture is considered a key driver or determinant of the bottom line of financial performance of business enterprises, and a critical source of sustainable competitive advantage in organizations. Other research suggests that "corporate culture is a powerful way for an organization to define itself, create high morale, uniformity among its employees, brand recognition among its customers and set itself apart from its competitors".

So, what happens when a company grows so quickly that its culture cannot be defined? What if a firm's rate of growth outpaces the capacity of its resources? In a recent article in the Harvard Business Review, Greg Satell notes that the institutions we build—and put so much conscious effort towards—are so rarely able to synchronize. Despite our best efforts, most organizations operate disjointedly (https://hbr.org/2014/11/get-your-organization-to-run-in-sync/). In the case of Electrolux, this could not be more true.

While there is a weak underlying effort to create a unified Electrolux, the reality is one of disorganized chaos. This culture has developed primarily due to Electrolux's rapid global expansion as well as the high level of individualism present within the firm. Individualism, as opposed to collectivism, refers to "whether a person functions primarily as an individual or as part of a group […] and each person tends to focus on his or her own self-interest" (Table 2).

Foreign expansion can be more than just a gateway to new markets. When acquired in context, overseas companies can provide the capabilities and skills to raise productivity in operations back home.

Moving into foreign territory comes at a price. Apart from the acquisition itself, there are costs associated with the increased complexity and coordination needed to operate in different markets, resources trade-offs and what is known as the liability of foreignness. Recent research however, suggests there are ways to offset this expense, by unlocking greater benefits from the acquisition. When made in the right context, cross-border M&As generate learning which can be transferred to the acquiring company's domestic operations, significantly increasing efficiencies and productivity.

By targeting companies in countries and markets more competitive and innovative than their own, and by investing domestically to help transfer the newly-acquired expertise into the home arena, firms are in a better position to reap the full benefits of the deal.

Read more at http://knowledge.insead.edu/strategy/how-foreign-acquisitions-boost-productivity-at-home-3443#ra3VhLC5qUUOwjr7.99

Mexican Workers

The Purchasing Manager in Juarez at the time referred to the laborers as "mercenaries" (A. Díaz, personal communication, June 17, 2015). Given the high number of companies that were relocating to the area to take advantage of the availability of low-cost labor, workers had many options. If they were offered a higher wage or better benefits elsewhere, they would simply leave. Gone were the days when a worker remains loyal to a single firm. In order to fill the open positions with qualified people, Electrolux management had to look to the city – Mexico City – where the largest pool of candidates was located. However, it would take a substantial amount of capital to convince those candidates to abandon their cosmopolitan life in Mexico City in exchange for the small town, desert life in Juarez.

FIGURE 1

Source: Distributors as Famsa, Gomo, Local Government officials

FIGURE 2

General Mexico Overview – Economic Environment

ADVANTAGES

- ✓ Inexpensive labor as compared to the US market
  - Low wages
  - Inexpensive benefits
- ✓ Land availability
- ✓ Proximity to the United States
- ✓ Access to existing distribution centers
- ✓ Increasing consistency in monetary policy
- ✓ Declining inflation rate
- ✓ Favorable NAFTA regulations
- ✓ Good time to enter into Mexico. As US economy continues to improve, demand for products will increase and firms will expand internally, requiring a larger labor force for existing plants in Mexico

DISADVANTAGES

- Transient work force
- Limited availability of skilled labor force
- Lack of skilled management level employees
- Government regulations create excessive red-tape
- Government efforts to develop and maintain the maquiladora industry have to be determined
- Election of liberal President in the future could effect business climate throughout the country
- Lack of clearly defined tax laws
- New legislation could increase tax costs

