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Creativity Overflowing

After its initial efforts stumbled, Whirlpool is reaping big dividends from its push to jump-start innovation



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David R. Whitwam had run out of tricks. The chairman and chief executive of Whirlpool Corp. ([WHR](#)) had built the company into the world's No. 1 maker of big-ticket appliances, achieving unmatched economies of scale. He had also cut costs by hundreds of millions of dollars, again and again. Yet here it was 2000 and, judging by everything from stock price to profit margin to market share, Whirlpool was no better off than it was a decade earlier.

The company's problem was not hard to diagnose: Its machines had been reduced to commodities. Prices for its most important products were actually falling each year. Nor was the solution a mystery: Whirlpool had to come up with exciting new products that could command premium prices. But the appliance maker had never paid much attention to innovation. During most of its 95-year history, it excelled at operating plants and distribution channels efficiently and at turning out washers and dryers that were solid and long-lasting. From time to time, research and engineering (R&E) technicians would tweak Whirlpool's Kenmore, KitchenAid, and namesake appliances to lower costs or boost performance -- by better insulating a freezer, say, or adding another washing cycle. But that's about as exciting as product development ever got.

ALPINE RETREAT

It was clear that Whirlpool needed to reinvent its corporate culture. To do so, it had to figure out the answers to basic questions that managers everywhere struggle with: How do you define innovation? How do you measure success? How do you teach people to be creative? "We knew from a strategic point of view what we needed to do, but from a practical point of view we didn't know how to do it at all," confesses Jeff M. Fettig, 49, a 25-year veteran who succeeded Whitwam as chairman and CEO in mid-2004.

So Whitwam put out a broad call for help. Believing that brilliant ideas were buried in the corporate hierarchy, he invited each of the company's 61,000 employees to unleash their creativity: Everybody everywhere, he exhorted, Go out and innovate!

Off in the Italian Alps, a crew of workers got right at it. Handpicked by managers from across the company's European staff, the 25 employees were freed from their regular jobs and packed off to Whirlpool's office in Comerio, Italy, with a single purpose: to dream up products or services that would truly differentiate Whirlpool from rivals. A year later, they came back with their big brainstorm: an Internet business that would enable people to race one another over the Web on stationary bikes. So much for that experiment. It was obvious that Net bike racing, which didn't draw on any of Whirlpool's strengths, was a nonstarter.

Whirlpool learned the hard way that real innovation requires a lot more than simply urging thousands of employees around the world to tap into their inner designer and then waiting for the great ideas to roll in. It requires hard work, structure, and unwavering discipline. After its inauspicious start, the company retreated from the all-out effort to democratize innovation and moved to a more traditional centralized model of product development. That did the trick. Since 2001, revenues from products that fit the company's definition of innovative have zoomed up from \$10 million to \$760 million in 2005, or 5% of the Benton Harbor (Mich.)

company's record \$14.3 billion in total revenue. Whirlpool's shares, at \$92.64 on Apr. 25, have almost doubled in price over the past five years. Now, following its \$2.6 billion Maytag Corp. takeover, Whirlpool will bring innovation to its onetime archrival.

Plenty of other companies are taking notice of Whirlpool's success. Over the past few months, the company has hosted delegations from Hewlett-Packard ([HPQ](#)), Nokia ([NOK](#)), and Procter & Gamble ([PG](#)) -- all eager to benchmark their own innovation programs against Whirlpool's. "You have to give the management team credit," says Jan W. Rivkin, a Harvard Business School professor who uses Whirlpool as a case study in his course on competitive strategy. "A lot of other companies would have shut this down. One of the remarkable things here is they've found ways to adapt and keep this rolling."

Whirlpool's leaders first started to recognize that they had a problem back in mid-1999. Whitwam was in his 12th year as CEO and had just promoted Fettig to president and chief operating officer. Housing, and sales of Whirlpool appliances, were booming. But despite strong demand, the prices of Whirlpool appliances were falling at an average rate of 3.4% a year, forcing yet another job-eliminating restructuring. Whitwam remembers those days like this: "I go into an appliance store. Now, I have pretty good eyes. I stand 40 feet away from a line of washers, and I can't pick ours out. They all look alike. They all have decent quality. They all have the same price point. It's a sea of white."

ROUSING THE TROOPS

So Whitwam, now 64, called in Nancy T. Snyder, an organizational behaviorist who had joined the company in 1986, and gave her a new title: director of strategic process. He also gave her a new assignment: turn everyone at Whirlpool into innovators. That was important to Whitwam, because he believed he could change corporate culture only by calling on each one of Whirlpool's employees to take up the cause. Otherwise, he feared, only an elite would embrace the challenge, and eventually they would lose out to the process-oriented and hidebound majority.

In early 2000, management enlisted a vanguard of 75 employees to be trained in innovation. Their teachers were 10 consultants from Strategos, a management consultancy founded by Gary Hamel in Menlo Park, Calif., in 1995. The students represented almost every job classification, from corporate vice-president to engineer to factory hand. They were assembled by region in groups of 25 in company facilities in Benton Harbor, Brazil, and Italy. For up to a year, as others took over their previous jobs, these employees were trained like pupils at a specialized graduate school.

The consultants spent weeks teaching them how to "ideate" by reexamining orthodoxies that were blinding employees to opportunities. "There are no barriers," Whitwam told students. "I don't care if we get one innovative idea out of the process."

He liberated the students to such a great extent, however, that most of their ideas turned out to be useless, impractical, and poorly suited to Whirlpool's strengths. In addition to Internet bike racing, employees proposed the Unattended Box -- a doorstep appliance to keep food deliveries hot or cold until owners came home from work. It was ignored. So was their plan to create a membership club for people who wanted home repair services.

