

Black & Decker International: Globalization of the Architectural Hardware Line

If you don't know where you're going, any road will take you there....

—Theodore Levitt

In March 1990, Fred Grunewald was reviewing the presentation he had prepared for top management of the Black & Decker Company. Mr. Grunewald was vice president of product and market development for the international group (Power Tools & Home Improvement Group); his job was to act as the catalyst for developing the company's businesses from local or regional entities into global players. A perfect opportunity for dramatic changes and profit growth was presented by Black & Decker's recent acquisition of the Emhart Corporation, which brought with it an architectural hardware (locks and locksets) business. Mr. Grunewald believed that capitalizing on the opportunity would require both restructuring the way the acquired companies went to market, as well as rethinking how the various parts of the businesses could be integrated on a global scale.

The bottom line of his opening transparency read, "We intend to create a global Black & Decker lock business." Substantial work lay ahead, however, to make this intention a reality—not only in coordinating the management of the acquired entities (with the risk of alienating and losing some key managers) but also in finishing marketing research, simplifying production design and engineering,

rationalizing distribution channels, and overcoming regional differences. On top of these tasks, his proposal, which called for the addition of new personnel, would inevitably add to overhead costs at a time when the company's earnings were being squeezed by the costs of financing the Emhart acquisition.

This job would be one of the more challenging jobs Mr. Grunewald had faced in his 18 months with the company, but he had developed considerable global knowledge as he had worked with the operating divisions to build strategic plans and to set development priorities. He believed he would also be helped by the globalization momentum that had won the company much favorable publicity in recent times. Because the presentation of his recommendations was scheduled for next week, he set about thinking through the logic and implications of his report one more time.

BLACK & DECKER¹

Four years ago, Black & Decker was a struggling industrial also-ran that was in serious trouble. We made a commitment to turn the company around, and we have met that commitment. Today, Black & Decker has been transformed into a global marketing power that has rewritten nearly every performance record in its history.... The company's resurgence has been driven by a four-part strategy that concentrated all of our resources and energies on a set of clear objectives: build core profitability; strengthen management; improve return on equity; and broaden the earnings base.

—1989 Annual Report

¹This case was made possible through the cooperation of the Black & Decker Company. Some of the data are disguised.

Founded in 1917, Black & Decker manufactured and sold a wide line of electric and battery-powered power tools (and accessories), household products, outdoor products, locks and hardware, plumbing products, and mechanical fastening systems. Net sales for fiscal year (FY) 1989 were \$3.2 billion, up from \$2.3 billion in FY 1988; net earnings were \$30 million, down from \$97 million. Part of the sales increase and earnings decrease were attributable to the acquisition of Emhart Corporation in 1989.

In 1985, Nolan Archibald became chief executive officer of a Black & Decker company that had disjointed international product lines and policies, dissatisfied customers, and a tarnished reputation. While the Black & Decker name still had a loyal following [in England, a do-it-yourself (DIY) hobbyist would be "Black & Decker"; a French person who was socially "plugged in" would be "*très Black & Decker*"], the main product lines were losing to Asian global competition (especially Japan's Makita) and to strong local competitors in all parts of the world.

Two of Mr. Archibald's key actions had been to develop a worldwide view toward the markets for the company's products and to reduce drastically the number of models needed to fill those global markets. As part of this, the company reverse-engineered its competition's products and established just-in-time, continuous-flow production processes. Mr. Archibald hired new top managers, who began an active program of new-product development (sixty new or redesigned power tools; 40% of household products less than three years old).

As of early 1990, the organization was still in a period of fluid change, an outcome of the shift to looking at global rather than local manufacturing and design opportunities. The organization was a mixture of three forms—functional units, product categories (or strategic business units), and geographical units. Three main divisions, each under a group president, were Power Tools & Home Improvement, Household Products, and Commercial & Industrial Products (see Exhibit 1 for a partial organization chart). Within the Power Tools & Home Improvement Group was a mix of product and geographical divisions; the U.S. Power Tools, Europe, International, Hardware & Home Improvement, and Power Tool Accessories divisions each had a president.

