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Identifying, targeting and entering new attractive market segments (for companies in B2B)

A Master's Thesis submitted for the degree of
"Master of Business Administration"

supervised by

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Vienna, 30.01.2011

Affidavit

I, **GERHARD KOLARIK**, hereby declare

1. that I am the sole author of the present Master's Thesis, "IDENTIFYING, TARGETING AND ENTERING NEW ATTRACTIVE MARKET SEGMENTS (FOR COMPANIES IN B2B)", 79 pages, bound, and that I have not used any source or tool other than those referenced or any other illicit aid or tool, and
2. that I have not prior to this date submitted this Master's Thesis as an examination paper in any form in Austria or abroad.

Vienna, 09.02.2011

Signature

Abstract of

Identifying, targeting and entering new attractive market segments

(for companies in B2B)

The current situation in the markets is that companies are facing heavy competition and consequently declining demand in their current business areas. As soon as a company detects and develops a new interesting market segment, other players try hard to participate in this field, and the competition starts again. Consequently companies find themselves competing in defined market segments with comparable products and services. This causes the companies to fight hard for their share of the existing market demand. In many cases the market is not growing, which means if a company gains market share another company has to lose it.

Because of this situation all companies which want to be successful are constantly forced to look for new interesting market segments and business areas which others have not detected and served so far. Expanding into new areas seems to be crucial to escape the cut throat competition.

The objective of this thesis is to review the approaches available for this purpose and to look for a process which maximises the effectiveness of the chosen market strategy. This will be done with an examination of selected literature combined with personal business experience. Identifying new attractive markets is not a simple and short process. If a company wants to be successful in this process it has to be structured and well organised, otherwise the company runs the risk of wasting capacity and money which again can endanger the company's future.

The result of these investigations is that there are many well known tools for analysing businesses and developing strategies. Two main directions have been detected. One is the so called "red ocean" approach and the other the "blue ocean" approach. Both rely more or less on the same information but the difference lies in the strategy for looking for and tackling new market opportunities. The research confirms that the process for identifying new attractive markets needs a structured and well planned approach.

1. Introduction

1.1. Objective

There has always been to a certain extent crowding out and competition between companies and the offered products and services in the marketplace. In the past few decades this situation has accelerated and become more intense. Additionally companies have to contend with saturated markets and declining market demands which result in reduced sales figures. Another threatening point is that the market segments and consequently companies and products are becoming more and more similar and exchangeable, which is very much driven by the customer demands.

To establish sustainable business growth while at the same time avoiding this cut-throat competition, companies are seeking new market niches, new business opportunities, new products, innovations, unique selling proposition and new market segments. These are fundamental topics for manufacturing companies. With these activities the companies intend to broaden the field of offers and thereby generate a more sustainable business which may be less impacted by these developments.

In many cases the research and preparations are not done very well, which may lead to serious problems for the companies. Because such activities cost quite some money, companies cannot afford to make the wrong decision too often. In some cases the market research with regard to demand or products is not well performed, or the decision is based just on the gut feeling of a single decision maker. Another not so successful approach is when companies have certain product ideas which they intend to introduce to the market without checking possible acceptance beforehand. Usually it is better to develop a product for a detected demand instead of generating a market demand for an existing product, because this can be a quite costly and time consuming activity requiring high investment in advertising and marketing communication. It can also happen that the competition is underestimated or the market entry level is too high or simply that the wrong products are offered at the wrong places.

The objective of this thesis is to make the process of identifying and entering new attractive market segments more transparent and to show some of the traps and give as far as possible a recommendation on how to manage such a process.

1.2. Methodology

The chosen methodology for the preparation of the material for this thesis was literature study, of which there is certainly a lot available. You will find my personal choices in the selected literature list at the end of this work. To this I have added my personal experience in the business world, in particular with respect to a new product segment in my company, which is especially relevant.

1.3. Structure

Chapter 2
Chapter 2 presents a rough overview of how to start the process of looking for new valuable markets and market segments.

Chapter 3
Chapter 3 will address the terms "red ocean" and "blue ocean", emphasizing the concepts and key elements including a rough comparison.

Chapter 4
In chapter 4 the steps for developing a strategy for identifying and entering new markets are discussed, beginning with the topic of self assessment via environmental analyses and concluding with strategy development tools. A separate subchapter will be dedicated to the blue ocean strategy approach.

Chapter 5
Chapter 5 addresses entry into the identified market from a geographic, market or customer point of view.

Chapter 6
Chapter 6 discusses the concept for success with a checklist and a practical example

Chapter 7

Chapter 7 summarises the conclusion with some additional historical examples from well known companies

2. The process of identifying new attractive markets

The process of identifying new attractive markets, segments or business opportunities is not simple or short. Usually a company should continually monitor the internal and external developments and processes in order not to miss out on any opportunities. This optimal situation is normally not so often achieved because of various circumstances – e.g. capacity (man power) constraints, unavailability of data or higher priorities in the day to day activities. For a successful company and business this is a vital process and it is therefore necessary to start such processes on a regular basis or in response to certain circumstances (e.g. market position/share of a company will be attacked, or strategy needs to be completely reviewed, etc. though in any case, strategies should be reviewed on a regular basis).

Generally speaking there are two options in looking for alternative markets or in generating new market segments: The so called “red ocean strategy” and “blue ocean strategy”[1].

The term “red ocean strategy” stands for an area (ocean) where the branches are well defined and accepted, and the rules of competition are known. In this area the companies compete and try to outperform their rivals applying traditional measures which we will discuss in a later stage of this text. This approach was popular in the past and is currently the most chosen strategy. In contrast the term “blue ocean strategy” stands for focusing on new not-yet developed markets which might generate new demands with interesting growth and profit potentials.

[1] W. Chan Kim and Renée Mauborgne; Blue Ocean Strategy; (2005) Hanser

However the starting point for all companies independently of the approach will be the initial analyses of their current internal and external (environmental) situation and position in the market place.

Research model

The identification and research process for new market segments is based on a model with four areas / pillars (see Figure 1). The pillars are internal / external assessment of the company, analyses and risk estimation, positioning in the new market segment and last but not least estimation of implementation and its opportunities and threats.

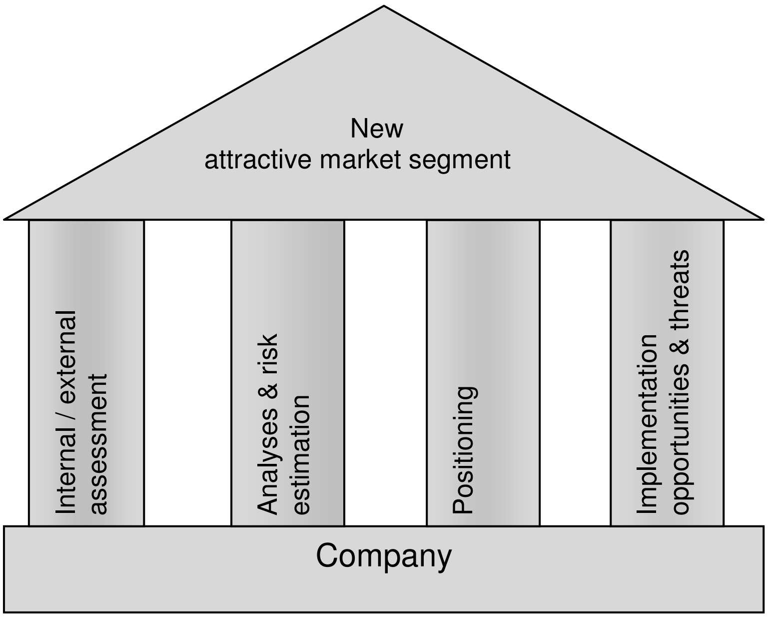

Figure 1 – Research Model

3. The concept “red ocean” versus “blue ocean”

The authors of the blue ocean strategy split the “universe” more or less into two market places or oceans – the red ocean and the blue ocean. In this consideration the red ocean represents the historically grown market places and mechanisms according to which corporate strategy is based solely on competition in known markets, industries and customer fields. A company compares itself and its products and services with the competition with the aim of discovering solutions, tools and ideas to outperform competitors.

