

DIFFERENTIATING A COMPONENT PART: A TACTIC FOR GAINING ENTRY INTO MATURE INDUSTRIAL MARKETS

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This article presents an examination of the strategies adopted by a company which manufactures and distributes automotive gaskets as component parts. The article focuses on the company's plans to extend their product line and diversify the industrial markets to which these extended products would be distributed. The issue of later entrance into mature markets is discussed and the primary research undertaken to identify relevant value propositions for each of the targeted industries is detailed. Finally, the article presents summary financial data that validate the success of the overall plan of action. An abbreviated version of this article received an Outstanding Paper Award in the Marketing Strategy; Product and Pricing Issues track at the MMA Conference held in Chicago during March of 2011.

INTRODUCTION

Contemplating entry into an established and mature market for any industrial product requires a careful approach with special attention to relevant fundamentals. A summary review of the literature reveals that the odds of success for later entries are certainly against the company planning such an entry. DeCastro and Christman (1995), for example, examined the relationship between order of market entry competitive strategy and financial performance for a sample of firms in various lines of business. The researchers found a significant relationship between entry order and competitive strategy. This relationship had a significant influence on firms' financial performance. Lieberman and Lathan (1988) and Kerin, Varadarajan and Urban (1993) also reported on the importance of first mover advantages. A comprehensive meta-theoretical analysis of research on innovation speed (Kessler and Chakrabarti 1996) also included a number of research findings regarding the importance and the advantages of first mover status.

There are, however, studies which show that later entrants into mature markets are not

necessarily doomed to failure. Kalyanarum, Robinson and Urban (1995) presented a series of established empirical generalizations regarding order of entry. These generalizations include the statement that order of market entry is not related to long term survival. Golder and Tellis (1988) stated that the presumed advantages of pioneering entry could be called into question. Robinson, Fornell and Sullivan (1992) raised essentially the same issue by testing a comparative advantage hypothesis across 171 diversification entrants.

These researchers found that market evolution changes the requirements for success. Factors such as, for example, the entrants' degree of product innovation experience and available distribution channels may increase the opportunity for later entrants to succeed in mature markets. Schnaars (1986 ;1991) has also provided empirical data which point out the possibility that later entrants can find success in mature markets. Reports by Paley (1996) and by Weintraub, Hadad and Edwards (2001) have presented documented examples of individual firms that have overcome the obstacles often assumed to limit the potential for late entrants to establish themselves in mature markets.

PLANNING FOR ENTRY INTO MATURE MARKETS: CORPORATE EXPERIENCE

The company discussed in this article had extensive experience in the business of manufacturing and distributing gaskets as components for automotive manufacture.

Corporate experience and internal knowledge were considered strengths or competitive advantages which could be drawn upon when considering expanding its product line to supply specific gaskets to manufacturers within NAIC categories outside of the auto industry. Narayandas and Rangan (2004), for example, found that, because of their reputations and stored knowledge, established firms can have an easier time entering mature markets. Barney (1991) pointed out the importance of a firm's resources and its sustained competitive advantages when entering a mature market. Epple, Argote and Devardes. (1991) discussed the importance of the organizational learning curve and of knowledge acquired through experience in market development. Moorman and Miller (1997) referred to the importance of organizational memory and Peretto (1996) pointed to the importance of in-house research when planning new market entry initiatives.

PLANNING FOR ENTRANCE INTO MATURE MARKETS : ASKING THE RIGHT QUESTIONS

Many case studies of corporate initiatives which eventually failed present observable similarities linked to the failure. Often the failure lies in not asking the right questions and in other instances it lies in misinterpreting the answers to the right questions. Frequently a firm which has fallen short of meeting its objectives has done so because, in the process of stating objectives and implementing the overall strategy and tactics designed to achieve them, it lost sight of fundamental principles. The company discussed in this article, however, achieved the objectives it set and maintained close contact with relevant fundamental principles.

Entering a mature market requires close attention to the issue of the intensity of existing competition. (Hambrick1983 and Hambrick and Schecter1983) The elements of the model created by Michael Porter (1985) served as a guide in answering the question: Should we compete? Having affirmatively answered the initial question the research undertaken by the company was directed toward answering two other critical questions:

1. In what markets should we compete?
2. How should we compete?

The company recognized that to successfully introduce its component parts to mature markets required special attention to the issue of differentiating the component. As it existed, gasket technology did not seem immediately amenable to differentiation in either design or in the materials involved in manufacture. The most important point is that the component must work.