The next step for Whirlpool was getting the rest of its global workforce involved. Snyder set up an intranet site that offered a do-it-yourself course in innovation and listed every project in the pipeline. Employees were invited to post ideas or to network informally with others and get their expertise. The company hosted innovation fairs to salute inventors and elicit more ideas. For one show, Whirlpool filled the concourse of Orchards Mall, outside Benton Harbor, with 54 exhibits of new products shown off by proud employees, including a quartet of engineers from Whirlpool's oven factory in Oxford, Miss. The four had invented a combination gas grill/refrigerator/oven/boom box for tailgate parties. It's a promising idea now being redesigned to work out safety issues.

Whitwam, meanwhile, continued to use his bully pulpit, encouraging workers to go to their bosses with proposals or to come to him directly if the managers wouldn't listen. And he put his money where his mouth was, setting aside \$45 million from the capital budget for innovation in 2000 and doubling that amount in 2001. Although they didn't receive a penny for their ideas, rank-and-file employees were thrilled to be treated as peers and tapped for advice. In 2001 and '02, Whirlpool's "knowledge management" site recorded up to 300,000 hits per month. "I had never seen a strategy that was so energizing to so many people," Whitwam says.

Management, however, wouldn't buy it. Midlevel executives were peeved that their workers were off doing side projects when they still had real work to do. And upper-level managers could shrug off the initiative, because Whitwam hadn't given them any concrete goals or tied their performance to any innovation metrics.

So Whitwam and his coterie were forced to be innovative themselves. While not completely abandoning their come-one, come-all approach, they realized in 2002 that they had to bring more order to the innovation process. For starters, they decided that new ideas would have to enhance the company's existing brands or products. Top management would evaluate and fund all new proposals at monthly innovation-board meetings. These groups, in turn, reported to Whirlpool's nine-member executive committee. Green-lighted projects would be assigned to pros -- representatives from the design, market research, R&E, and manufacturing departments -- to see them through. In addition, Whitwam began setting annual revenue and pipeline targets in 2002 and conducting employee surveys to gauge workers' involvement in innovation. Senior executives would have to hit all of these numbers or lose 30% of their annual bonus.

To make certain that only high-potential ideas reached the I-board, Snyder and her innovation specialists came up with something called the I-box, a two-step graphing tool. The goal: to make it easier to design products that reflected consumers' needs and desires. The first step required innovators to demonstrate that their proposals were something that real people would buy. That could entail months of market research, quizzing thousands of consumers. Their ideas were then graded by innovation consultants on a scale of 1 to 10, from dud to sure thing. Only ideas with a grade of at least 6.5 could proceed.

QUICK ON THE UPTAKE

Step two involved analyzing whether the new product would command above-average markups, again through market research. On this test, also, ideas that scored less than a 6.5 got weeded out. The tool altered the company's development process. "Instead of a guy in the lab inventing something he thinks is cool, innovation is coming from the consumer through research," says Pamela Rogers, global director of customer excellence and innovation.

The company has also become much more flexible and adaptable. In collaboration with Best Buy Co. (**BBY**), Whirlpool designed a mod fridge for dorm rooms and Gen Y apartment dwellers. The 32-inch-tall cube comes with a removable front panel and accessories such as a clock and radio so consumers can customize its look. Its carefully measured capacity: exactly enough to hold a large pizza and two six-packs of drinks. At the last moment, however, Best Buy backed out -- an unexpected development that probably would have killed the product back in the old days. But this time the company didn't give up. Last year, Whirlpool marketed its hip appliance in Brazil, where it was being built by its Brastemp unit. Called Pla, it has become a hit.

Whirlpool's innovators are also learning how to revive products and services that failed in their first go-round. Executives like to point out that they never kill ideas; instead, they shelve them so that other employees can take a look at them later. So far, 717 ideas have been put in this inactive status. Among them was the Personal Valet, an armoire-like appliance that steamed out wrinkles and odors from dry-clean-only clothes. Consumers hailed the idea but balked at the \$1,199 price. Introduced in 2002, it was discontinued in 2004. Now it's back. But this time the device, rolled out in 2005 as the Fabric Freshener, comes in a collapsible plastic design made under contract in Mexico and lists for \$199.

Although the company has modified Whitwam's original vision, it has succeeded in achieving his top goals. Since 2003, innovation revenue has quadrupled annually, easily surpassing goals. Fettig attributes 3 points of Whirlpool's sales growth rate, which has averaged 9% since 2003, to creative new products. Moreover, Whirlpool is no longer caught in a price war, forcing rivals to innovate as well or fade away, as Maytag did with its aging product line. For the past three years, the average price of Whirlpool appliances has risen 5% annually. The company has 24 I-con- sultants and 580 I-mentors in its workforce and 568 innovation projects in development today, including 195 being scaled up for commercial launch. Whirlpool calculates that these new appliances, once they're on the market, could produce \$3 billion in annual sales, up from projections of \$2 billion in 2004 and \$1.3 billion in 2003.

Whirlpool has also succeeded in debunking some corporate orthodoxies, or conceptions that are so firmly fixed that they seem immutable. One is that consumers are driven almost entirely by price. Three years ago, the company introduced a new Kitchen-Aid waffle maker to replace the \$99 model. Rather than just alter its innards and stick with the same price point, management came up with a "design icon," recalls Charles L. "Chuck" Jones, Whirlpool's vice-president of global product design. That meant fancier touches and better materials -- and a \$399 retail price. Nonetheless, the company is selling the upscale version as fast as its factory can churn

it out. "There is a rational component to purchasing appliances, but far outweighing that is an emotional component," says Jones. "What the eye admires, the heart desires."

By Michael Arndt

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