This approach has more or less clear boundaries, defined volumes and demand. By competing with each other the companies accept the established rules and consequences which include:

- vying for leadership
- entering cut-throat price wars
- accepting less profit
- focusing on the same target groups
- reduced customer demand and market share
- exchangeable products
- increasing costs

Well-known tools are available to respond to these situations.

By contrast, the blue ocean strategy focuses on the development of new markets and demands which nobody has yet seen. With this approach an actor eliminates the competition and enters new profitable businesses.

The authors of the Blue Ocean Strategy performed a study to quantify the impact of creating blue oceans on a company’s growth in both revenues and profits of the business launches of 108 companies [see following Figure 2].

86 percent of the launches were line extensions, that is, incremental improvements within the red ocean of existing market space. Yet they accounted for only 62 percent of total revenues and a mere 39 percent of total profits. The remaining 14 percent of the launches were aimed at creating blue oceans. They generated 38 percent of total revenues and 61 percent of total profits. Given that business launches included the total investments made for creating red and blue oceans (regardless of their subsequent revenue and profit consequences, including failures), the performance benefits of creating blue waters are evident. Although we don't have data on the hit rate of success of red and blue ocean initiatives, the global performance differences between them are marked.[2]

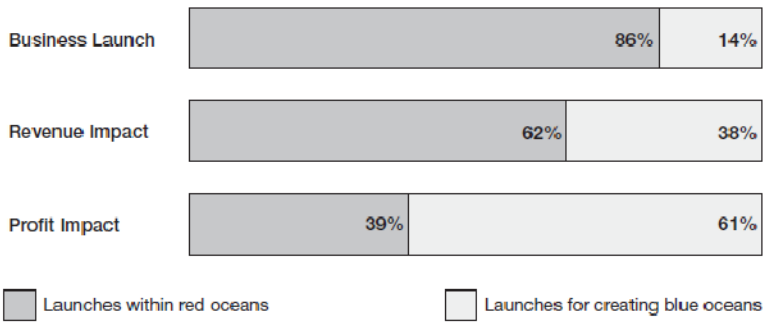

Figure 2 – The Profit and Growth Consequences of Creating Blue Oceans[3]

In the following pages we will review the major tools which are used in the red ocean approach and the blue ocean approach.

[2] W. Kim, Renée Mauborgne; Blue Ocean Strategy; Hanser 2005 pp.7 and 8
[3] W. Kim, Renée Mauborgne; Blue Ocean Strategy; Hanser 2005 pp.7

Before we start we will compare the primary steps of these two approaches (see Table 1).

	Red ocean approach		**Blue ocean approach**	
Chapter	Aim: Competition in existing markets		Aim: Generating new markets	
4.1.	Self assessment		Self assessment	
4.2.	Analyses of environment		Analyses of environment	
4.2.1.	Competition		**4.3** Competition	
		Benchmark		How to avoid competition
		Unique selling points		Generate new market segment
				Generate new demand
4.4	SWOT		SWOT	
4.5	Strategy		Strategy	
		Price leader		New cost, price structure
		Technology leader		Differentiation
		Cognate prod./serv.		
		Niche market		
4.6	Segmentation			
4.7	Risk estimation		Risk estimation	
4.8	Targeting		Targeting	
4.9	Positioning		Positioning	

Table 1 – Red ocean versus Blue ocean approach compared

4. Steps for developing a strategy to identify and enter new market segments

Before you can tackle a new market or market segment you must have a very clear picture about the current situation in the company and the environment. As a starting point an internal and an external self assessment need to be performed (see Figure 3). For this it is necessary to establish within the company a team and a corresponding process. The management must support and participate in this process.

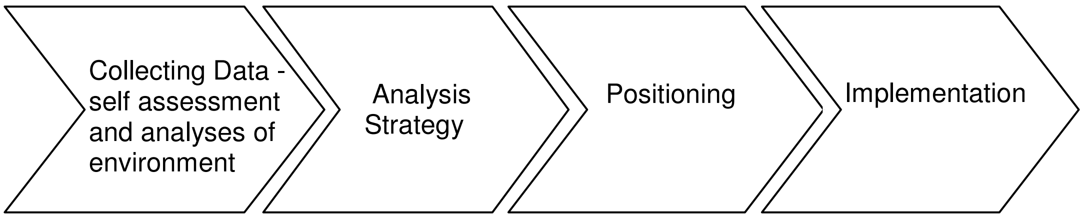

Figure 3 – Process – Segment identification and entry

The members of this team should come from different departments like purchasing, sales, development, manufacturing, management and even from departments unrelated to product, such as finance, to get a view from a different angle.

Depending on the size of the team, several groups of 4 to 5 people should be defined, which answer the questions independently. The results (forms) will be consolidated by the head of the team/process and presented to the whole team. In this presentation a common understanding has to be reached regarding the various points so that everybody is aiming for the same target.

At the end of the self assessment there should be a clear picture for all involved people and decision makers about the strategy, the strengths, weaknesses, and competences of the company and where the development of the company should go.

Some of the questions which should be answered are below. (This check list does not claim to be complete and may depend on the type of business.)

Self assessment – internal topics – company

- What are our core competences?
- Do we have unique selling proposition?
- Where are our limits (technology, performance)?
- Own economic situation
- What resources do we have (manpower, capacity)?
- What is our innovation potential or capability?

Environment – external topics

- Who is our competition?
- What does the competition do?
- Benchmark - Who is the best in the class? How we are compared to them?
- What are our market position and market share?
- Who are our customers?
- Is there a growing demand for our products / services?
- Where are the biggest chances for success?
- How is the market developing and in what direction?
- Are there new product developments coming up?
- Are the customer demands changing?
- Are there substitute technologies?
- Are there new trends?
- Are there changes in the market environment?
    - Governmental regulations
    - Political developments
    - Ecological developments
    - Technological demands
    - Legal demands / opportunities, constraints

External and internal analysis

- SWOT analysis
  The company management performs with the collected data a SWOT analysis. SWOT is an abbreviation for strengths (S), weakness (W), opportunities (O) and threats (T). With this analysis the data are structured and prepared for the strategy development.

Strategy

- What will be my strategy?
- Review / define company mission!
- Review / define company objective and goals!
- Review business / product portfolio!
- Analyse business / product portfolio!
- Review / define current own position!
- Do we need a partner?
- Define target market segment!
- Develop entry strategy!
- Risk estimation!
- What costs are involved?
- How long will it take to get the investment back?

4.1. Self assessment (internal topics)

The self assessment is usually the starting point for the data collection and strategy development process of a company (see Figure 4). The results and information from the self assessment are very often the basis for subsequent analysis and evaluations.