Sources: INEGI, Wall Street Journal, The Economist

FIGURE 3

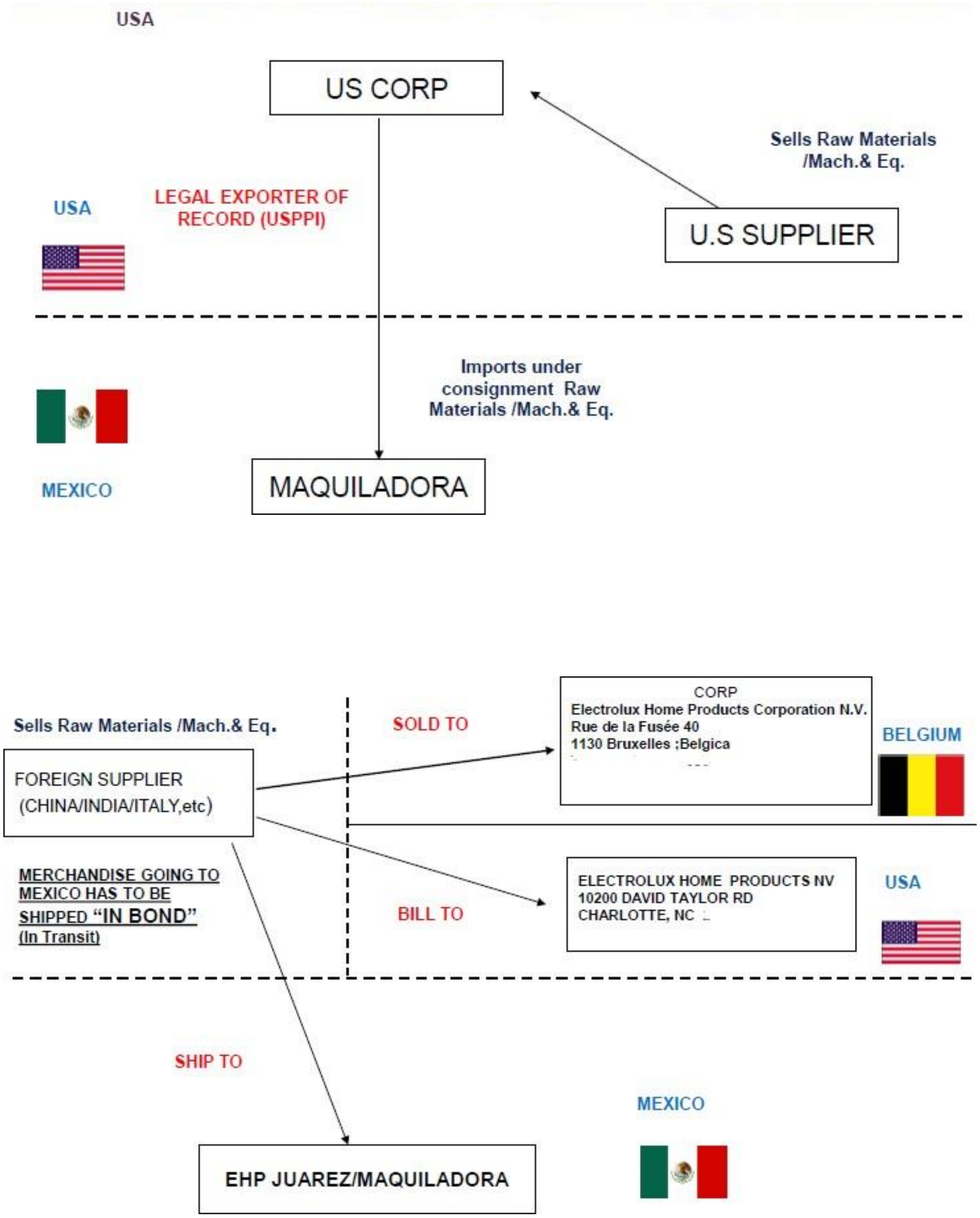

USA
US CORP
Sells Raw Materials /Mach.& Eq.
USA
LEGAL EXPORTER OF RECORD (USPPI)
U.S SUPPLIER
Imports under consignment Raw Materials /Mach.& Eq.
MEXICO
MAQUILADORA
Sells Raw Materials /Mach.& Eq.
SOLD TO
CORP
Electrolux Home Products Corporation N.V.
Rue de la Fusée 40
1130 Bruxelles ;Belgica
BELGIUM
FOREIGN SUPPLIER (CHINA/INDIA/ITALY,etc)
MERCHANDISE GOING TO MEXICO HAS TO BE SHIPPED "IN BOND" (In Transit)
BILL TO
ELECTROLUX HOME PRODUCTS NV
10200 DAVID TAYLOR RD
CHARLOTTE, NC
USA
SHIP TO
MEXICO
EHP JUAREZ/MAQUILADORA