Other means of differentiation such as speed of distribution were considered but most of these were expected aspects of the competitive environment. The company considered falling back on tactics such as offering deep trade discounts and incentives, absorbing freight costs or simply offering prices below those commonly asked by competitors. None of these tactics seemed feasible beyond the shortest of short term approaches. The company accepted Leavitt's (1981) contention that there is no such thing as a commodity and that all goods and services can be differentiated. The research project described in this article was aimed at finding a practical way to differentiate the product offerings that the company planned to introduce into markets it recognized as mature and competition it recognized as intense.

USER INDUSTRY TRENDS

Gasket technology has evolved incrementally by including more uses of rubber and of metallic compounds as the raw materials used in production. The applications of the technology are very straight-forward and utilitarian. End-user manufacturers generally

consider suppliers' quality programs to be foregone conclusions rather than anything that would differentiate one supplier's product from another's. Additionally, "just-in-time" (JIT) supply standards remain closely related to engineering value in these products, and are also an expected product attribute rather than an exclusive product feature that is offered by any one vendor.

In summary, industry norms covered four areas in which every manufacturer is expected to perform well. Therefore, any both attainable and sustainable competitive advantage would have to exceed the current performance of existing suppliers. The four areas are as follows:

- A. Price and delivery capabilities
- B. Engineering support
- C. Cost increase avoidance
- D. Transaction cost reduction

RATIONALE: THE RESEARCH PLAN

The firm discussed in this article was a dominant supplier of extruded rubber gaskets for the U.S. OEM automobile market, but when that line of business began to slow it became obvious that sustainable economies of scale in factory production could only be achieved by diversification that would expand the firm's existing customer base in industrial applications beyond that of automotive manufacture. The company was realistic and well aware that such expansion would be difficult given that the new markets they identified as targets were already being served by other manufacturers. The company also recognized that the existing buyer/seller relationships would be important and the issue of "switching costs" would enter any deliberation regarding a target manufacturer's willingness to substitute their new products for those already in use. The company further understood that all of the elements relevant to a potential customers existing supplier relationships, e.g., long-term reliance between sellers and buyers, with special attention to technology issues, price and delivery would have to be, at the very least, equal in order to create a positive bond between

itself as a vendor and the potential customers it chose to target.

SELECTION OF POTENTIAL CUSTOMERS

Using NAIC codes, the firm directed that the researchers analyze the categories and individual firms within those categories in order to identify key prospective customers for extruded rubber gaskets. A total 47 NAIC categories were used and within each category the criterion for the inclusion of an individual firm was that the firm reported annual sales in excess of \$40 million. A survey mailing was sent to 1500 non-automotive firms within the United States. As mentioned above, these were firms which used gaskets as components of their manufactured products and so were considered to be potential new customers. The survey forms were targeted to production engineers and product designers within the individual firms surveyed. These respondents were selected because it was reasonable to consider them as members of the buying center for gasket technology. Each survey carried a modest financial incentive to encourage participation.

It is important to note here that the respondents chosen to receive the survey were, in effect, informants regarding customer expectations and experiences. Because these individuals occupy positions which necessitate that they make informed choices, the research team assumed that their comments would be especially valid and their responses would quite likely not be tainted by factors known to have an effect on the reliability of survey data. (Campbell 1955; Campbell and Stanley 1962)

THE BASIC RESEARCH DESIGN

Each potential respondent was queried on the following:

- Qualifications as to purchase and use in production of extruded rubber gaskets in the product(s) being manufactured
- Types, volumes and applications of non-automotive gaskets used

- Problems and opportunities met or unmet by current vendors in product applications
- Annual volumes and unit prices over a 3-year time frame
- Length of time as a purchaser of these gaskets from the same supplier
- Reasons why certain vendors were selected
- Purchase volume in units, and a 5-point scale covering the following:
 - A. Buyer satisfaction with the vendor in solving manufacturing and/or product problems over time.
 - B. Ability of the vendor to respond quickly to purchaser needs.

GENERAL RESEARCH PROPOSITION

The general hypothesis which directed the survey was as follows:

With the tight approach to research and data collection an industrial component manufacturer/supplier specializing in one industry can, under the right circumstances, extend its sales reach into new categories while maintaining the same basic manufacturing and engineering technologies. The manufacturer/Supplier can grow the business outside its normal client platform by learning those "hot button" tactics that can be used to overcome entrenched suppliers.

RESEARCH RESULTS

Completed survey forms were received from purchasing and engineering managers within 208 companies. The companies were within 40 NAIC categories. All of the responding firms reported annual sales in excess of \$40 million. Of the firms responding, .02 percent reported maintaining gasket inventories. The data collected were, in essence, census-type data that did not require any comparisons.