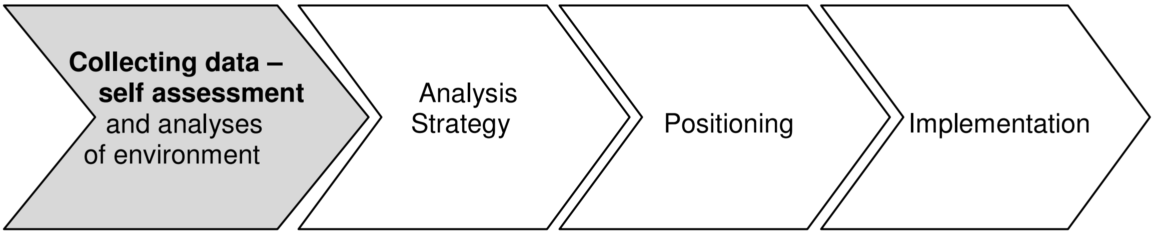

Figure 4 – Process – Collecting data – Self assessment

4.1.1. Core competences

With respect to the question of core competences the company should clarify where it sees its uniqueness in the field of competition and where it is likely that it can assume a certain degree of leadership.

In connection with this, Gary Hamel and C.K Prahalad[4] defined the term "core competence". Core competences usually provide the basis for a company's competitive advantage which enables it to develop as well as to introduce new products and services. In this respect a competence can have different forms like technical issues, product related know how or even processes. To be qualified as a core competence it has to meet the following criteria (as defined by Hamel and Prahalad)

a) It involves a customer benefit.
b) It is difficult for the competition to copy.
c) It can be applied to many products or markets.

According to Hamel and Prahalad, three tests need to be performed positively before a competence can be named a core competence.

a) The competence has the potential for several markets.
b) The competence offers an additional customer benefit.
c) The competence should be difficult to imitate.

[4] Gary Hamel and C. K. Prahalad, The core competences of the corporation, HBR May-June 1990

Core competences are company characteristics which are worthwhile to develop further and strengthen. The company should invest in these characteristics.

The example from my experience is that we saw our core competence in winding (e.g. this is a process where wire is paced into a bobbin to achieve a coil) which sounds generally speaking not very special.

There are many companies in the market place which offer a comparable service. However we as a company are, based on our experience, convinced that we can offer more in this direction than our competitors. We have very smart people who are continuously developing new leading ideas in the production process. That means we have our core competence in the winding process, innovation power and customer service. Customer service means in this respect development support which helps our customers to achieve their targets. Through observation in the market we found out that we are able to give much better support than our competitors.

This result confirms the statement that core competences do not need to be a product but can also be processes and know how issues. Our core competences also fulfil the required criteria, in that they have the following characteristics:

- Potential for several markets
- Offer additional benefits to our customers
- Are not so easy to copy, as long as the know how is kept within the company, which is sometimes not so easy

4.1.2. Unique selling proposition (USP)

When reviewing and analysing one’s own product portfolio and services offered to the customer, the company should also assume a perspective which asks: Where do we believe to be better than our competition? Where do we have a competitive advantage? Do we have a well known brand name?

Do our products have different features which the competition doesn't have? To be different or better does not necessarily imply a unique selling proposition (USP).

Such points (USP's) should be checked for whether they fulfil the following criteria: [5]

- ***Important:*** *The difference delivers a highly valued benefit to target buyer.*
- ***Distinctive:*** *Competitors do not offer the difference, or the company can offer it in a more distinctive way.*
- ***Superior:*** *The difference is superior to other ways that customer might obtain the same benefit.*
- ***Communicable:*** *The difference is communicable and visible to buyers.*
- ***Pre-emptive:*** *Competitors cannot easily copy the difference.*
- ***Affordable:*** *Buyer can afford to pay for the difference.*
- ***Profitable:*** *The company can introduce the difference profitably.*

If the detected differences fulfil all these criteria or at least most of them, then it may be worthwhile to emphasize and to promote them. With a clear USP you can differentiate yourself to the competition and gain some competitive advantages which result in additional sales and profit.

4.1.3. Economic and technological situation

Besides the competences and competitive advantages with regard to the products and services offered to the customers, it is also very important to have a very clear view of the economic situation of the company and the technologies available within the company. In connection with this, it is vital to answer the following questions:

- With which products do we earn our actual profit?
- Which are the high runners?

[5] Philip Kotler, Principles of Marketing 2008, p. 207

- Who are our most important customers and why?
- Do we have the financial resources to develop new products and to bridge the time period between the idea and the introduction to the market?
- Which product technologies do we have in-house?
- Which manufacturing technologies do we have in-house?
- Is it necessary to develop or implement new manufacturing techniques?
- Do we need to buy patents or property rights?

In the case where I gained my experience we had the fortunate situation that we had a quite stable business. The turnover was not growing but also not really declining. We had some very long-time customers whom we could rely on. That means the business was not growing but to a certain extent sustainable. However every year the margin came more and more under pressure and had to be compensated for by leaning activities in the company. This status quo was also the reason to look for future prospects. The company had the resources to invest into new markets or innovations provided it would not take too long. We had to allocate the resources carefully but we could do so.

From a technological point of view we could build on extensive manufacturing know how and very good innovative spirit in our production crew and in our R&D department. The people in the production were continuously able to find new ways for improvements in the manufacturing processes and also ways to improve the performance of the production, including product quality. This went hand in hand with new product ideas which also led the manufacturing processes to their technological limits.

With these opportunities we started new product developments by ourselves, and in partnerships with our customers we also entered new market fields which have never been approached before.

4.1.4. Resources, innovation

With regard to the topic of innovation, these questions also have to be clarified:

- Do we have the necessary know how to develop innovative solutions in-house?
- Do we have capable people who can develop new solutions?
- Do we have the manpower for such processes?
- Do we have the necessary equipment (test equipment, prototype production, manpower, capacity, etc.) for developments in-house?
- Do we have partners with which we can enter development alliances?
- Do we need partners if we want to develop innovative solutions?

In the mentioned case – see the paragraph above – we were able to answer these questions to a big extent with yes. We could afford to take the entire necessary steps on our own.

4.2. Environment – external topics – traditional red ocean approach

In the environmental analyses, the circumstances in which the company acts are examined. This activity belongs in the process to the data collection step (see Figure 5). These analyses are necessary because environmental changes profoundly influence consumer and industry behaviour. The environmental analyses review the economic situation which in particular focuses on competition and customers, the trends and possible future developments and political, legal and social developments and circumstances.

All these areas have an influence on the company's situation and the market and strategy development.

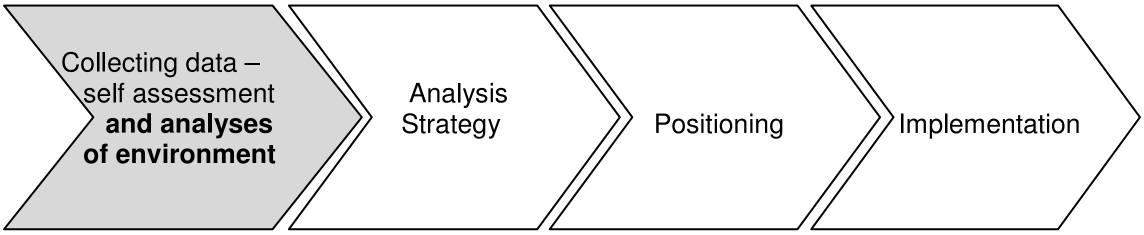

Figure 5 – Process – Environmental analyses

4.2.1. Competition analysis – red ocean approach

The primary question here is: Who are our real competitors? Before a company can go for new markets and develop new strategies it has to have as clear as possible a picture of its competitors and the market place. If you ask a manager of a company he usually will answer that he knows his competitor. However in reality it is not so simple to identify the real competition. Smaller and medium sized companies usually will have more competitors in a dedicated market. From the customer point of view it often looks as though companies are offering comparable products and services. An additional effect is that the number of competitors usually increases and decreases with the life cycle of a product. In the introduction phase and at the end of the life cycle, the number of competitors will be quite limited but the level of competition will be quite different. Within the growth and maturity phase the competition will continuously increase. In the declining phase the number of competitors will decline but the level of competition will not change or even increase because of the falling demand.