Within the Power Tools Group, the Europe Division, in addition to having full marketing and manufacturing facilities for power tools, was also responsible for sales of the Household Products and for the products of the Hardware and Home Improvement Division and the Power Tool Accessories Division. Moreover, the International Division had responsibility for two plants manufacturing household products in Brazil and Mexico, along with sales responsibilities for all company products in the world outside of Europe and the United States. Mr. Grunewald, under the president of International, had product- and market-development responsibility for all but the North American and European businesses. The Power Tool Accessories Division sold its products in the United States but also had responsibility for plants and engineering design centers in Europe. Finally, the full-functioned Household Products Group had the responsibility for U.S. sales of its own products, for a housewares plant in Singapore, and for sales of all Black & Decker products in Canada.

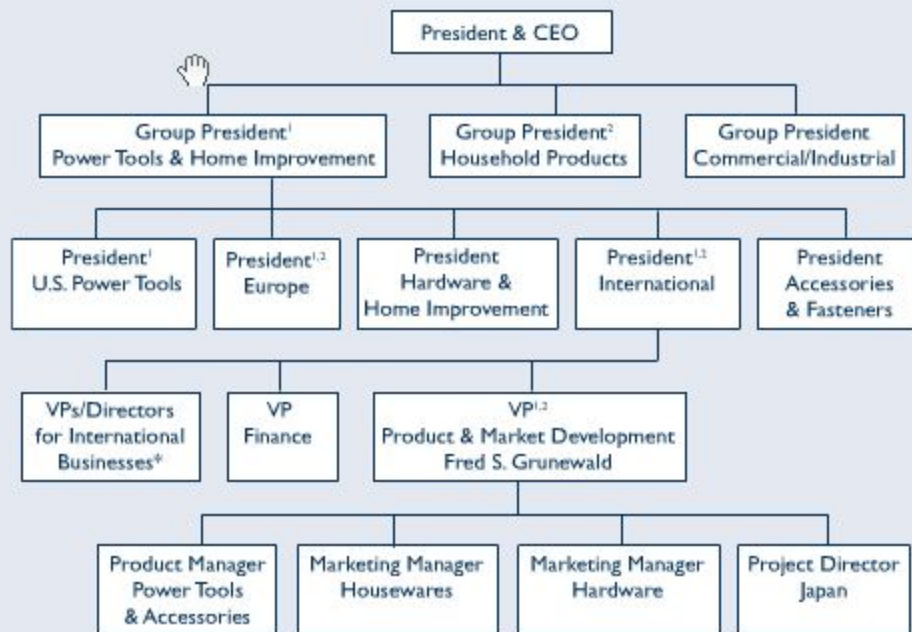
A new position of president under the Hardware and Home Improvement Division had just been established and filled from outside the company. This new president of the Hardware and Security Products Section, a full-functioned marketing/production/finance operation, would be charged with rationalizing the acquired lock companies into one integrated business.

FRED GRUNEWALD

Mr. Grunewald had been recruited to Black & Decker in late 1988 to the staff position of vice president, product and market development, as a key resource in the globalization initiative at Black & Decker. Along with ten years experience at General Electric in sales, product management, marketing, and strategic planning, Mr. Grunewald commented on his credentials:

It seems as if I have the background for international marketing: I was born of German parents, raised in Latin America, nearly completed a Ph.D. in Chinese studies, and got my MBA at Michigan! It helps that my office is located in the same building as those of the group and divisional presidents. That fact, my knowledge about what's going on in the rest of the world (being on the road 25 percent of the year and constantly asking for information from

Black & Decker International: Partial Organization Chart



⁴"International" included Mexico, Latin America, the Middle East, Africa, and Australasia.

¹Included in the quarterly strategic reviews for the power tools businesses.

²Included in the quarterly strategic reviews for the housewares businesses.

SOURCE: Company documents.

the field), and an intellectual instinct to view things from a central perspective helps to build a knowledge base and perspective that helps my credibility with the operating managers.

