

Electrolux Factory crisis in Italy

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Introductory statement

Ten years ago, the Electrolux decision to have a production footprint in Poland was not perceived as a threat for the Italian factories, but rather as an opportunity to develop a new growing attractive market. Today the judgment has quickly changed and the shared view is that this move is **ONLY** focused on the target to increase margins by exploiting the low labor cost in that country.

The driver of this move is not only the economical crisis but rather the model rewarding those companies able to fire people and quickly relocate their sites.

If this is the scenario, the overall Italian production has to be moved to the Eastern countries, mainly due to a lack of product innovation and resulting market share losses in the high level range. Nowadays, we see an evident acceleration of these actions with a sort of breathless run.

In October 10th 2013 the Electrolux CEO Keith McLoughlin released a cost reduction program whose target is an overall 3.4 billion SKR (380,000.000 €) saving in 2014 and 2015; the achievement of this target is related to the shut-down of the Orange factory in Australia by moving the production to Thailand and to the investigation about the Italian factories with the target to cut volumes and people.

The aim of this document is to give a snapshot of the situation we are facing, with the hope of giving all the parties involved, including local and regional political representatives, some useful information. The idea came up immediately after the news of the planned meeting in Rome where the four Italian region presidents and Mr. Flavio Zanonato, Minister of Industry, will meet the Electrolux delegation for this negotiation. The initial date, January 20th 2014, has been already changed and we are, at the moment, waiting for the new one.

Some remarks and proposals for the first Electrolux meeting in Italy

To fulfill the Electrolux targets, the company representatives have no choices left but a request for a significant labor cost reduction in the Italian factories, in order to reach the same level of the Hungarian and Polish sites. Without this achievement, in their view the alternative is just to move the overall production to those countries and move also the R&D Department to Sweden.

Actually, this was not the initial strategic target of the Swedish group that rather aimed at being the number one in Europe through the acquisition of the Zanussi group in 1984 and using its managers and their expertise, its supplier network, the skill set of the workforce and the innovative union relationships. Their goal was initially perfectly achieved.

On the contrary, now, the consequence of the new Electrolux strategic model of delocalization towards Hungary and Poland, pursued as a way to quickly maximize the profits, shows a significant loss in figures. The European market share dropped in ten years from 24% to 12% while in Italy the drop is 50% of the Zanussi initial market share, today around 16%.

At the same time competitors such as Whirlpool, Bosh and Samsung have been able to gain a big part of the Italian market.

On top, even Miele, a producer with a quite high price, has gained 5% of the Italian market.

As a matter of fact, the last Electrolux policy proved a failure, but this concerns neither the Electrolux CEO nor the shareholders, who are convinced that the only policy is to invest in low cost countries, without any product innovation, but with the aim to invest the good financial results in other more attractive areas.

This phase seems already over, due to the simple reason that even in the present scenario Electrolux is losing money.

It's enough to check the last years balance sheets to see as the ONLY present target for the Electrolux management is to distribute some nice dividends, avoiding any investment for the renewal and the innovation of white good products and without any effective sales promotion and policy. We cannot disregard the possibility that the Wallemberg family, as the biggest shareholder, may have used Electrolux as their "bank" using the generated money to fund other family companies.

In this context, it's quite hard to see how this negotiation could be successful as Electrolux is gradually leaving Italy.

To complete the picture of the situation, we have to say that in the latest years the Swedish group has shown an increase of people dismissals in our country, with a quite tough stand point in some circumstances as the political authorities have been quite absent, leaving the unions almost alone, therefore ignoring the importance to maintain the presence of this group in Italy.

Our strong opinion is that this negotiation in Rome will be effective only if both parties clearly show their standpoints. We see this way as the only option to save "OUR" company.

Furthermore, in our judgment the Wallenberg family should be involved, considering the fact that they are shareholders of other Italian companies like Ericsson, Zeneca and ABB.

All in all, this negotiation is not a normal local union one, but involves the overall Italian manufacturing system.

Therefore it will be important to involve in the negotiations a high-profile person with proven skills on attracting foreign investments in Italy and capable of dealing with the detailed proposals that the Government would need to offer Electrolux and the whole white goods industry; the ultimate goal would be to reach an agreement allowing to keep open all the Italian factories.

Guidelines for a proposal about the future of Electrolux factories in Italy.

In order to transform the under way investigation from ritual to a real opportunity for reflection and discussion.

Key points:

- A. Verification of Electrolux availability to stay in Italy.
- B. Verification of the conditions that allow an industrial presence to stay in Italy.