The data were sorted first by industry, then by company, and presented to the sponsoring firm in the form of summaries of the responses. The sponsoring firm was instructed to sort through

the responses with the objective of identifying specific companies for which the survey results indicated that the respondents perceived one or more areas of weakness in their current vendor relationship. These weaknesses could then be treated as opportunities and where possible translated into specific actions based on the firm's strengths in manufacturing experience and its marketing capabilities.

The survey results indicated that approximately 20 percent of the firms surveyed maintained an inventory of product on-site. Respondents reported that when the component product was considered specialized or proprietary e.g., size, material content, etc., buyers preferred that inventories be held by the initial vendor and supplied as needed. The data also showed that no one supplier was capable of fulfilling the manufacturers' needs. The frequency of this response was interpreted as a strong indication that, provided all other criteria were met, there were opportunities for the gasket manufacturing firm to gain new business. These data are reported in Figure 3.

When asked about "differentiation" as a key issue in vendor selection for the component product use, factors beyond the actual gasket product were reported to be critical evaluative criteria to vendor selection decisions made by the customers. The responses pointed to the possible approaches aimed at differentiating the component. The section which follows provides examples of the relevant responses. In response to the question asking "what things can differentiate a vendor when buying gaskets?" the individuals surveyed responded as reported in Figures 4 and 5.

SUMMARY

At the time the research data were delivered, the particular client division, which served the automotive industry globally was generating only \$1.0mm in sales to non-automotive firms. With specific company-by-company information covering manufacturing needs and any currently used vendor inability to resolve specific issues, the client was able to examine

**FIGURE 1:
Reported Vendor Weaknesses**

Purchasing Told us:

Need shorter lead times	20.8%
Need sealing problem help	13.2%
Need better product quality	13.2%
Vendor must be more responsive to needs	11.8%
Need better design capabilities	9.0%
Need more material choices	8.3%
Need closer distribution points	6.9%
Need better communication	6.9%
Need more knowledge of customer	4.9%
Need competent sales people	3.8%

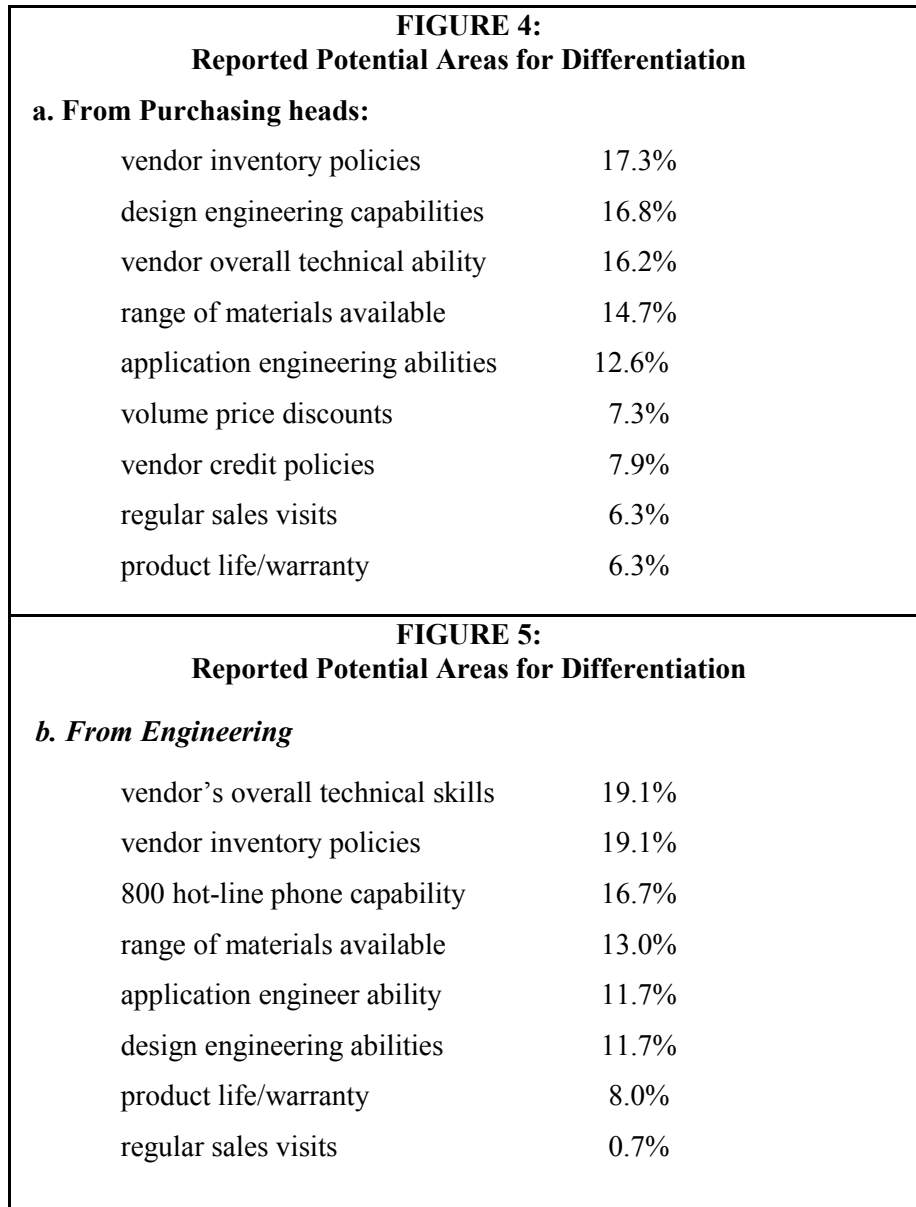
**FIGURE 2:
Reported Vendor Weaknesses**