Examples of his job included developing strategic plans, working with field managers to develop market research, and functioning as a critical resource in top-management meetings to set strategic product priorities. As he viewed Black & Decker's "strategy for the '90s," he believed that it was important to leverage the company's solid international base in power tools into housewares and other Black & Decker products that were not as well known. He believed building a global base for housewares—basically, a "metal-bending and plastics moldings business"—was especially important to move the company out of the "no-win" box of the middle market in which the low-cost operators

won on cost and the high-end niche players won on gross margin. An interesting question to resolve at the international level, he thought, was how well the brand name might transfer from "basement [power tools] to kitchen [housewares]" in non-U.S. cultures. He believed that his part of the world, especially the Pacific rim, was crucial for Black & Decker's future growth: it currently comprised the smallest share of the company's sales (16%), yet was growing the fastest (21% in 1989) with much larger potential for the future.

He had concluded that the company's businesses would continue to become more diversified—and the complexities increase—as the company pursued its global imperative. Japan remained a particularly elusive market, and one that exemplified the different demands that different cultures placed on quality and

attention to detail, requiring one to adjust to a myriad of local regulations and customs. He illustrated this as follows:

These two faxes I got from the Far East, just yesterday, are a timely example of what I mean. I had just received this two-page fax from [X country] complaining about the five things that went wrong with a recent product launch. When this message cleared, I got another from our agent in Japan, who had counted our shipment of 3,098 items to find that we had sent only 3,096, and gave us a credit of ¥60 [30¢]—the fax cost more than that! You can see the need to be flexible from culture to culture and yet stay above the minutiae of local situations that can threaten to drown you.

Despite such differences, however, the company had succeeded in drastically paring the number of different product designs. For example, in the case of power tools, the number of motor designs was reduced from over one hundred in 1985 to a planned five in 1989; the change was implemented by creating four key design centers for all power tools (DIY tools in the U.K., wood-working tools in West Germany, and similar specialties in Italy and in the United States).

GLOBAL PRODUCT PLANNING AND REVIEW

Black & Decker operationalized its global approach to the identification and development of world products through a process of *strategic*, *managerial*, and *operational* activities. This approach had developed over the past few years as a way to set priorities for new-product projects and to review their status on a regular basis. In the past, managers tended to look at product-line planning—its depth and breadth—on a purely country-by-country basis, but now a given product line—dubbed by company managers “the product road”—was under a regular cycle of research, evaluation, goal setting, and review.

For the Power Tools and the Household Products groups, *strategic* product-road reviews were held quarterly, attended by key management and engineering/manufacturing personnel (see Exhibit 1). These day-long meetings were held at company headquarters in the United States. Based on extensive research of the market, competitors, etc., these meetings would set the capital-budgeting priorities for new product

types, approve major new-product programs, and review and adjust the progress of previously approved programs. The data for these meetings were developed by product managers in the U.S. and Europe with input from the international group. Depending on how fast a market seemed to be evolving, a product (e.g., a commercial power drill, a cordless screwdriver) would be reviewed on a twelve-month, eighteen-month, or twenty-four-month cycle.

Similar quarterly *managerial* meetings were held at the four design centers in which key engineering and marketing personnel tracked the progress of major product programs. Invaluable by-products of these meetings were exchanges of information and ideas on emerging market trends and on problem solving (“If we could use the three-meter European cord standard in all markets, look what we would save...”).

An additional *operational* activity, which Mr. Grunewald called “product-road bashing,” took place continually among product managers at the same levels in the organization but in different groups in different parts of the world. Under constant encouragement from top management, the product manager for, say, angle-grinders in the Power Tools Division and his/her counterpart in the Europe Division would telephone, fax, and travel to each other’s operations to answer the questions: “How can I reduce my five-item angle-grinder product line, and how can my counterpart reduce his/her eight items, yet still come up with five between us that will produce manufacturing efficiencies but cover even more markets?”

This stream of activity at the operational level was part of the input to the planning documents used at the quarterly managerial and strategy conferences. Once approved, the results of these meetings became the plans and budgets by which each of the divisions were measured. In addition, the data developed in these plans were also useful in the preparation of new-product launches. Therefore, as Mr. Grunewald pointed out, the headquarters staff were not seen as

... information sinks, in which we ask for information—and lots of it—which is never seen again by the field. Our knowledge base, and our use of it, and, more importantly, the

actions taken on it by top management are what gives us our credibility. In addition, we have established champions in each of our operating divisions who keep the globalization issues alive at all times. In some cases, these champions happen to be the top managers, which signals the importance of the activity and, of course, makes sure that globalization happens at the local level.

