

BLACK & DECKER CASE ANALYSIS
LETTER TO NOLAN ARCHIBALD

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MKTG 4825
Dr. Mark Toncar
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Dear Mr. Archibald:

As a stockholder of Black & Decker, I want to congratulate you on your appointment to President and COO. Despite what appears to be a disaster, I believe the company is in good hands because of many reasons, your reputation in engineering turnarounds being a strong one. In times of decision, one must rely on their strengths: strengths in the business; strengths in the individuals assigned to lead the business. I don't believe it was your selection of Emhart as an acquisition that caused a hardship as much as it was the timing of the acquisition. B&D merely fell victim to the contractionary market it is tied to (industrial related businesses like Caterpillar). You weren't hired for turnaround success alone and the B&D team which was already in place proved to be able to do some things right. However, they needed you to use your organizational skills to better position the company at a time when growth looked promising. The power tools and accessories market was mature and diversification was in order. It is apparent to me what you saw in Emhart: synergies and products that aligned with B&D, which would grow the business. You had your sights set on those select number of Emhart business products that could be combined with B&D's core products in order to take advantage of a common retail distribution network. You would leverage this acquisition by means of divestiture. In addition, savings would be realized through integration of purchasing, distribution and marketing. Your vision *and* implementation of a six sigma quality program led to very strong segments: security hardware (leader in \$2 billion global business); Price Pfister (third largest manufacturer and marketer in North America by 2000: \$1.9 billion market); Commercial Fastening System business (among the leaders in the \$2 billion fastening and assembly systems market); and Power Tools and Accessories (DeWalt, B&D) – falling back on the original B&D corporate growth strategy which was tied to product-line extensions. Your divestiture of non-strategic businesses

resulted in approximately \$1.2 billion in debt payoff and your sale of *preferred* stock was good for the stockholder because it preserved our ownership percentages in the company, as it was a non-dilutive transaction. Let's face it: when the economy is down, revenues and earnings are down, and so the stock is down. You positioned the company to reap an annual benefit in increased depreciation and amortization of approximately \$45 million, followed by a B&D consolidation of assets totaling \$566 million which raised annual amortization another \$14 million (\$59 million in total) – a significant savings in goodwill over 40 years. The bull market was upon us and you were bullish on buying – with substantial risk. However, without substantial risk there is no significant gain. Stock values usually experience a little downward bump after an acquisition; however, 15% was an indicator that your Emhart deal was not looked upon favorably by the financial markets. However, by the fourth quarter of 1999 (ten years later at the height of the bull market), B&D had turned around, with an overall increase in sales of 9% and operating profit of 27%. B&D had been a worldwide leader in power tools and accessories and hit a mature market in the early 1980s. The business needed something to boost utilization and your turnaround talent was exactly what was required. You remembered the coining of the phrase “Black and Deckerizing” in the UK. You **knew** you had something to build on. You instituted a network of 150 worldwide company-owned service centers and several hundred other authorized service centers by individual owners (value added service strengthens the brand). The international market had been entered early on (1919) so the experience curve and lessons learned was in B&D's favor and could be used across the board to further develop the product line (DeWalt). Despite the fact that you had to sell your receivables, the situation was rectified over the course of a year when liquidity requirements could be met. Sometimes we need a little luck and the fact that the interest rate dropped from 10% to 6.5% lowered our capital burden.

You also remembered that a very important strength of the company was B&D brand loyalty and you used that to the fullest advantage. It was written that, in the face of the GE acquisition, it was “almost a textbook example of how to handle a brand transition.” You knew exactly what you were doing and were successfully handling the transition as well as the divestitures. I must compliment you on your globalized approach to reign in and improve efficiencies in production, design and manufacturing because you realized the company needed to take advantage of economies of scale and to provide additional resources for new product development and the redesign of power tools (concentrate on the core!).

I must admit, I was unhappy at first, but I was in it for the long haul because I believed in the B&D brand and your reputation. Your business decisions, while suspect at the time, have proven to be the right decisions for B&D growth going forward.

Best regards,

Deborah McCurdy