

Appliance demand flat

Industry undergoing major segment shifts

By Kathleen McLaughlin,
Senior Associate Editor

A sluggish housing market and high prior-year comparisons are conspiring to keep appliance shipments flat in 2007 (see **Figure 1**).

U.S. appliance shipments are doing quite well. New construction accounts for a significant share of the total appliance market, but is not as big as it used to be.”

U.S. appliance shipments are forecast to grow 1 percent in 2007 from an average of more than 4 percent in recent years, according to the Association of Home Appliance Manufacturers (AHAM).
“October and November 2005 numbers were artificially inflated because of hurricane recovery, and it was also the peak of the cycle,” said Evan Barrington, vice president, The Stevenson Co. “The industry is not as bad off as what prior-year comparisons might suggest. But it’s clearly lost some momentum.”

Housing Market Less Influential

In the past, if housing sales were down, the whole economy was down, including appliance shipments.

“Recently housing has been counter-cyclical and was very strong when the economy got weaker back in 2001 and 2002,” Barrington said. “We now have somewhat of an offset today. Housing is slowing, but the rest of the economy is



Photo courtesy of Whirlpool Corp., Benton Harbor, Mich.

doing quite well. New construction accounts for a significant share of the total appliance market, but is not as big as it used to be.”

The impact of housing completions on appliance shipments has decreased over time; housing completions represented only 17 percent of appliance industry shipments in 2005, commented Neil Cline, manager, economic and industry forecasting, Whirlpool Corp.

“Growth in replacement demand gives appliance shipments their basic underlying upward trend,” Cline said. “Each year the number of households increases, and with it the number of appliance units in use, which ultimately drives replacement demand.”

By 2008 the decline in housing should have subsided, and replacement demand will drive the industry higher, and with it production levels, Cline said.

“We’re currently at historically high levels, so even if we dip a little, a lot of appliances will still be sold,” Barrington said.

Evolving Marketplace

It’s not business as usual in the appliance industry.

Shifts in channel preferences; successful market penetration by offshore brands; a strong demand for high-priced, innovative white goods; and Whirlpool’s acquisition of Maytag are changing the industry’s landscape.

“We’re moving from a commodity product—all washing machines look the same—to a period when there’s a lot of product differentiation in design, materials, and functionality,” said David MacGregor, senior research analyst, Longbow Research. “It doesn’t really matter if the economy is slowing down; owning one of these premium appliances has become a higher priority for consumers than in the past.”

Appliances have become a style statement, which is providing fresh opportunities for high-end appliance-makers. Recently Viking Range Corp. broke ground on a new manufacturing facility in Greenwood, Miss., to produce ultrapremium dishwashers. The facility was scheduled to go

online in February 2007.

Foreign brands such as LG and Haier built factories in the South for better economies of scale and to perfect their manufacturing processes. Now they're ready for a piece of the high-end appliance market.

Haier, the world's fourth-largest home appliance-maker, mostly known for commodity goods such as compact refrigerators and home wine coolers, is positioning itself to become a premium brand. The Chinese manufacturer is unveiling a line of eco-friendly, technology-rich appliances priced at \$600 to \$1,500.

Stainless Steel Rules

In 2006 a quarter of kitchen appliances produced were stainless steel, commented Barrington.

The percentage of appliance shipments with a stainless steel finish has increased sharply over the last five years. However, data through September 2006 shows that the increase in the stainless portion of the market was less in 2006 than in 2005.