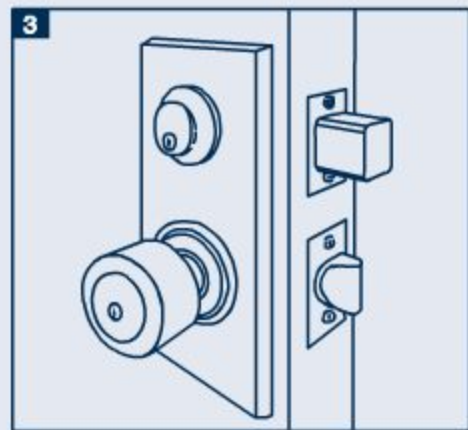
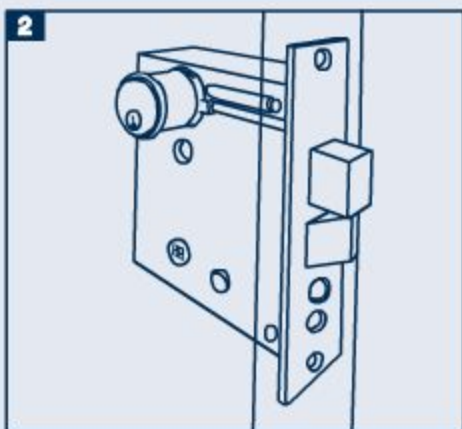
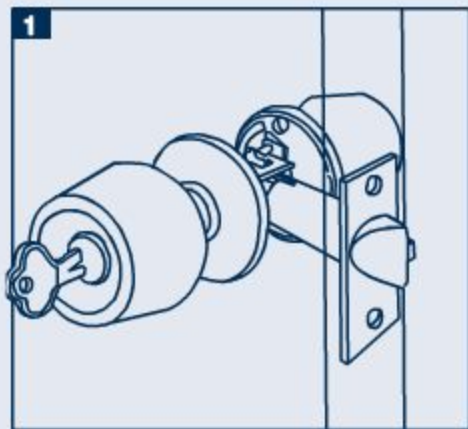
ARCHITECTURAL HARDWARE BUSINESS

The line of door-hardware products that came with the Emhart acquisition included locksets, high-security and electronic locks,

door closers and exit devices, and master keying systems. (See Exhibit 2 for basic illustrations of these products.) The eight brands were Kwikset, Russwin, Corbin, Price Pfister, DOM, NEMEF, Lane, and ASTRA. According to Black & Decker executives, Kwikset (California) was the world's largest manufacturer of residential door hardware and the U.S. leader in the retail DIY market. Russwin/Corbin (Connecticut) was another well-known U.S. manufacturer of premium-priced commercial and industrial locksets. The following table summarizes the main products of these eight companies:

[Exhibit 2]

Black & Decker International: Illustration of Some Lock Types



Primary Locks There are three main types. **1** Key-in-knob lock: It's standard in new construction, but always vulnerable because the knob can be ripped off. **2** Mortise lock: Often found in older houses, it looks strong, but it actually weakens the door. Also, the cylinder in this type may be easy to pick. **3** Interconnected lockset: The top lock is a dead bolt, but if the knob below is attacked, both locks may be vulnerable.

Black & Decker Architectural Hardware Companies

U.S.-Based

Kwikset	Tubular ² locks, residential
Russwin/Corbin	Cylindrical, mortise, commercial

Europe

DOM (Germany)	Cylindrical, industrial
NEMEF (Holland)	Commercial (all types)
Corbin (Italy)	Padlocks, commercial locks

Australia

Lane	Residential (Lane), Commercial (ASTRA)
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Sales offices for various companies existed in West Germany, France, the U.K., Austria, Italy, Holland, Switzerland, Australia, Hong Kong, and Canada. Each company under Emhart's management had operated as an autonomous unit, with its own design, manufacturing, marketing, and support functions. Manufacturing plants were located in Connecticut, California, West Germany, Australia, the Netherlands, Italy, and Canada. As mentioned earlier, a new president had just been appointed to run the lock companies.