If companies detect products which generate growing demand and profit, they will try to enter this market and to participate in this business as well, and consequently the competition grows. In and after the maturity phase the demand becomes stable and in a next step starts falling.

In this phase usually no new competitors are entering but the competition between the established companies increases. This leads to a clarification of competition in the market and in a reduction of companies in this field. But this still does not mean that the competition is less. It is just between a lower number of companies because the demand is also decreasing and causing a crowding out. In addition it is also crucial to consider the product life cycle in the competition analysis. Within the life cycle of a product or market the type of competition also changes, and therefore the company strategy must also be adapted.

The easiest way to define competitors is to select all companies which offer comparable products and services to the same group of customers. This method suffices for a start, but it is definitely not the whole story. The range of competitors is on the one hand much wider and at the same time closer and not so obvious.

Besides the group of competitors which have a quite similar product and service portfolio, companies with the following characteristics should also be considered:

- those which are bigger, or have a wider range of products and services but might also be able to serve your customer group
- companies which manufacture products which might substitute your offerings
- those which operate in a neighbouring industry which might diversify into the market segment
- companies which could consider vertical integration

At the same time, be alert to companies with these features:

- those which are smaller but still competitive
- ones with a more focused product portfolio
- firms with local advantages
- those evidencing same company structure / organisation

Usually companies know their imminent competitors from the day to day business. There is in most cases a lot of information available but not structured and therefore it is necessary to compile all available information in a structured way and complete the analysis with additional information collected from the sales team, agents, marketing people and even suppliers. These secondary sources complete the picture of competition.
The investigation of competitors should be a regular process, otherwise the company runs the risk of being surprised by actions of its competitors and faces disadvantages which might have serious impacts on its own profitability. It is in most cases the better position to be the leader than the follower. If the company has a good picture or understanding of its competitors it might also be able to anticipate certain of their reactions to its own moves and activities. Its own success very much depends on correct estimation of the competition.

The next step after identifying the competition should be the analysis of the competitors with respect to the following:

- their objectives
- their strategies
- their strengths / weaknesses
- their financial situation
- their customers base
- identification of the market leader
- the market segments they serve
- their manufacturing capabilities
- how powerful they are
- their manufacturing capacities
- their USPs, if any
- their market position / market share
- our prospects of advantage over competitors

There might be many more questions which should be analysed depending on the company business.

After we have got a good picture of the competition the next step will be the benchmarking. Where is the competition better at performing than our company and where are we better? This benchmarking should be performed with three to five of the best competitors which have been detected (best of class). The number of competitors for benchmarking is not fixed and is more or less a recommendation which should be adjusted to everybody's own situation.

Checklist for competition analysis and benchmarking

Criteria		Competition				
Company						
	Size (manpower, turnover)					
	Organisation					
	Profit					
	Financial strength					
	Investments					
	Strategic targets					
	Location					
	Resources					
Market						
	Marketing approach					
	Product range					
	Position in the market					
	Local, regional, global					
	Price / Performance ratio					
	Service					
	Turnover					
	Market share					
	Growth					
	Customer					
	Business areas					
	Sustainable business					
Production						
	Capacity					
	Flexibility					
	Innovation					
	Delivery time					
	R&D					
	Quality					
	Productivity					
	Know How					
	Production locations					
Management Workforce						
	Management					
	Organisation					
	Sales force					
	Customer service					
	Decision structure					
Product						
	Supplier base					
	Dependence on suppliers					
	Dependence on raw materials					
	Cost structure					
	Purchasing					

Table 2 – Checklist for competition analysis

In this table you can visualize your competitor's performance compared to your own, using these symbols:

"+"	indicates that your competitor performs better that yourself
"="	indicates that the performance is equal
"–"	indicates that your own performance is better than the performance of the competition and ideally at the end this table should display many "–" because that means you are better than the competition overall

The benchmarking with other companies and competitors (best in class) should be done on a regular basis. The purpose of the benchmarking is first to find out more about one's own position, weaknesses and strengths and secondly to generate a foundation for future activity plans and strategy decisions. With this information the management can define actions to improve the performance of its own company and to find opportunities to overtake the competition and to differentiate.

A not so common approach is to benchmark with companies which are actually not competitors but are well known as best in class in certain areas. This is usually done to find ways to improve with a strategic view into the future and not necessarily directly related to the actual competition. An example could be that one's own production process is very well in line with the way the competition is performing, but the company is convinced that there is still potential to improve. By benchmarking its production processes with processes in other industries, it can gain some additional knowledge for improvements which can then lead to a competitive advantage in its own industrial field.

Practical example

In the company I work for we already long time ago took the strategic decision that we would focus on market niches instead of participating in the mass market (high volume products). The decision was to go for customised products instead of more or less standardised catalogue products. This decision was taken after analysing the existing and most probable upcoming competition. We as a company wanted to act on a global scale. As a midsized company with its production centre in Europe we have certain resources and capabilities. The analyses of the competition delivered the following results.

In the global high volume market we would have many global competitors which are much bigger than we are and which have the possibilities to manufacture in low cost countries. Their product portfolio is to a certain extent much wider (standard products) than ours, which we cannot afford to follow, but on the other hand they are also more limited with regard to special solutions.

On the contrary we have competitors with a more local focus which have the advantage of serving their customers very fast and supporting them with extreme flexibility. Additionally such local companies will usually have very good personal relations to their customers, which is a difficult point to overcome. Even if they are generally speaking more expensive, they compensate for this mark-up with those added values to the provided service.

With this roughly sketched knowledge about the competition we had to make our decision on how we wanted to position ourselves in the market place and how we wanted to tackle the market. If we wanted to compete with the global big players we had to look to cost leadership to survive, which is for a midsized company not such an easy job; or we had to compete with the local players on the service level, which again is not so easy if you are not so close to the customer.

There is of course also a place in between if you decide to serve your customers in a niche market with customised products. In this specific segment both other player groups have their specific problems. For the big players the estimated quantities are much too low. They are not organised so as to manage small highly diversified quantities. Consequently they are not really interested in this business and that is to our advantage. On the other hand the local companies which obviously have the capabilities to serve their customers with low volumes and high diversity run into problems as soon as the volumes increase from low to let's say midsized demands combined with more competitive price expectations. This especially becomes a problem for them if these demands are combined with additional technological product developments and industrialisations.

Precisely these problems can be overcome by a midsized company if it prepares itself for these specific situations. If the company is ready to go for this segment it can earn good profits. However it is not an easy road because it is forced to observe the competition constantly or else be squeezed out by its competitors. The approach described is a quite narrow market segment with a lot of opportunities but also threats. The company has to act very flexibly and fast. In this segment the company in general will not be the price leader and not the leader in flexibility but the leader in the combination of these two aspects. Nobody will pay for something which is not worthwhile. The big competitors usually are not flexible enough and the small local players are not financially able to compete. Here is the chance for the midsized company. Additionally the problem of the local players will be that their customers also start acting on a global or at least regional scale, which might generate problems for them.

