GANGING UP ON BLACK & DECKER

The power-tool powerhouse is making the biggest brand-name switch in history, selling what used to be General Electric toasters and hairdryers under its own label. Competitors are out to capitalize on the confusion. Sunbeam has been charging hard. ■ *by Bill Saporito*

BLACK & DECKER is halfway through the biggest brand swap in history. The company, known for power tools and its Dustbuster cordless vacuum cleaner, spent $300 million 19 months ago to buy General Electric's small-appliance business; it has until April 1987 to bring all of GE's 150-odd products under its own logo. In renaming the GE appliances, Black & Decker is doing for its competitors something they could not possibly have accomplished themselves—eliminating the best-known name in the small-appliance business.

The other guys aren't showing much gratitude. Sensing confusion in the market and weakness in their competitor, they've fattened their advertising budgets and unleashed a torrent of new products to intercept GE's customers before they get to Black & Decker.

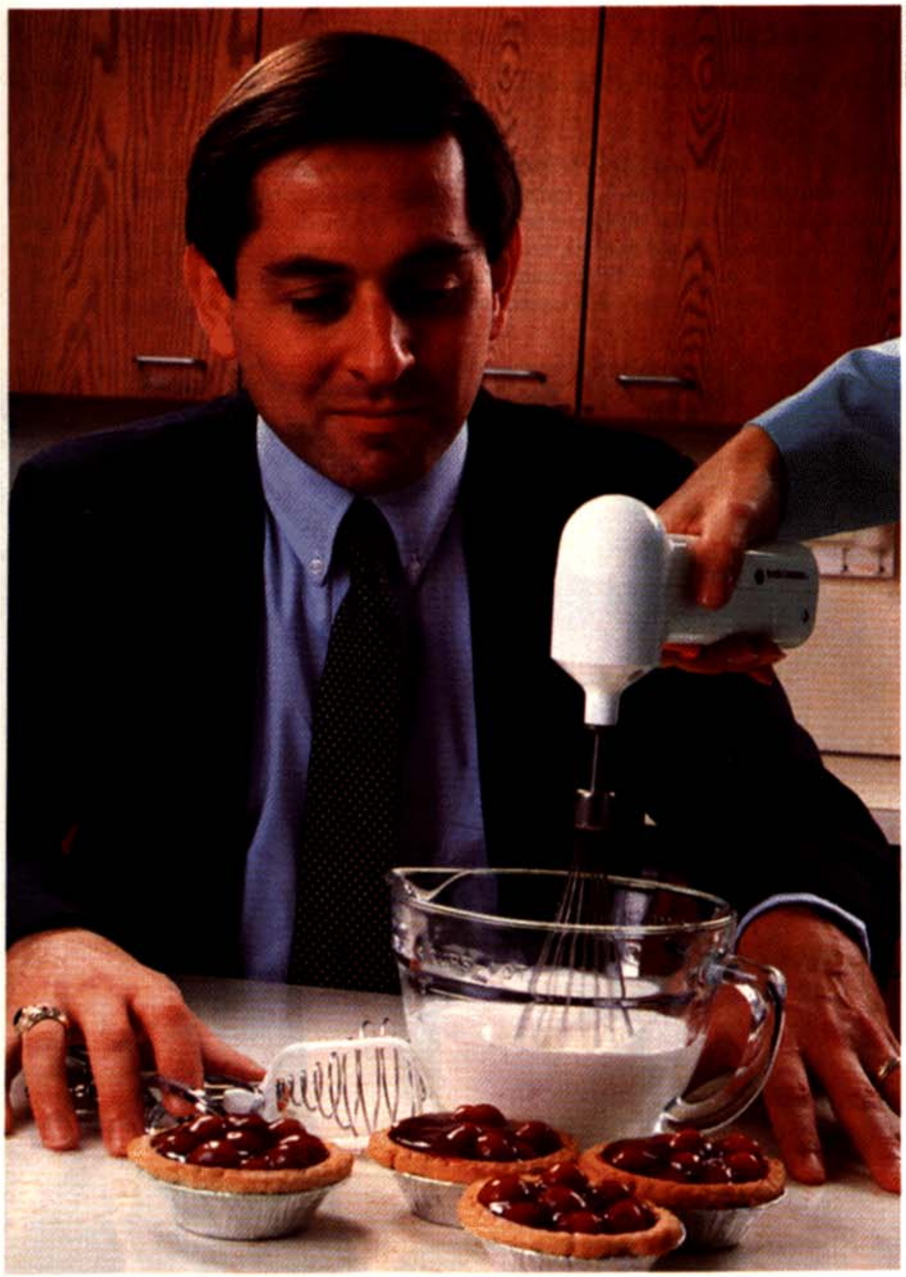
continued

GORDON/TRAUB—WAYFARER

A shopper *compares a Sunbeam iron (left) with Black & Decker's, still under GE's logo. The company has switched most GE products to its own label.*

Sunbeam, Rival, Hamilton Beach, Norelco, and several European labels are taking aim at the company, which has had limited experience selling small appliances beyond the Dustbuster. Sunbeam, a unit of Allegheny International, is leading the assault, spearheaded by the unexpected success of Oskar, its compact food processor. Oskar has opened the door at retail stores for other products from Sunbeam; indeed, Sunbeam executives say that orders of all of its appliances are up 40% so far this year.

Black & Decker has orchestrated a new-product blitz of its own and has begun a $100-million advertising and promotion campaign, the largest ever in the small-appliance industry. The company insists that its program to wean consumers off GE's label and onto its own has gone better than expected. But even Black & Decker concedes that it is losing ground in the iron business—which with estimated sales of $275 million annually is one of the biggest chunks of the $8.3-billion-a-year small-appliance industry. In other big categories, market surveys show Black & Decker slipping in toaster ovens, at least holding its own in coffee makers, and gaining in toasters.



Whipping up *Black & Decker's conversion strategy is a marketing man's dream, says Homa.*