"Although this hardly constitutes a trend, it makes sense that the percent

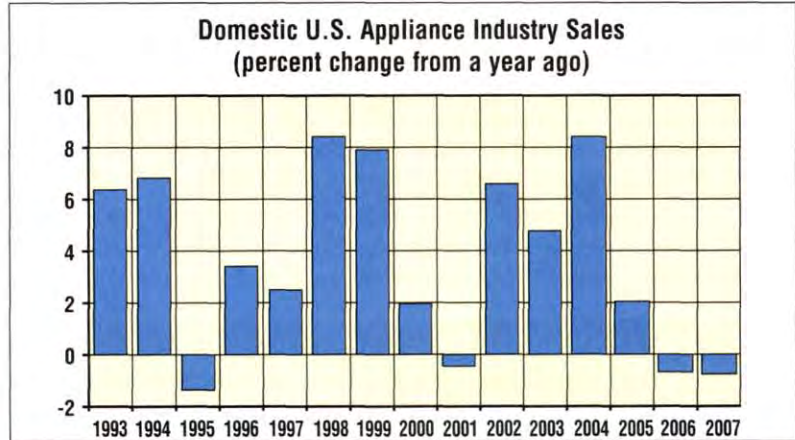


Figure 1

New construction, existing-home sales, and the unemployment rate drive much of the year-to-year volatility in appliance sales.

of shipments that have a stainless finish will level out," Cline said. "At that point the demand for stainless will grow at the same rate as the appliance industry as a whole."

"As we look at the history of appliance colors, you expect at some point stainless steel has to peak," Barrington said.

Because of skyrocketing steel prices, appliance-makers like GE and Whirlpool have introduced faux stainless steel finishes. However, according to MacGregor, if there is a sales pullback, it will be because appliance manufacturers start charging a higher premium for the stainless steel version than the painted version.

"Stainless is considered premium and is more expensive," he said. "I don't see it becoming less popular."

Whirlpool/Maytag Merger

Whirlpool's \$2.6 billion acquisition of Maytag is the latest step in the ongoing evolution of the industry. The combined entity now has a greater than 70 percent share of the domestic laundry market and about half of the dishwasher business.

Maytag was having little impact on the industry and was becoming irrelevant, MacGregor said. Whirlpool is try-

ing to reposition acquired brands and manufacture them efficiently. "The merger's real impact will be in 2008 when consumer confidence is restored in the Maytag brand," he said.

After buying rival Maytag, Whirlpool announced it would close three Maytag laundry plants, including its former headquarters in Newton, Iowa, and consolidate laundry production with its two existing Ohio operations. "Production will be picked up by existing Whirlpool plants that were running two shifts a day, which will now run 24 hours a day, seven days a week," MacGregor said.

The combined company has more than 60 manufacturing and research centers around the world, and 20 manufacturing plants in North America. Whirlpool is continually evaluating its facilities to ensure they remain efficient and competitive with the global appliance industry.

"The industry as a whole has a problem of excess capacity," Barrington said. "Closing factories is necessary to get costs under control and rationalize the manufacturing process."

While many U.S. manufacturers consider globalization a curse, it created the groundwork for Whirlpool's acquisition of Maytag. New and well-



Photo courtesy of Viking Range Corp., Greenwood, Miss.

financed offshore brands entered the North American market, and Maytag lost market share rapidly.

Whirlpool's large regional plants and outsourcing mentality have helped create the biggest and most globalized appliance manufacturer in the world. For simplified assembly, labor-intensive subassemblies, such

as wire harnesses and electric motors, are being manufactured outside the U.S. and shipped to regional Whirlpool plants for final assembly, MacGregor commented.

MacGregor predicts more consolidation in the future, but not immediately, and that foreign brands like LG, Samsung, and Bosch will begin to

develop more North American market share. "After the Maytag deal is done, you'll see Whirlpool looking for acquisitions in the Asian marketplace," he said.

Globalization's Impact

Globalization is having an impact on appliance manufacturers across the world. For example, Electrolux closed a plant in Nuremberg, Germany, and moved its manufacturing to lower-cost locations in Italy and Poland.

"Globalization promotes efficiency, which means old, inefficient plants are being shut down," MacGregor said. "The industry is creating a smaller number of large-scale, efficiently operated plants. Some of these plants in China are being used as export platforms to Poland, Brazil, and Mexico until the Chinese market picks up."