FIGURE 4

Maquiladora Overview - Past

DEFINITION

- ✓ Maquiladoras are primarily assembly or subassembly operations in Mexico that are allowed to waive the payment of duties on NAFTA originating materials and defer the payment of duties on non-NAFTA originating goods, while potentially being able to sell the finished products in the U.S. with a preferential tariff rate
- ✓ Maquiladoras may waive the payment of value added tax on machinery, equipment and materials imported on a temporary basis
- ✓ Currently, maquiladoras are allowed to sell 90% percent of their production in Mexico while required to export 10% in order to obtain duty and tax benefits. A 30% export requirement needs to be met in order to receive the VAT benefit related to machinery and equipment

PAST

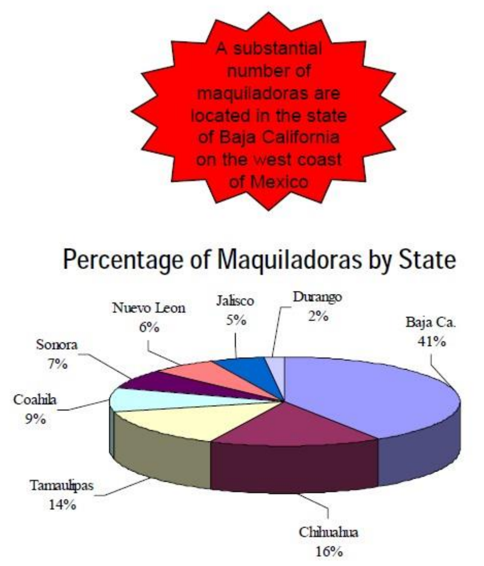
- ✓ The maquiladora program has been in existence since 1965. The program began in the states of Baja California and Chihuahua
- ✓ Subsequent to the execution of NAFTA in 1994, the regulatory environment has been changing and many of the preferential tariffs and tax incentives affecting the competitiveness of the maquiladora industry have been modified
- ✓ The average annual growth rate of maquiladoras during the 1990's was 11%

FIGURE 5

Maquiladora Overview - Present

PRESENT

- ✓ The largest investors by country of origin are from the USA (62%), Mexico (28%) and Japan (5%)
- ✓ As of December 2002, Mexico registered 3,285 plants and 1.1 million Mexican workers. 69% of these plants are located on the border
- ✓ There are three common business structures:
  - Wholly-Owned subsidiary: Foreign company owns 100% of the Mexican corporation
  - Shelter Program: Foreign company establishes a partnership with a Mexican company, preserving full control of operations but not assuming full responsibility
  - Contract Manufacturing: Foreign company out sources a Mexican based company
- ✓ Mexico has lost 300,000 maquiladora jobs since 2000 due to re-locations and companies downsizing



Source: Global Insight, Maquiladora Association

FIGURE 6
General Market Overview - SWOT Analysis

STREN GTHS	WEAKNESSES
● Low labor costs ● Strategic location to U.S. border ● Availability of labor force ● Strong industrial culture ● No Mexican union affiliation requirement ● Advantageous state and local incentives ● 100 of Fortune 500 companies are represented ● Expatriates can live in El Paso, TX ● Fast Border Crossing ● Universities in the area	● Limited local supply base ● Low labor force education levels ● Infrastructure has not kept pace with growth ● Lack of adequate city master plan ● Political tension between city and state governments ● Low quality of life due to poor infrastructure and pollution ● Specific employee training investment too risky because of high turnover and mercenary attitude of the employees
OPPORTUNITIES	THREATS
● Lower warehousing costs in El Paso, TX ● Development of local supply base ● Increased demand of growing middle class in Central and South America can be served from Mexican factory ● Educational programs can be set up with the local universities	● Competition from other companies for the skilled labor available ● Cartel violence and drug trafficking ● Capacity of local supplier base ● Labor availability as economy recovers ● Long term water availability

Sources: El Paso Chamber of Commerce; Ernst & Young (2003).
Project 1: Market Assessment and Selection

