

**Affirmative Testimony of John Riddle**  
ITC Hearing – September 7, 2017  
*Large Residential Washers – Safeguard Investigation*

Good afternoon. My name is John Riddle, and I am the Senior Vice President, of US Home Appliances at LG. I have over 35 years of experience working in sales and marketing of home appliances, including washers and dryers.

In fact, I grew up working in a family owned appliance and TV business, Riddle's Appliance Company, in Central Pennsylvania. My Dad founded Riddle's Appliance after returning from the U.S. Army in 1945, and the company still exists today.

When I graduated college, I was recruited by Maytag Company where I spent 22 years. In 2001 I resigned as an Officer of Maytag Corporation and moved to another company. After holding various management and executive positions in different companies for the next few years, I joined LG USA in 2011 as the V.P. of major appliances for the regional channel.

Our Team has come to Washington today to discuss the important characteristics of the US washer market so you Commissioners have the necessary information to make an informed decision. Quite honestly, this morning you heard a version of market reality that in many ways does not match my experience.

I want to start by reiterating what is perhaps the most important market characteristic - washers are not a commodity product, but rather a branded consumer product.

And the emphasis is on brand. I cannot overstate the importance of brand. With respect to consumer products, brand is what allows companies to distinguish themselves with product innovation. Product innovation is critical for manufacturers to differentiate their products and drive consumer demand. LG has a rich history and is known for bringing innovation to US consumers.

For example, this next slide showcases LG's new Twin Wash system, which is one of the most innovative concepts the washing machine industry has ever seen. This unique offering provides consumers with the ability to simultaneously wash two loads; with a big load such as a comforter in the front load washer above and a small or delicate load in the SideKick pedestal washer below.

We also have a sample of Twin Wash here for the Commission to see. The slide shows the same sample units we have here in the hearing room. This Twin Wash model is paired with a matching dryer and pedestal just as a consumer would want. It is very much true that washers and dryers are inextricably linked in the market. And it is also 100 percent true that we price our washers with an understanding of dryer profitability.

And part of LG's strategy with regard to brand, is to develop lifelong relationships between consumers and our brand. That concept is reflected in our brand promise, "Life's Good". As shown in the next slide, Under the LG brand, we market a wide range of products that appeal to consumers in different stages of their lives, starting as early as their teenage years when they may get their first LG cellphone. By the time a consumer reaches the homeowner stage of life, and is entering the market for major appliances, such as washers and dryers, they already know and trust the LG brand.

{next slide} Industry data make clear that millennials are the fastest growing segment in the US washer market and they continue to represent an increasing share of purchases.

And it is not just LG. All appliance suppliers undertake substantial effort to distinguish their brands. They do this because retailers track brand awareness -- brand strength - obsessively. Retailers know very well that brand strength influences consumer purchasing decision. Indeed, a good part of LG's growth in sales over the past years has resulted from new retailers deciding for the first time to carry LG appliances, and these retailers' decisions were based in principal part on the overall strength of the LG brand.

## **[Rise and Fall of the Maytag brand]**

A corollary of the importance of a strong brand is that deterioration in a suppliers' brand will hurt sales, which is why I now want to address the rise and fall of the Maytag brand, as I have seen through my life.

Let me start with a bit of history. I fully recognize that the Commission wants to focus on what has happened most recently, over the past few years. However, to properly understand the competitive dynamics over the past few years – and particularly what has happened to the Maytag brand - some historical context is needed.

Prior to 1990, Maytag had developed an unparalleled reputation for the premium brand of washers. At that time, Maytag was considered by many as the king of marketing major appliances, usually receiving an average premium of 10% to 20% of retail price over competition. Maytag and Leo Burnett introduced a simple, single message of Maytag dependability with the “Lonely Repairman.” The lonely Maytag repairman became an iconic figure. As I am sure you remember, {next slide} Jesse White was the original “loneliest guy in town” because he had nothing to do. Maytag washers and dryers were so dependable they did not need repairing. There was a saying ... “Our Maytags never die, they just wash away.”

Maytag was also the leader in innovation. Let me give you an example. In the early 1990s, the federal government issued energy standards for washers and Maytag started development of a front load washer to meet the standards.

Although the government did not move forward with the standards, Maytag launched the new frontload washer anyways in 1996, while Maytag competitors, Whirlpool and G.E. did not launch a new front load washer until much later.

Maytag's new front load washer was a smashing success, and it certainly wasn't because of a low selling price. At \$999 Maytag's Neptune washer was more than twice THE MOST POPULAR competitive washer price point of \$399.

Consumers were willing to pay much more for Maytag's new front load washer because of the brand reputation and the new innovation. Indeed, it was the new innovation that led to a Maytag special public relations initiative with the U.S. Department of Energy. The DOE picked Bern, Kansas, a town that needed to get their water from another nearby town, as an example of a town with water shortages. Every person in Bern was given a Maytag washer for 90 days, and at the conclusion in August 1996, at a community picnic, the DOE announced the Neptune washer saved enough water to fill the Bern water tower 6 times a year. The news made the front page of USA Today, the Wall Street Journal, and all of the major network morning shows the next day. The publicity led to a huge increase in washer orders.

The success of the Maytag's front load washer motivated Maytag to develop new product innovations in the refrigeration, cooking, and dishwasher categories. The new innovations further strengthened Maytag's brand.

Indeed, at the time I left in 2001, almost all unaided brand studies showed that Maytag had, by far, the strongest brand recognition among all washer-dryer suppliers, with a 40 percent recognition rate. The next highest interestingly was "no brand," followed by Kenmore and Whirlpool.

Unfortunately, Maytag's premium brand status was not continued after Whirlpool acquired Maytag. Whirlpool failed in my view, to differentiate Maytag from Whirlpool products, failed to grow the Maytag branded products through consumer driven innovation, and to manage the Maytag Brand.

I believe WPC was hamstrung by issues integrating the brand internally and a promise made to Wall Street to reap \$400 million in cost savings from the Maytag acquisition. And so, instead of product innovation, the focus at Whirlpool was plant and purchasing synergies necessary to reach this level of costs savings. The Maytag plants were closed and Maytag and Whirlpool products were made in the same plants.

I cannot overstate the difficulties in brand management for laundry when products are made on the same production lines. Whirlpool created some confusion with consumers and appliance dealers when Whirlpool did not

differentiate the Maytag product and Whirlpool product platforms. A big part of Maytag's success was that they had kept their Maytag laundry platform different. Because of this, Maytag was able to get a higher price for Maytag brand due to the product differentiation. Once Whirlpool made everything on the same production platform, it was impossible in my view to demand a premium for Maytag.

{next slide} And the proof is in the data. Since Maytag was acquired by Whirlpool, the Maytag brand has lost significant share in both the market and brand awareness. This is especially true among younger families, the very demographic that represents the growth in the laundry market today.

Speaking of millennials, I want to end my testimony highlighting another very important characteristic of the market; how consumers purchase washers has changed. Before washers were purchased primarily under duress; the existing washer no longer worked. And the consumer went to the nearest appliance store and was guided by the salesperson. Today, it is very different. Consumers often purchase new washes and dryers even when their existing one is not broken. And, as important, consumers undertake extensive research before arriving at the store. And, Commissioners, it is this very change in consumer purchasing habits that makes brand strength so important.

That concludes my testimony.