Engineering Told Us:

Need better quality	18.5%
Need more material choices	17.7%
Need sealing problem help	16.1%
Need shorter lead times	12.1%
Need better communications	8.1%
Need competent sales people	7.3%
Need better design capabilities	7.3%
Need closer distribution	4.9%
Need more knowledge of buying firm	3.2%

**FIGURE 3:
Single Sourcing Choices**

	<u>Purchasing</u>	<u>Engineering</u>
Want single source	28.1%	16.0%
Want, but don't think feasible	34.4%	34.0%
Do not want	29.7%	28.0%
No opinion	7.8%	22.0%



its own internal strengths, observe solvable weaknesses in its competition, and maximize its response and reaction to a marketplace which was entirely new to, and previously untapped by the company. The outcomes from several representative NAIC categories are presented in Figures 6.

While the actual sales data are proprietary the authors were able to contact the then president of the corporation (Kessler 2010). He reported that based on the differentiation tactics interpreted from the survey data the company pressed ahead with its plans for improving its

current share of the automotive and diversifying into other industries in which gaskets were a manufacturing component. He also reported that within 12 months, the client's sales grew from a base of \$1.0mm to \$13.75mm, and continued to sustain that new level in a new marketplace for several years until the parent company was purchased by a larger conglomerate.

Also the CEO, who has since retired, specifically made the point that the broadened sales base of what had been the automotive gasket division greatly enhanced the firm's

**FIGURE 6:
Examples of Specific Customer Data**

<p style="text-align: center;"><u>Firm A, Industrial Filters</u></p> <p>Supplier of flow meter seals...part of \$14bb conglomerate Current component sourcing: 1 vendor – 95% of needs Vendor weaknesses: “need to be more responsive” “must have better communication” “want shorter new product lead times”</p> <p style="text-align: center;">DIFFERENTIATING factors would be vendor design engineer capabilities, vendor inventories, technical ability of vendor sales and firm</p>	<p style="text-align: center;"><u>Firm B, Air/Gas Compressors</u></p> <p>\$5 billion manufacturer for lighting fixtures, valve bodies, halogen lighting Current component sourcing: not single sourced Vendor weaknesses: “need plant or distributor nearby” “need to communicate better with us” “have more concern for our company!”</p> <p style="text-align: center;">DIFFERENTIATING factors would be broader material ranges, vendor design strength, vendor stocking, vendor engineering capabilities</p>
<p style="text-align: center;"><u>Firm C, HVAC Components</u></p> <p>Product breakdown not provided...privately held firm with markets in Europe and China Current component sourcing: 100% U.S. through 2 named suppliers Vendor weaknesses: “need to be more responsive to our needs” “need to provide more sealing help” “need to be one source capable”</p> <p style="text-align: center;">DIFFERENTIATING factors would be a focus on application engineering assistance, volume price discounts, material ranges</p>	<p style="text-align: center;"><u>Firm D, Motor and Optical System Sealing</u></p> <p>\$3.8bb supplier of sealed motors and optical systems Current sourcing: n/a Vendor weaknesses: “need significantly shorter lead times” “need to be more responsive to our needs” “need to provide longer lasting products” “need better design capabilities”</p> <p style="text-align: center;">DIFFERENTIATING factors would include sales calls whenever needed, single source capability, stocking program</p>

overall profitability and consequent selling price to the purchasing conglomerate.

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