The demand develops to the point that the customised solution becomes the standard at a competitive price and support level. Support means in this context regional or even global support. A company which wants to offer this service to its customers needs to have a corresponding company structure.

Many customers select their suppliers according to other parameters including their capabilities to serve them on a local, regional and/or global scale. Of course these services should be combined with lowest possible price and greatest flexibility from the product and logistics point of view.

4.2.2. Customer

In many cases the management and companies consider many different points in their analyses but one of the most important topics, the customer or customer satisfaction analysis, is in many cases not given sufficient attention.

Within the analysis and fact finding process of the company the customer base should also be reviewed. In this context the following questions should be answered and analysed.

- Who are our customers?
- Who are our most important customers, strategically and business-wise?
- With which customers do we generate the biggest profitable turnover – the famous 80/20 rule?
- How was the turnover/profit development per customer over the past few years?
- With which customers do we have biggest growth potential?
- With which customers is the business development stable or even declining, and why?
- Is there a need to streamline the customer base?
- Do we serve our customers in an optimal way?
- Is our product portfolio for the customers sufficient?
- How could we extend our product portfolio to generate additional business?
- What supplier philosophies do our customers have? Do they usually work with single sources, do they generally look for two suppliers per product or product group, and do the customers have a classification system for preferred suppliers, etc.?
- What supplier philosophy is common in the particular industry?
- With which type of customer do I have a sustainable supplier position and how can I use this knowledge for further business development?

Another very general question which supports this review is whether to do customer surveys on a regular basis. If yes, then this data will be a very productive source of information. If not, it is worth consideration, because although this type of data collection is definitely additional effort, a company gets a much better feeling for its customers and how they see the company as a supplier.

With the result of this analysis the company gets good feedback on where it is strong, where it offers unique service and where it could improve. In many cases with this review alone you can detect new business opportunities which usually can be realised with relatively low effort. For example the customer buys just one product but could easily need many more products out of the existing portfolio. You find strengths of your company which you probably underestimated and which could be more stressed and used.

Based on the results, companies may decide to favour the strategic customers who contribute more and decline the effort for low priority and small customers. This decision is not black and white because the status quo may be justified by a big variety of reasons. It can for example easily be that a customer where the business is declining is not sufficiently served by the company. That means if you increase the contact and service frequency with the customer, the business would definitely grow but these are decisions and analyses which have to be carefully performed with the results in mind. It is not recommendable to cancel or reduce customer relations without good reasons. To grow business and win new customers is one of the most intensive and also costly processes in the market place and therefore the effort and the benefit must stay in a healthy ratio.

I remember company decisions which went in the direction of moving less interesting businesses to distributors to improve the cost structure at the company site. This has the consequence that you lose the contact to this group of customers and which might go hand in hand with a loss of information from this market segment. Another option is to go for direct business relations with big and strategic customers. In this case the company can safe costs and improve its competitiveness by cutting of additional distribution investments and intensifies the contact to the strategic customers.
This very much depends on the sales structure the company usually works with. There are various options like direct sales, sales via remote offices, sales via agents, via distributors or even a mix of all of these options.

4.2.3. STEP analysis, trends

In the same way a so called STEP analysis has to be performed to review the corresponding fields and influences together with opportunities for the company. The abbreviation STEP analysis comes from Sociological, Technological, Economic and Political change analysis.

Sociological factors	life style, demographic developments, environmental issues, population moves from countryside into cities, etc.
Technological factors	new technological developments, trends, manufacturing processes, etc.
Economic factors	inflation, interest rates, loan politics, economic growth, global, regional and local economic development, etc.
Political factors	competition regulations, laws, legal demands / regulations, political developments, etc.

4.2.3.1. Sociological factors, trends

Questions which should be reviewed from the company's point of view and with regard to sociological factors and trends are, for example:

- Are there trends we can benefit from?
- Do we have innovations which fit an upcoming trend?
- Will our ideas/products generate demand?
- Can we gain advantage?

This list does not claim to be complete, but it intends to give at least an idea about topics which might be crucial

4.2.3.2. Technological factors, trends

Questions which should be reviewed from the company's point of view and with regard to technological factors and trends are, for example:

- Are there trends we can benefit from?
- Do we have innovations which fit an upcoming trend?
- Do we have necessary knowledge in-house?
- Are patents necessary?
- Will our ideas/products generate demand?
- Can we gain advantage?
- How long will it take until competition follows?
- Are there technical solutions for upcoming problems?
- Are there raw material constraints?

This list does not claim to be complete, but it intends to give at least an idea about topics which might be crucial.

4.2.3.3. Economic factors, trends

Questions which should be reviewed from the company's point of view and with regard to economic factors and trends are, for example:

- Are there trends we can benefit from?
- Will we suffer from upcoming economic situations, e.g. bank crisis, loan shortage, etc.?
- Can we gain advantage, e.g. because I don't need loans, through our strong financial situation?
- Can we expect tax increases or new tax regulations?

This list does not claim to be complete, but it intends to give at least an idea about topics which might be crucial.

4.2.3.4. Legal demands and regulations

Questions which should be reviewed from the company's point of view and with regard to future legal demands and regulations are, for example:

- Are there trends we can benefit from?
- Can we offer solutions for new demands?
- Will we suffer from upcoming regulations?
- Do we have innovations which fit upcoming trends and demands?
- Do we have necessary knowledge in-house?
- Can we gain advantage?
- Are there limitations on raw material resources?
- Is protectionism in countries an issue?
- Are there regulations coming up with regard to water and air or other environment pollution?
- Are new standards being generated?

This list does not claim to be complete, but it intends to give at least an idea about topics which might be crucial.

Example

An example from my business experience which shows how a company may benefit or derive a new strategy from changes in the business environments (STEP analysis) is the CO_2 issue. This topic has its impact in the sociological, technological, economic (to a more limited extent) and legal field.

Sociological

The CO_2 issue increased the environmental awareness of consumers and generated a certain pull by the market for more "green" solutions. In this particular case the automotive industry is now asked to develop new solutions for the mobility of people which reduces the impact on the environment. Consequently the electrification of cars which already started a long time ago received increasing momentum. Even 100% electrically powered cars are now developed beside the already existing hybrid cars. In this context legal regulation is now also coming up.

Legal demands and regulations

The legislative bodies in the various countries are now introducing regulations which force or motivate manufacturers and consumers to be more sensible with regard to environmental issues. That means car manufacturers have to fulfil certain technical parameters, otherwise they will not get an official release for sales of their products. On the other hand consumers have to pay more taxes if they buy a more environmentally polluting car. That means the official regulations promote the production and sales of more environmentally friendly cars.

Technology

Car manufacturers are used to dealing with mechanical challenges and solutions. The electrical and electronic topics are currently not really their core competences. That means that the OEMs and partly the Tier 1s are very interested in finding partners which support them in this field. In the electrification of cars you need high performance electric motors and many interfaces between electronics and mechanical components. Every car manufacturer (brand) has its own ideas and approach. That leads to the point that the solutions are mainly not the same and to a certain extent customised.