TABLE 1
History of Electrolux

1910	Electrolux was incorporated as Elektromekaniska AB.
1919	Elektromekaniska AB merged with Swedish AB Lux, and Aktiebolaget Electrolux was established. Electrolux led the development of the modern canister-type vacuum cleaner and the absorption refrigerator during the early part of the 20th century.
1928	Electrolux was introduced on the London Stock Exchange. The Group had five plants, approximately twenty subsidiaries and 250 offices throughout the world and a total turnover of SEK 70 million.
1930	Electrolux was listed on the Stockholm Stock Exchange. In 1987, trading of American Depositary Receipts, ADRs, representing Electrolux B-shares started on the NASDAQ National Market.
1933	Vacuum cleaner production began in Old Greenwich, Connecticut, USA, and the first air-cooled refrigerator was produced.
1960’s	Electrolux initiated the restructuring of the fragmented Western European white goods industry. In 1968, the minority interest (39%) in Electrolux Corp., USA was sold to Consolidated Food for almost SEK 300 million. The finances generated provided Electrolux with the key to future expansion.
1984	Italian company Zanussi, including subsidiaries in Spain, was acquired, making Electrolux a leader in the European household appliances market and in the food service equipment market.
1986	White Consolidated Inc, the third largest white goods company in the United States with brands such as Frigidaire, Gibson, Kelvinator and White Westinghouse, was acquired.
1986-89	The Outdoor Products business area expanded with the 1986 acquisition of the US company Poulan/Weed Eater and the 1989 acquisition of the outdoor power products business of the Roper Corporation.

1990's	The European expansion continued with the 1994 purchase of the white- goods division of German AEG. Restructuring programs and other measures were implemented to improve profitability. For example, a two- year restructuring program in 1997 began with the divestment of the industrial products sector, as well as the sewing machine, agricultural implement and interior decoration operations. In 1998, the core business comprised Household Appliances, Professional Appliances and Outdoor Products, and Annual Group Sales had grown to SEK 117 billion.
2000	Electrolux AB re-acquired the trademark and company name "Electrolux" in North America, and thereby gained global control of the company name and the Group's most important brand.
2001-02	The household division of the Australian company Email Ltd, was acquired in 2001. During 2001-02 two restructuring programs were implemented throughout the Group, with divestments of non-core business, productivity improving measures, cost cutting, consolidation of production, rationalization of sales and marketing, write-downs of assets and personnel cutbacks.
2003-04	The consolidation of brands, with Electrolux as the main brand, accelerated and a consumer insight-driven product development process was initiated. The group re-introduced the Electrolux brand in USA with vacuum cleaners in 2003 followed by high-end white goods in 2004.

TABLE 2
Perceived Cultural Differences: U.S. vs. Mexico

Dimension	Mexico	United States
Role of context	High-context culture that values social trust, personal goodwill and ritualized business	Low-context culture that emphasizes efficiency, explicit communications and "getting down to business."
Individualism versus collectivism	Relatively group oriented. Extended families, teamwork and group loyalty are valued.	Relatively individualistic. Emphasis on personal freedom and working alone. Group loyalty is less valued.
Time orientation	Fluid and polychronic. Long-term relationships are valued. Mexicans emphasize the past and believe they have little control over the future.	Rigid and monochronic. Business is short-term oriented and values profit above all else. Americans believe they can control the future.
Space perceptions	Conversational distance is close. Personal space is less valued.	Conversational distance is ample. Personal space is highly valued.
Religion	Christianity is very influential in daily life, and often in business.	Americans' religious orientation is diverse and declining.
Language	Spanish dominates, with little linguistic diversity.	While English dominates, there is much linguistic diversity.
Negotiations	Tend to progress slowly. Decisions take time. Legalism is avoided in agreements.	Emphasis on efficiency and quick decision making. Agreements are often legalistic.
Business relations	Relationship-oriented. Mexicans are easy going, valuing personal bonds.	Deal-oriented. Business performance takes precedence over relationships.
Business meetings	Arriving late is acceptable. Meetings are informal and usually don't follow a strict agenda.	Americans are time-oriented, arriving promptly to meetings, which often follow a formal agenda.
Superior-subordinate relations	Firms are hierarchical, with much power distance. Senior managers are relatively authoritarian.	Lower power distance. Firms are "flatter," with less hierarchy. Relations with superiors are informal and easygoing.
Style of dress in business	Conservative, emphasizing dark suits. High-status personnel are expected to dress the part.	Business casual is widely accepted. "Dressing the part" is less important.

Note: Adapted from *International Business: The new realities, 3rd ed..*, p. 93, by Cavusgil, S. T., Knight, G. and Riesenberger, J.R., 2014, New Jersey: Pearson Education, Inc.

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