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Upscale Design Trumps Housing Slump

By Steve Miller

He's not as lonely, and is a bit more industrious these days, but the Maytag repairman is alive and well in a tongue-in-cheek TV spot for the new Epic washer and dryer. "So you're trying to keep busy, huh?" a female office worker asks the blue-clad repairman as he peers into an office copier. "You're running low on toner," he advises.

This latest incarnation of the familiar ad character is "reliable, energetic, upbeat and outgoing," said Jeff Davidoff, vp-brand marketing at Whirlpool, whose 2006 purchase of Maytag has not only expanded its appliance market share but also improved the company's bottom line. Whirlpool's net earnings in the first quarter of 2007 jumped 5%, to \$124 million, from same period last year. Net sales for the quarter ballooned 2%, to \$4.4 billion.

Whirlpool can't rest on its laurels, however, as heel-biters like Korean-based LG Electronics and Bosch continue to compete and move upscale.

The industry as a whole has gone country club. Almost every player has added to its roster of plain-jane appliances with polished steel, blue and red models that make a design statement as much as serve a utilitarian function. LG, for example is preparing to unveil a line

of kitchen appliances that bridges the gap between mass premium, at about \$5,000, and super premium, at \$10,000 and up.

"The kitchen [appliances] will go for between \$7,000- 8,000," said Tim Kavanaugh, merchandising director for LG's major appliances division. "And we'll have a laundry set as well as a washer and dryer." Ads will break in late summer, via BrandBuzz, New York. LG will spend two-thirds of its annual ad budget in the last four months of the year promoting the new line, according to Kavanaugh.

GE also plans to significantly increase its investment in its Monogram line of higher-end appliances this year. The brand spent \$6.6 million on advertising in 2006, a 36% increase from the previous year, per Nielsen Monitor-Plus.

Fancier finishes can be found everywhere these days, from hotels to retail chains. "It is the democratization of design," said Peter Rogovin, managing director of consultancy Next Level SMG, Pleasantville, N.Y. "Stainless steel is now what white was before. Every touch point in our lives is getting more sophisticated."

In appliances, the trend is a manifestation of consumers' aspirations for luxury in the home. Those expectations grew during the recent extended housing boom, in which granite countertops and

Sub-Zero refrigerators were widely marketed to middle-income home buyers.

"It is part of individuality now, and the home has become very personalized and more important," said Kathy Sheehan, svp at research firm GFK Roper Consulting, New York. "Home ownership is more prized, and there is so much more interest in real estate. [Those two things] are driving this."



Fancy fridge: LG continues to raise the bar at the high end.

BIGGEST MOVER: In 2006, Maytag launched two laundry products, the Bravos and the Centennial series of washers and dryers. At the company's first-quarter earnings conference call in April, Whirlpool CEO Jeff Fettig predicted: "By the end of the year, we expect to have a very strong portfolio of Maytag branded products in the marketplace, driving growth in the second half of the year and beyond." He promised moves "to put the Maytag back in Maytag," a reference to re-establishing the brand's reputation for quality and reliability.

Expanding distribution will be key, too. Whirlpool has managed to get Maytag back on the floor at Best Buy, which opted out in 2005 to make way for more LG product.

But rivals are fighting back.

Sears, for instance, is now marketing its refrigerators with other vendors, including LG and Electrolux, and cutting out Whirlpool. Last month, the retailer ushered in new positioning in ads for its stores featuring the Kenmore Label. With a tag dubbed, "Simplify," the campaign suggests to consumers that Kenmore products can declutter their life.

Sears first-quarter sales in 2007 dropped 2.5% to \$11.7 billion from \$12 billion, however, and part of the decline was attributed to ebbing market share in big appliances sales, such as Kenmore washers and dryers.

POTENTIAL GAME CHANGER: If the real estate market implodes, Whirlpool and GE, both of whom bank on sales to home-builders, will feel the pain. Whirlpool, according to estimates, makes close to 20% of its sales to new homebuilders. Thus far, the situation is stable, despite an ongoing weakness in new housing and the rising costs of gas and steel. The Assn. of Home Appliance Manufacturers is projecting an increase of 4% in total shipments this year.

There's also an upside to this equation.

"If the real estate market continues to be soft, you will probably see less people upsizing or trading up, and spending instead on something like appliances," said Roper's Sheehan.

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