Now we come to the business opportunity of my company. As you probably remember from earlier examples we are focusing on customised solutions. We have extensive innovative power in-house and the electronic demand which was mentioned before fits exactly into our product portfolio. We are a manufacturer of coils, stroke magnets, etc. and have the needed know how in-house. This situation offered us the opportunity to enter a new market segment. Additionally we could offer new striking solutions for some problems of our customers. Because of the fact that we detected this situation quite early and that we reacted fast, we could gain some competitive advantage.

However the advantage very much depends on the innovative capability of the company because the competition will immediately try to follow into this most probably very fast growing business segment.

4.3. Environment – external topics – blue ocean approach

In this chapter the theory of the blue ocean strategy will be described in more detail and with an example which has been brought up by the developers of this strategy. This description should give the readers more insight into the blue ocean approach and an idea of how this strategy can be applied to one's own business.

4.3.1. Competition – the "Blue Ocean" approach

The term "blue ocean" is new but the business area which is covered by this term is definitely not. This area has always existed and is the basis and origin of all new developments which nobody would have imagined in the past or present. If you look back 50 years or more many industries which nowadays play a major role were unknown, like computer technologies, the software industry, the biotechnology industry, as well as the automotive industry and many more. This is also valid for our future. Today we do not know which industries might play a major role 50 years from now. Possibly there will be some industries which don't exist today or are unknown.

However most of them were in their starting phase acting in a blue ocean where they had practically no competition. When new developments and their benefits were established, competition also entered into the markets. With these developments the structure of the markets and demands of the customers changed as well.

For a certain period of time these areas will remain "blue oceans". After competition is attracted and entering into the newly generated market segments, in my opinion the areas are turned into a so called "red ocean" with the well known definition.

The principle differences between the “blue ocean” strategy and “red ocean” strategy are shown in the following table.

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value-cost trade-off	Break the value-cost trade-off
Align the whole system of a firm’s activities with its strategic choice of differentiation or low cost	Align the whole system of a firm’s activities in pursuit of differentiation and low cost

Table 3 – Red Ocean versus Blue Ocean Strategy [6]

4.3.2. The cornerstone of blue ocean strategy

The authors of the blue ocean strategy were looking for strategies or tools to establish and generate blue oceans by intention and not by accident. For this purpose they analysed companies, industries and markets to find rules on how such markets or successes are generated. Many books have been written in the past about companies which developed sustaining and successful businesses but from today’s point of view it becomes clear that these successes were mostly snap shots from certain periods.

Their intention was to find commonalities in markets or industries to generate blue oceans. The analyses did not deliver the expected results. In the ongoing analysing process of the chosen companies, industries and markets, they finally found a commonality in their approach to strategies. The developers of blue oceans did not use their competitors for benchmarking. They followed a different strategy which the authors call v*alue innovation*.

[6] W. Kim, Renée Mauborgne, Blue Ocean Strategy, 2005 p. 18

How do they define *value innovation*? They say

"Value innovation places equal emphasis on value and innovation" [7]

That means value creation on its own will not be sufficient to stand out in the marketplace for a longer period of time. Innovation without value is usually a technology driven approach which lacks market acceptance and customers which are ready to pay for it. The analyses showed that neither value creation nor innovation alone can lead to a sustainable success.

Value Innovation: The Cornerstone of Blue Ocean Strategy

Value innovation is created in the region where a company's actions favorably affect both its cost structure and its value proposition to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value generates. [8]

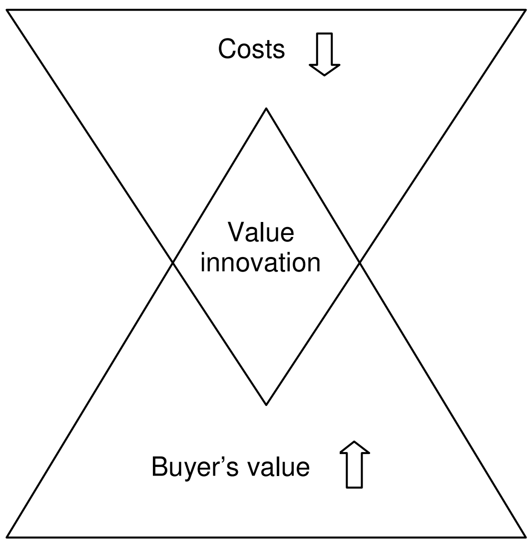

Figure 6 – The Simultaneous Pursuit of Differentiation and Low Cost[9]

[7] Blue Ocean Strategy; W. Kim, Renée Mauborgne, 2005 p. 12
[8] Blue Ocean Strategy; W. Kim, Renée Mauborgne, 2005 p. 16
[9] Blue Ocean Strategy; W. Kim, Renée Mauborgne, 2005 p. 16

The generation of a blue ocean is based on the creation of benefits for customers and the company. The value increase for the customer has to go in line with a cost reduction for the company. The success for the company depends on the cost structure and selling price.

On the other hand the benefit for the customer depends on the additional value offered by the company at an affordable price.

4.3.3. Analytical tools and frameworks

The authors of the blue ocean strategy spent quite some time on developing a set of tools which should enable companies to formulate and execute blue ocean strategies in a systematic approach as they do in the red ocean field. At the same time these tools should also help to reduce the risk.

4.3.3.1. Strategy canvas

The developed tool of strategy canvas (see Figure 7) is at the same time a diagnostic and an action framework for developing blue ocean strategies. It covers two purposes. First, it describes the current situation of the known market. Based on this description you can determine in which areas the competition is currently investing and the factors where the competition in products and services is currently taking place. The horizontal axis captures the range of factors the industry competes in and is investing in. The vertical axis indicates the level of benefits the purchaser gains at these competition factors. Competition factors are for example price, customer services, features, customer benefits, etc.. The higher the value, the higher is the benefit the buyer receives. Usually the higher benefit of the customer goes in line with higher investments into this factor by the particular company and vice versa. Based on the various industry-typical factors, the value curve (strategy canvas) is a graphic description of the company's own performance in comparison with the competition.

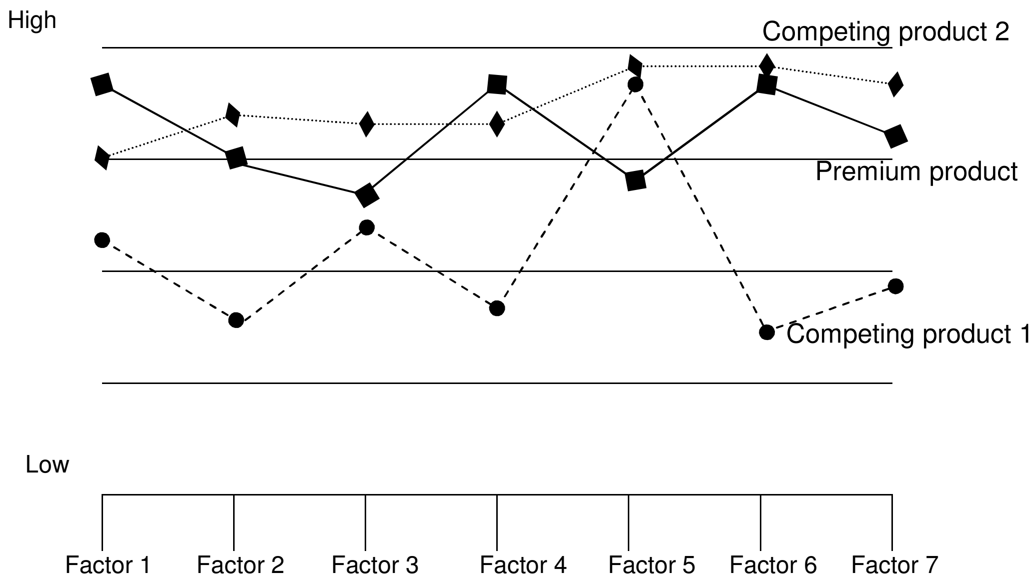

Figure 7 – Strategy Canvas

With this strategy canvas the companies are enabled to visualise the present and the future situation. To achieve this, companies need to know how to read these curves. However in the process of deciding changes it is also necessary to consider besides the value curves the current situation of the company in the market place and its business strategy for the future.