According to Mr. Grunewald, the challenge facing the integration of these various companies was not just internal; an equal task was how to conceptualize the global marketing of their products in the various regions of the world. In his view, the door-hardware-products industry was bound by old traditions and complicated by highly fragmented thinking about market opportunities. For example, the managers of these companies (and the industry in general) tended to view their markets and products along three major but narrowly constructed continuums: (1) technology (from very simple to electronic); (2) security (from minimal to extremely high); and (3) systems (from providing the internal cylinders only to providing the full trim hardware, electronic circuitry, switches, etc.). Most companies seemed to position themselves at the extremes in one, or perhaps two, of these dimensions. The old companies also tended to specialize at either the high or low ends of the price continuum, allowing competitors to make inroads into the middle,

gray areas. No one manufacturer made or offered products to the total market segments (residential, commercial, decorative, etc.).

With regard to international marketing, any one Emhart company tended to think only in terms of expanding its narrow line abroad, without considering the possibility of integrating and sourcing its global production by center of manufacturing expertise, design expertise, or "feeder/eater" systems (manufacturing vs. assembly operations). The narrow approach to overseas business made the companies especially thin in Asia, Latin America, the Middle East, and Africa.

This historical "tunnel vision" was, Mr. Grunewald believed, typical for U.S. firms in domestic operations, but it was further exacerbated by the vast differences in distribution, branding preferences, and local-sourcing laws in the various international markets. Some Emhart companies had built a good reputation for service, while others were regarded as "just ok" or "difficult." The companies had developed some strong distributor relationships, however, albeit with low sales volumes and slow growth. The goal of pulling the former Emhart entities into an integrated operation, therefore, would be impeded by the legacies of brand proliferation, marketing inefficiencies, poor market knowledge, and inconsistent merchandising terms and policies.

What was attractive to Black & Decker, on the other hand, was the power that one integrated company could bring to an estimated \$15 billion world market (\$5 billion in locksets alone), an opportunity for power that would more than offset some of the infrastructural differences. Research indicated that about 60% of the products were sold through builders and original equipment manufacturers, and 20% each through wholesale and retail channels. These figures indicated that a great majority of sales were going into new-construction or building-renovation projects. Unfortunately, Mr. Grunewald believed that the Emhart companies had not built a strong distribution system with regard to the international bid/contract business. The breadth of the various Emhart lock lines would allow a global approach, however, and Black & Decker's current power-tool presence and distribution abroad promised opportunities for synergies.

² "Tubular" and "cylindrical" refer to internal designs related to the lock's security from break-in (cylindrical locks were more secure).

RECOMMENDATIONS FOR THE GLOBAL LOCK BUSINESS

Essentially, Mr. Grunewald was going to recommend that the International Group establish and take over what he called "on-the-ground" representation in foreign markets while, at the same time, identifying "local champions" in each of the lock factories. "On the ground" referred to setting up marketing managers in Belgium, Brazil, Dubai, Japan, Mexico, New Zealand, and Miami (headquarters of the Latin American Operations). Reporting to these managers would be a product manager for residential hardware and plumbing, a product manager for architectural hardware, and a technical manager for applications and support. The marketing manager, assisted by the product managers, would be responsible for coordinating marketing and sales activities, including the product road, channel determination, servicing, marketing research, business plans, coordination of assembly and repackaging activities, training sessions with local distributors, and other activities.

Mr. Grunewald also saw the need to establish within each lock company a local champion who became for that company the focal point for all activities relating to the business—as *now perceived to be conducted on a global basis*. Among other activities, this person would be the liaison between the company and on-the-ground managers, would serve as project manager for new products (or product modifications required by foreign markets), would represent the international business in establishing product specifications and new-product priorities, and would in general assist the local company in building global opportunities for its business. It would be important that these individuals have senior-level clout and authority, preferably reporting to the top manager in the company.

Mr. Grunewald's recommendation was also to establish at Black & Decker headquarters in Towson, Maryland, a group product manager for hardware products within the International Division. This person would be the central liaison between the global sales and marketing organization and the various hardware businesses. Due to the importance of the Japanese market, the Japanese sales personnel would report directly to this group product manager. All other on-the-ground marketing and

sales personnel, however, would report to the general managers of the local businesses. Under the group product manager would be product managers for retail locks, construction/architectural, and bid/contract, as well as the sales manager for hardware in Japan.