The battle against Black & Decker is yet another example of the fractious nature of the small-appliance industry. Almost every major company has changed hands in the past three years. First City Industries Inc., controlled by the Belzberg family of Canada, bought Scovill Inc., which owned Hamilton Beach; Wesray Corp. bought Proctor-Silex from SCM Corp.; Magic Chef Inc. bought Toastmaster Inc.; Whirlpool Corp. is trying to buy KitchenAid from Dart & Kraft Inc.; and Newell Co. recently offered to buy Rival Manufacturing Co.

The new owners think they can fire up a lackluster business. Sales of small appliances didn't budge last year, and may drop this year. Profits have been low—less than 5% of sales—because manufacturers copy each other's wares and price cutting is a way of life. For years GE has been the best-loved name in the game; a survey commissioned by *Chain Store Age* magazine, a trade publication for retailers, shows that most people don't realize that GE has left the business. In another survey consumers were asked to name small-appliance makers. GE came up a remarkable 92% of the time. Sunbeam stood a distant second, at 41%. Black & Decker was mentioned 12% of the time.

TWO KEY PLAYERS in the current battle are Kenneth E. Homa, 37, vice president of marketing for Black & Decker's U.S. household products group, and Thomas J. Albani, 43, head of Allegheny International's Sunbeam North American appliance division. Although both are out for blood and money, they are friends. Albani was running GE's small-appliance division when Black & Decker bought it; Homa was his marketing manager. Previously both had been marketing consultants at McKinsey & Co., and both went to Black & Decker after the GE deal closed.

When Black & Decker gave the job of running its housewares operation to an insider, Albani left. He had barely hit the pavement when Allegheny International Chairman Robert J. Buckley offered him the appliance division's presidency. Homa stayed at Black & Decker and is the point man for the GE transition. Albani is an amiable sort, while Homa appears quieter, at least until the subject of marketing is raised. With an MBA from the University of Chicago, he is as

RESEARCH ASSOCIATE *Joshua Mendes*

much a marketing scholar as a marketing player, and he knows Black & Decker's brand switch will become an avidly read chapter in marketing textbooks. Though lately Homa and Albani have been keeping their distance, they see eye to eye on at least one thing. Says Homa: "Some of our competitors think this is the opportunity of a lifetime." Albani concurs: "The GE deal is the best thing that ever happened to Sunbeam."