- **A blue ocean strategy**
  A company operates in a blue ocean when its value curve meets the three criteria that define a good blue ocean strategy—focus, divergence, and a compelling tagline that speaks to the market. If there is too little focus in the value curve the cost structure of the company might be too high and the business model too complex.

- **A company caught in the red ocean**
  When a company's value curve converges (see Factor 3 in Figure 7) with its competitors the company is most probably acting in a red ocean. It is trying to outperform its competitors on price and quality in particular areas. The growth of business is most probably not due to the company's strategy.

- **Over-delivery without payback**

  When a company's value curve on the strategy canvas is delivering high values on all factors the question has to be raised: Is the company's market share reflecting these investments? In this case it might be that the customer is not paying enough for the received benefits (e.g. competing product 2 in Figure 7).

- **An incoherent strategy**

  When a company's value curve shows many up and down jumps it is an indication of an incoherent business strategy. In this case the business strategy might be based on several independent sub strategies which are not really efficient for the company.

- **Strategic contradictions**

  A strategic contradiction means that a company is in some points (factors) excellent but ignores at the same time some supportive factors which are essential for the excellent ones (for example see Factor 5 in Figure 7) . That means the company is harming its own success.

- **An internally driven company**

  Depending on the terminology used in defining the competitive factors you can detect if a company's strategic vision is built on an "outside-in" or an "inside-out" perspective.

"Outside-in" means the buyer's demand will be considered and the communication is understandable for him. "Inside-out" means the company uses its internal specialised language which is not necessarily understood by the buyers.

Example:

The authors of the blue ocean strategy based their explanations on three real examples: Southwest Airlines, Yellow Tail Wine and Cirque du Soleil in the circus industry. I chose Cirque du Soleil (see Figure 8) as an example for this thesis because I believe it shows best the blue ocean approach or strategy, and a circus is something everybody enjoys.

The strategic curve of the Cirque du Soleil shows the differences in the value curve in comparison to Ringling Bros. and Barnum & Bailey (one of the biggest circuses) and smaller regional circuses. Cirque du Soleil reduced the factors of competition by skipping many of the cost drivers like animals, expensive stars, aisle concessions and multiple show areas. These are usually the key areas of a circus and also the areas where the competition takes place. On the contrary, they increase the value of entertainment for their customers by extending the level of uniqueness and the introduction of new innovative attractions. With this strategy Cirque du Soleil was able to generate a blue ocean. None of the competitors was at that time offering a comparable programme and entertainment. Based on this innovative strategy Cirque du Soleil was also able to ask for higher prices for the tickets which increased the profitability of the company.

Cirque du Soleil

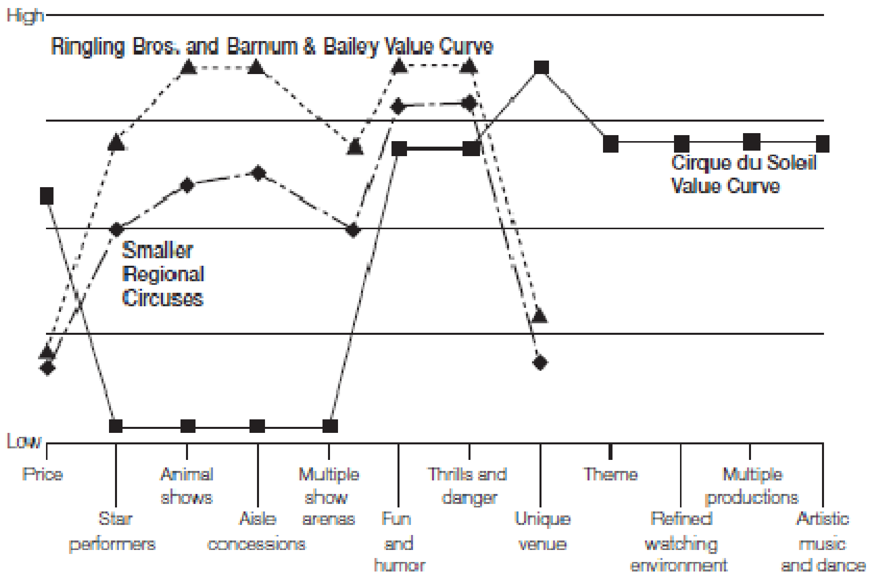

Figure 8 – Strategy Canvas of Cirque du Soleil[10]

[10] Blue Ocean Strategy; W. Kim, Renée Mauborgne, 2005 p.40

4.3.3.2. The four action framework

To establish a new value curve the company has to reconstruct the buyer's value elements. For this reason the authors of the blue ocean strategy developed the *four action framework*. As shown in Figure 9, to generate a new value curve it is necessary to answer four key questions to challenge an industry's approach and the corresponding business model.

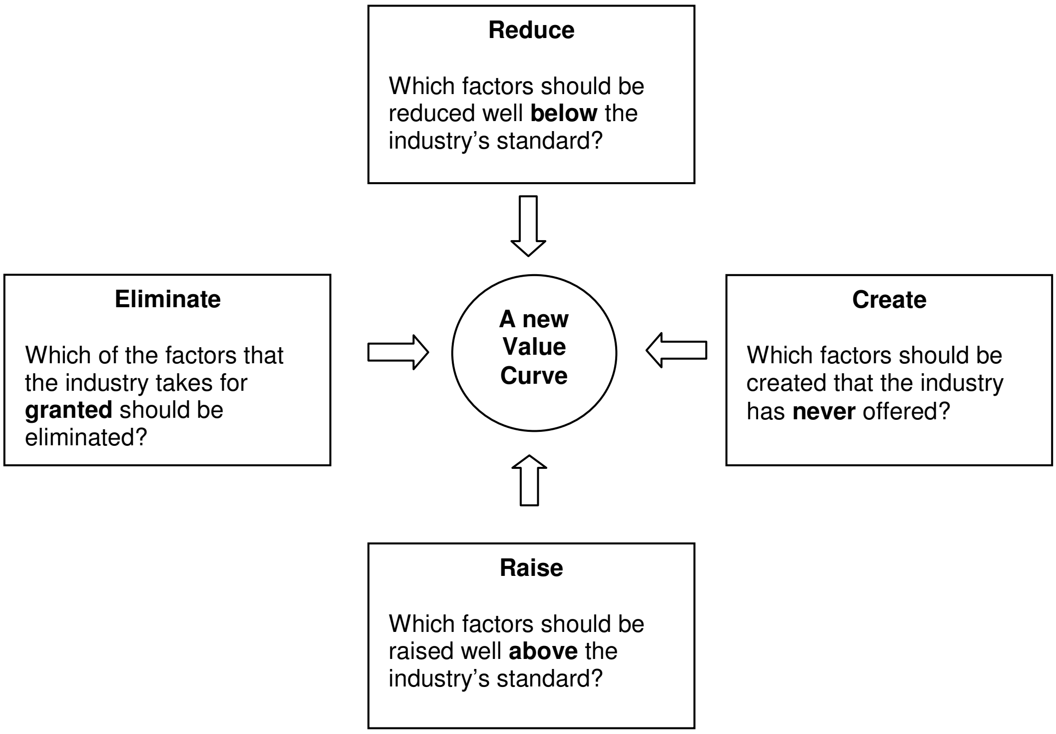

Figure 9 – Four action framework[11]

What is the background or reason for these questions? These questions are intended to challenge the decision makers. In many industry areas the companies have been competing for a long time without questioning if all the factors which are considered important are still valid. Sometimes the buyer's demands have changed without being acknowledged by the competing industry.