First of all it is necessary to start with some observations about Electrolux situation during this crisis:

1. In the last five years there was a constant decrease of market shares in all sectors, specially considering only the Group brand shares , excluding Ikea and Nobilia volumes.
2. Nowadays Electrolux earns money only on built-in product.
3. There are considerable losses as regards the Free Standing products except for Dryer. This implies that:
 - a. Washing machines lose in Poland;
 - b. Fridges and freezers lose in Hungary;
 - c. Free Standing kitchens lose in Romania;
 - d. Dishwashers lose in Poland;
 - e. Washing machines lose in Porcia.
4. Built-in products earn in:
 - a. Rothemburg (cooking);
 - b. Forlì (cooking)
 - c. Susegana (fridges)
 - d. Schwanden (cooking)

WHAT ARE THE REASONS FOR THIS SITUATION?

- A. Surely it is necessary to consider the labour costs, but the excessive concentration only on this factor has driven towards losing focus on the market evolution.
- B. There are no product innovations as regards Free Standing fridges and washing machines for the key market segments.

- C. While there are no innovations as regards built-in fridges and freezers and dishwashers (the last dishwasher project was not as good as expected), instead the cooking is ok (for the moment)
- D. The well-known brands such as Arthur Martin (F), Rex and Zoppas (I), Juno (D) have been eliminated in order to promote the Electrolux brand, but without innovating it. This is the reason why Electrolux loses market shares.
- E. The management is often not in line with the necessity of the moment and the decision-making process is too complex.

The discussion about Electrolux Italian factories, can be, for Electrolux too, an opportunity to reconsider and face the market in a new way.

However there must be the will of sharing information in a clear way from the beginning.

KEY POINTS FOR A PROPOSAL

The key points for a proposal that includes both institutions and unions are:

1. The possibility to reduce the labour cost impact through innovative measures on taxation
2. Starting a project of product innovation as regards built-in fridges and freezers and the washing, thanks the support of universities and local suppliers.
3. Studying a plan for the reduction of energy cost through renewable sources.
4. Supporting the reduction of logistics costs.

The Italian factories infrastructure is still the best of the Electrolux group and can accept and create new products.

These activities, and a serious analysis of the product costs structure, are the activities Electrolux should be called by its asserted social responsibility and the same ones the group has been called to realize during crisis periods in other countries.

Successively there is a list of the activities that a company like Electrolux is called to realize in other countries:

1. **THE COMPANY MUST JUSTIFY ITS MOTIVATION**, that can be linked with the risk of global loss of the group competitiveness, but only after a market analysis that proves it. The company must provide the freelance experts, nominated by the union, with the documentation supporting its decision.
2. **DISMISSAL REDUCTION PLAN**. The plan that the company realizes to reduce the impact on the area and that includes the search for a possible investor interested to take over the production site.

3. COSTS: the company must calculate a satisfactory compensation at least equivalent to two years of wage or gross salary for people who are dismissed and a contribution for reindustrialization.
4. ENVIRONMENT: the company must guarantee to leave the site in good ecological conditions.

However we believe that nowadays the Italian factories can still hold the market.

Negotiation and industrial relationships

Assuming, as already stated, that the program to put forward and submit does not only regard unions and local authorities but the whole “Country system”, it follows that the role of the Regional Administrations will have to be constant and sharp both towards the Government and the coordination of the parties concerned.

It follows that, because of the predominant presence of Electrolux in the province of Pordenone, the President of our Regional Council, Debora Serracchiani, even more now thanks to her primary role after being appointed in the National Office of PD (Democratic Party), could play a crucial role towards the Prime Minister Enrico Letta and Minister Flavio Zanonato as regards an active commitment in facing the potential requests by Electrolux on the production costs here in Italy.

The Mayor of Pordenone, Claudio Pedrotti, not only because of his present institutional role but also his professional past as Electrolux manager, is without any doubt the person able to collect ideas and proposals from the Pordenone area to be shared with all institutions, unions, and entrepreneurs.

Equally important will be to appoint the Regional councilor in charge, Sergio Bolzonello, with the task of managing the negotiation; it stands to reason that it will be an almost “full time” task as it will be necessary to coordinate the relationship among the parties, to mediate among the positions of the different stakeholders and above all to define and consequently monitor and supervise the compliance with the schedule and agreed times.

Our experience shows that when you are dealing with large industrial companies - even more if multinational - controversies risk grinding on or ending up on a dead-end track not going anywhere, also due to the large number of people involved.

As regards the first meeting at Palazzo Chigi, the introductory statement to be put forward as the basis for any evaluation to verify, since the very beginning, the actual willingness of the Group to start debate, is the request (to be obtained) of:

- The suspension of any move of the production abroad;
- The suspension of putting into action the halving of the commercial network and its transfer to Milan.
- The suspension of reducing the Research & Development Dept. in Italy.

The last issue to clarify regards the length of a potential agreement that, besides the Unions, must necessarily involve the Government and the Regional Administrations also providing for – as occurs very often – periodic checks of the achievements subscribed as

well as the compliance with the schedule and agreed times (See Investments and interventions of the Government) short and long term.