Homa directed Black & Decker's marketing strategy for making GE's business its own. The company broke the changeover process for each product into about 140 steps to be completed over 14 weeks. It decided to relaunch all 150 products as if they were new, and is making alterations ranging from color changes to major overhauls. It is also doubling the warranty period for every GE product to two years. In some cases Black & Decker's changes add new features; in others the company feels it can improve GE's design. For example, it remodeled GE's under-the-cabinet Spacemaker line, which includes coffee makers, a toaster oven, and can opener, into sleeker units. Black & Deck er is using the marketing organization it in herited from GE to introduce the new items

At first Black & Decker intended to tak its allotted three years to string out th brand change. But the company says the pro cess has gone so smoothly that it has acce erated its timetable, even though it has ye to convert its all-important iron business The company now expects to complete th switchover by the end of next year. "There' been far less trade and customer resistanc than we dreamed of even in our most opt mistic moments," says Homa.

A big question for Black & Decker ha been whether to use its own label alongsid GE's in promotion and advertising. So far th company hasn't done that. Its research ind cated that consumers associate the sam qualities—among them reliability and dura bility—with Black & Decker as they do wit GE, so it is trying to keep confusion to minimum by making an even swap: Black & Decker for GE. It remarketed the Space maker with nary a reference to GE. TV com mercials play up the Spacemaker name, wit a postscript, "Now by Black & Decker." Pro motion associated with products not yet con verted from the GE name, such as toaster and electric can openers, makes only passin reference to Black & Decker.

LYNN JOHNSON—BLACK STAR

Beating up *his ex-employer would be sweet for Sunbeam's Albani (that's Oskar at his right elbow).*

SUNBEAM wants consumers to for get GE *and* Black & Decker. It hike its 1985 advertising budget to $4 million, four times what was planne and more than its small-appliance divisio had spent on advertising for the past fiv years combined. Early this year Albani aske for the additional money at a meeting of All gheny International officers. "Do we want t make it easier for Black & Decker or do w want to stand in its way?" he asked. Chi Executive Buckley—a strong-minded man ager formerly with GE's small-appliance div sion—listened to the pitch, then rose t leave the room. "I'm behind you 100%," h told Albani. "I don't know what the rest the guys think." It didn't take long for th rest of the guys to think like Buckley.

Sunbeam has come a long way from th days when it was strictly a me-too outfit, co tent to ape whatever appeared on the ma ket. Much of its momentum comes from O kar, the downsized food processor that ha kicked around Europe for a couple of yea to no great acclaim. Sunbeam's Australian d vision got the item from a French manufa turer and gave it the name. Its success dow under helped persuade the U.S. division to market it too.

Sunbeam introduced Oskar to the U.S. last fall (list price: $80), and thought it would sell about 200,000 units. Albani, just on the scene, immediately doubled production. The company now hopes to produce 800,000 and still won't be able to fill all its orders. (A food processor is considered a success if it sells 50,000 units a year.) Half of Oskar's customers already own a large food processor; they apparently tired of slicing onions with an outboard motor and liked the convenience of a smaller product. The company says Oskar has got consumers talking Sunbeam, which has opened a hole for the company's entire line on store shelves. Says Bob Hurwitz, president of Professional Housewares Distributors, a distributor based in Cleveland: "Sunbeam has more space, not just with my clients, but everywhere."

Sunbeam is putting a crease in Black & Decker's iron business, where GE used to have better than 50% of the market. Sunbeam beat GE to market with "smart" irons that shut off automatically, and since early 1984 has sent ten new products steaming into the battle. Norelco, Hamilton Beach, and Matsushita, which sells Panasonic brand irons, also entered the business. One market survey now puts Black & Decker's share at 42%. "Every time we've replaced an iron on the shelves, it has come at the expense of Black & Decker," says Hurwitz. Homa acknowledges some share loss, but he says it has been at the low end of the market, where "the pricing has been brutal and not sustainable. Once the thrill of volume diminishes, brand preference will be reestablished."