In Mr. Grunewald's mind, the establishment of these new jobs would be meaningless unless there were active "avenues of communication" between headquarters, on-the-ground, and local-champion personnel. He drew a chart to explain what he thought were good avenues of communication, and it was his role to see that the avenues were traveled (see Exhibit 3).

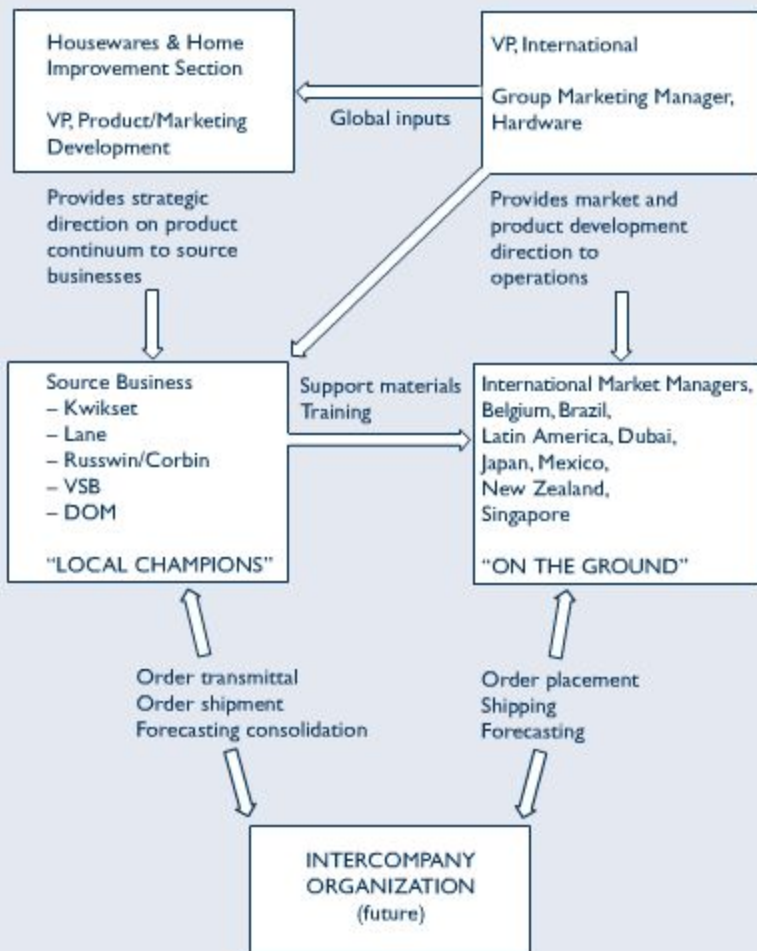
What was also yet to be established was an "intercompany organization" (see bottom of Exhibit 3) to facilitate, across all international organizations, such matters as centralized forecasting, order placement, billing, forwarding, expediting, and processing of export documentation. Additionally, a great many details had to be sorted through to ensure the smooth operation and growth of the hardware business. These details included staffing, training, transfer-pricing, and forecasting. Also required was the development of marketing-support documents, such as catalogs, price lists, technical literature, and advertising and sales-support literature.

The advantages of consolidation seemed clear: it would improve market knowledge along the dimensions of competition, consumer segments, product requirements, etc., and it would give Black & Decker the power to winnow out a complacent distribution base, to instill global quality standards throughout the world, to promote product innovation, and in general to bring a unified force and credibility to the now-fragmented effort.

Yet to be resolved, according to Mr. Grunewald's report, were a number of issues that were generally outside of his direct control. How would the new president of the lock business structure the lock companies? Would that business choose to adopt the quarterly planning reviews that characterized the power tools and housewares business? How would the "bashing" of the product roads take place?

What particularly troubled him was the suspicion that Black & Decker was not alone in sensing the global opportunities that existed,

Black & Decker International: "Avenues of Communication"



SOURCE: Company documents.

and he was hopeful that whatever was decided would not take more than a year to implement.

Questions

1. What do you think of Grunewald's plan for creating a "global lock business"? What factors favor this action? What factors stand in the way?
2. What are the organizational implications of this strategy? What kind of structure, culture, and systems are necessary to make it work? What would be your action plan for implementation?
3. Assume you were Grunewald's OD consultant. What coaching advice would you have for him in executing this strategic change?