Barrington expects to see an increasing number of appliances coming from the Far East, but currently the number is relatively small with the exception of products like microwaves and air conditioners.

"TVs and microwaves are world products, meaning a manufacturer produces one box and can sell it anywhere," Barrington said. "Refrigerators sold in North America are different from models sold in Europe, as well as cooking products. This is why more foreign manufacturers are moving here—to produce North American appliances."

Supplier Outlook Cautious

Because of high raw material prices and energy costs, all appliance manufacturers raised prices in 2005, the first time in 10 years. In 2006 several major players raised prices approximately 5 percent in the late summer, but some of the impact was offset by additional promotions such as truck-load discounts.

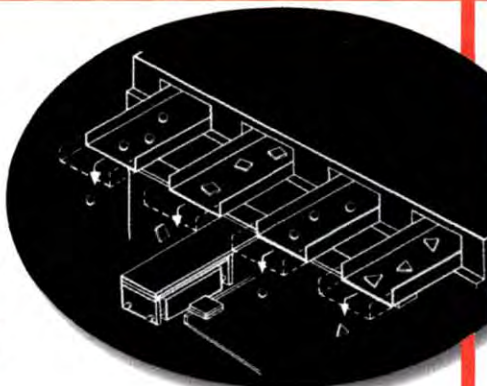
"There's still talk of needing to raise prices again," Barrington said.



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"Because shipment levels are down, it'll be interesting how appliance-makers respond."

Standard & Poor's (S&P) released a neutral outlook for the household appliance industry, because a challenging cost environment likely will limit gains in stock value in the next couple of quarters. In 2005 S&P reported that appliance manufacturers' profits declined further from low levels in 2004.

S&P predicted profit margins would improve in 2006 as the industry started to reap benefits from volume growth, better capacity utilization, and leaner cost structures.

Paul Bishop, president of ICE Industries, said the company is focusing its appliance stamping operations on higher-tonnage, large transfer presswork such as stovetops and oven doors. "High-volume small parts that are easy to ship, like hinges, are good candidates to go offshore if they haven't already," said Bishop. "We're focusing on large Class-A-finish parts that are harder to displace."

Appliance stampers will continue to endure high, unstable commodity prices and sometimes spotty availability in 2007.

"The appliance industry will be pushing its supply channel partners even harder as OEMs do everything they can to improve profitability," MacGregor said. "Suppliers also will start to feel the pressure of Maytag and Whirlpool coming together. They now have a much larger customer expecting more productivity and a greater cost savings associated with the pairing." 

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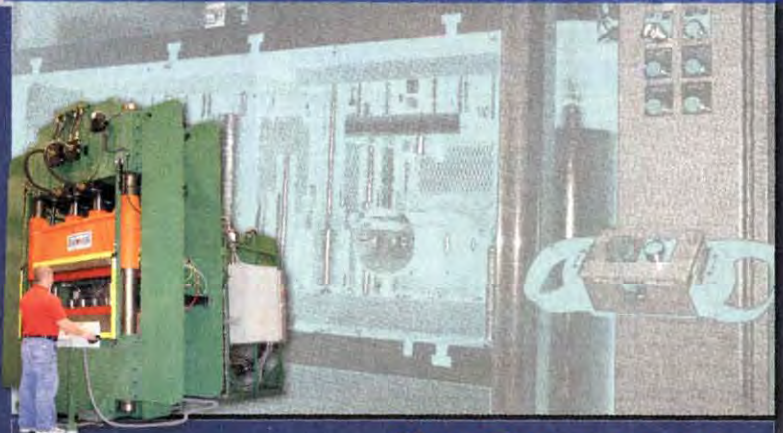
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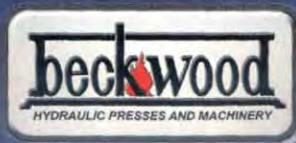
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