Black & Decker is about to put irons bearing its own brand into the fire. Because the iron business is so important—it represents 25% of Black & Decker's small-appliance sales—the company delayed conversion until it gained some experience with other products. Market research cited by both Homa and Albani shows that 40% of consumers go into a store intending to buy a particular brand of iron; usually they want GE's. So Black & Decker is adjusting its strategy and will include GE's name next to its own in print ads for irons and in promotional material at the stores. On television, where it is more difficult to explain the switch, Black & Decker will pitch irons under its own name only.

Sunbeam has also made a direct attack on the cordless-appliance market, one that Black & Decker popularized with its Dustbuster. Cordless kitchen appliances are flying off the shelves in some places, and retailers think the cordless business will keep booming. "We're selling everything we can get our hands on," says Gerald Wilton of Bi-Mart, a 33-store discount chain based in Oregon. Sunbeam's Freedom line, which includes a cordless mixer, can opener, and electric knife, is competing against Black & Decker's cordless kitchen appliances, particularly its Handymixer. A Sunbeam executive claims that the Freedom line "has been knocking the spots off Black & Decker almost everywhere." But Homa says that's news to him; he says Black & Decker has twice as many orders for Handymixer as it can handle. Black & Decker says the product's market share will jump from nothing last year to 15% at the end of 1986.

Now that it is marketing GE products, Black & Decker is trying to put more profits into the small-appliance business. GE—Generous Electric to some—was looser with its money, chipping in for retailers' ads even if they didn't buy large quantities of merchandise. It also maintained fat inventories and operated five distribution centers. Black & Decker had one before the acquisition. GE's generosity kept the company well represented on the shelves, but it also kept profits low, a big reason for dumping the small-appliance division. Black & Decker is spending plenty—about $20 million—to promote its products with retailers, but it expects more in return. To qualify for some discounts and advertising support, for instance, Black & Decker insists that retailers stock a specified number of its models.

THE COMPANY is also trying to change the way products are marketed. Because competing small appliances have been so similar, manufacturers haven't spent much on direct advertising to consumers, the way Procter & Gamble does to sell toothpaste. Appliance manufacturers usually sell their wares to retailers for a small markup, throw in some trade incentives, and hope for the best. "We abrogated marketing responsibility to the retailers," says Albani. With its $100-million ad campaign, Black & Decker hopes to persuade consumers to buy on the basis of a product's advertised features, not just its price. "We are evolving a more classical marketing environment," says Homa.

For all its optimistic claims, Black & Decker won't know how successful its new strategy has been until next summer, when its iron line is converted. The company could use some good news: in the year ended in September it reported a loss of $158 million as it struggled to digest the GE products and shore up its sagging power tool business.

Beyond summer, Black & Decker still faces the long run. In any given year only about 10% of the small-appliance market turns over; most sales are to people replacing their worn-out items, rather than to first-time buyers. That means most people who now own GE products won't buy new ones until after the GE name is long gone from the small-appliance scene.

Homa says he's confident that consumers will buy Black & Decker when the time comes. He adds that the experience of having to rush so many GE products to the market so quickly should make Black & Decker "the epitome of excellence" in launching new products. It may have to be. The competition is sharper than ever. ■

INVESTOR'S SNAPSHOTS

	BLACK & DECKER	ALLEGHENY INTERNATIONAL
SALES (LATEST FOUR QUARTERS)	**$1.7 BILLION**	**$2.0 BILLION**
CHANGE FROM YEAR EARLIER	UP 13%	NO CHANGE
NET LOSS / NET PROFIT	**$158.4 MILLION** (NET LOSS)	**$2.5 MILLION** (NET PROFIT)
CHANGE	PROFIT YEAR EARLIER	DOWN 97%
RETURN ON COMMON STOCKHOLDERS' EQUITY	**−23%**	**−14%**
FIVE-YEAR AVERAGE	11%	7%
RECENT SHARE PRICE	**$20**	**$25**
PRICE/EARNINGS MULTIPLE	**N.A.**	**N.A.**
TOTAL RETURN TO INVESTORS (12 MONTHS TO 11/22)	**−8%**	**21%**
PRINCIPAL MARKET	**NYSE**	**NYSE**