For this reason we believe that this agreement should not last less than 5-7 years.

Finally, as regards industrial relations we believe it necessary to include this issue among the commitments of the potential agreement.

Consider also that, since the 90's until 2003, in "Electrolux" the union relations were regulated by a "participatory system" (the only example in Italy) that made provision for a procedure regulating the timings required to resort to conflict by the unions and that bound the Company to abide by the subscribed agreements whose contents could not be disregarded by the Board of Directors of the Group. Such a system of industrial relations was dropped some years ago and the Italian counterparts at the same time somehow lost their autonomy.

An assessment of the past history from 2003 to now.

The greatest growth of Electrolux in Italy took place from 1988 to 2004. Thanks to a plan of the multinational that concentrated most of its activities in our country.

Such commitment was the result of an agreement between the parties, subscribed in December 1997, which allowed a productivity gain (+9,2% average per head).

The positive effect on employment allowed a manning increase, netted from turnover, of about 2,000 people plus - only for the Electrolux group - the linked suppliers and components providers of further 2,000 people. Furthermore the Porcia factory personnel increased by 600 people.

At the end of 2004, the plan of relocating to the East, involving half the Western European productions, began.

In 2008 Electrolux shut down Florence factory as it was considered inadequate to provide satisfactory profit margins for the shareholders; the following years Electrolux disengagement involved all Italian factories of the Group, which coincided with a reduction of its market shares.

This negative trend in Porcia was mitigated until 2007, also thanks to the shutting down of the German factory in Nuremberg.

In the Porcia factory lots of the productions locally conceived, planned and developed have failed. The reduced depth washing machines sold to the Russian market have been moved from Porcia to Saint Petersburg.

Now those market shares have been lost, due to "Electrolux" shortsightedness that imposed the choice to move those productions to their own factory in Ukraine with the result of the Russian consumers boycott of Electrolux products the way it had occurred in Germany as a consequence of the Nuremberg shutting-down.

The dryers production in 2003 moved from Porcia to Poland, while a process of reorganization allowed to increase the output of the production line from 75u/h to 85u/h

and also the outsourcing production of the “control panel subassembly” in the Pordenone area was a management failure and therefore it was relocated.

The general contraction of “Electrolux” market shares did nothing but worsen the situation of the Porcia factory by causing, since 2008, the loss of more than 700 jobs.

It must be said that the Western European governments with companies who behaved like “Electrolux” in Italy, resorted both to sanction threats and to the boycott of products so as to negotiate with the multinationals.

It’s worth mentioning that actions of “spontaneous consumers boycott” took place also in Germany, Russia, and France.

As it can be inferred from the analysis of this document and proposals, it aims at reaching a negotiation intended to re-discuss on new grounds the presence of “Electrolux” in Italy.

Yet we cannot exclude the possibility that the Group may want – sooner or later – to shut down the Italian factories.

In that case a new, unpredictable scenario would open up but anyway it would emphasize even more the role of the National Government in facing such a serious occupational and industrial emergency; emergency even more serious as it’s caused by a multinational who’s been in Italy for a long time.

In such a perspective, we would like to report some considerations by Mr. Maurizio Castro – in charge of Electrolux industrial relations until 2003 – by Mr. Mario Grillo, in charge of Central Quality, White Goods and European cold product line in Electrolux and by Walter Zoccolan member of the CAE (Group Union).

Maurizio Castro – Corriere della Sera (27 October 2013)

After pondering on the possibility of an agreement to preserve the Italian factories he stated: “... if Electrolux wouldn’t withdraw from the positions put forward by its President, we could only incorporate a specific purpose Company, with mixed public and private shareholding that will involve a strategic fund of Deposit & Funds Bank (Cassa Depositi e Prestiti), strategic funds to local district and supplier networks, pension funds, regional subsidies to employees and consumers, dismissed factories integrated in a single national entity with Indesit to streamline the market presence and the organizational set up within a 5-year period ...”

Mario Grillo – “la Città” – Monthly Pordenone Magazine (4.12.2013)

Referring to what already stated he develops a second hypothesis: “to launch an alternative project to give continuity to high-value assets and heritage we are working at. The company has the skills required; with a good project we can find an investor and buy, at a symbolic price, premises, machineries, brands like “Rex” and “Zoppas” that “Electrolux” considers as obsolete. The first period should be of a transition with “Electrolux” purchasing our goods; then we could try to be self-standing and independent.”

Walter Zoccolan – “ We want to stress, in the event of a breakdown with Electrolux, the possibility and necessity to achieve and enact counter-actions on the white goods “Electrolux” market taking into account the history of Germany, France, Russia and, almost by custom in the Anglo-Saxon countries...”