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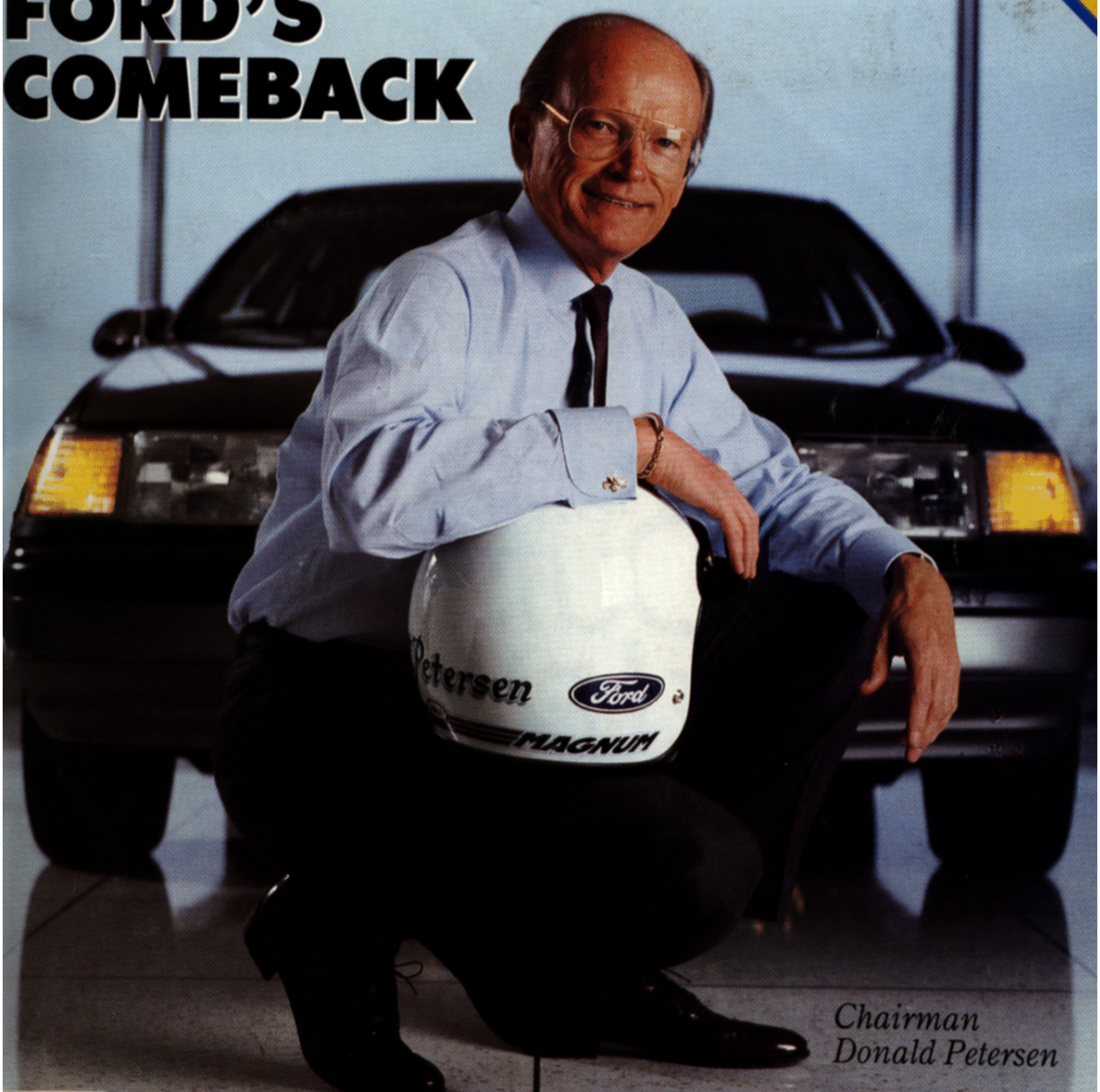
DECEMBER 23, 1985

FORTUN

THE YEAR IN
COUPS
CATASTROPH

FORD'S COMEBACK



Chairman Donald Petersen

HOW THE TAX BILL WOULD HIT INVESTMENT

CONTROL DATA: DOES IT HAVE A FUTURE?

THIRD WORLD DEB
WHY BAKER'S PLAN WON'T WO