[11] Blue Ocean Strategy; W. Kim, Renée Mauborgne, 2005

- **Reduce**

  Which factors should be reduced well below the industry's standard? This question should motivate the management to think about whether products or services have been overdesigned. This overdesigning may end up in increased structural cost which cannot be recovered in the market and results in disadvantages for the company

- **Eliminate**

  Which of the factors that the industry takes for granted should be eliminated? This question forces the management to reconsider factors in which the industry has already competed for a long time. Quite often factors are taken for granted which have already lost validity.

- **Raise**

  Which factors should be raised well above the industry's standard? This question is intended to uncover and eliminate factors which are forcing customers to make compromises.

- **Create**

  Which factors should be created that the industry has never offered? This question should motivate the deciding management to discover entirely new sources of value and to create new demands for buyers.

The first two questions are intended to motivate the management to look into the business or industry to identify possibilities to reduce costs in comparison to the competition. In contrast the second two questions are posed to inspire decision makers to rethink the possibilities for increasing the value for customers and to create new demands.

Example:

The four action framework for the Cirque du Soleil looks as follows:

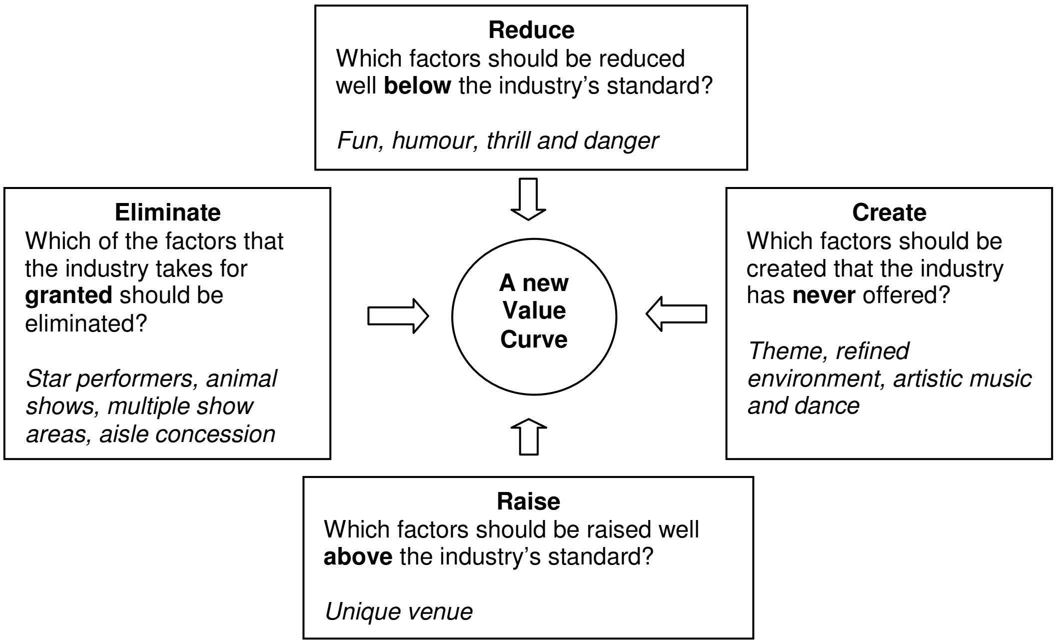

Figure 10 – Four action framework applied to the Cirque du Soleil case

4.3.3.3. The eliminate-reduce-raise-create grid

The third tool (see Figure 11) which has been developed is seen as key for creation of blue oceans. It is a supplementary analytical tool to the four action framework. This grid does not just ask questions, it also demands answers on how to act on and to fill in the four areas.

Eliminate ………. ……….	**Raise** ……… ………
Reduce ……… ………	**Create** …….. ……..

Figure 11 – Eliminate-Reduce-Raise-Create Grid

This grid supports the companies in four areas:

- It forces the companies to consider differentiation and low costs to break the value-cost trade-off.
- It uncovers cost structures which are generated by just extending and creating products and services.
- It is easily understood and creates high engagement at all levels of management.
- Completing this grid is a challenging task for the management. At the same time it visualises all factors in which the industry is competing and enables the management to make its assumptions.

Example:

For Cirque du Soleil the eliminate-reduce-raise-create grid looks as follows:

Eliminate	Raise
Star performers Animal shows Aisle concession sales Multiple show arenas	Unique venue
Reduce	**Create**
Fun and humor Thrill and danger	Theme Refined environment Multiple productions Artistic music and dance

Figure 12 – Eliminate-Reduce-Raise-Create Grid for Cirque du Soleil[12]

4.3.3.4. Three characteristics of a good strategy (blue ocean)

Focus

Every good strategy should have a clear focus and profile which is clearly shown by the value curve.

[12] Blue Ocean Strategy; W. Kim, Renée Mauborgne, 2005 p.35

Divergence

If a company's strategy is reactive it loses its uniqueness and is just keeping up with its competitors. In contrast a blue ocean strategy always will try to be different. By applying the four actions – reducing, eliminating, raising and creating – the company's profile will be differentiated from the general industry's profile.

Compelling tagline

Every great strategy has a clear borderline and compelling tagline.

4.3.4. Definition of a "Blue Ocean" strategy

After the data collection process has been completed the data will be analysed and the results will be used for the strategy development (see Figure 13). The analysis and the strategy development will be performed with the described tools.

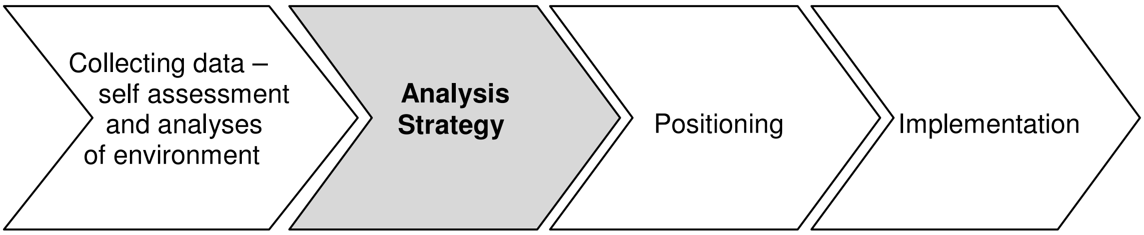

Figure 13 – Process – Analysis, Strategy blue ocean approach

This definition of a blue ocean strategy follows the principles briefly described below.

4.3.4.1. Reconstruction of market boundaries

The first principle for capturing blue oceans is to change the market boundaries to separate from the current competition.

There are several ways to reconstruct the market boundaries and to generate blue oceans. In their research work the authors discovered more or less six paths in this context.

Path 1: Look across alternative industries

Companies are not only competing with companies in the same industries but also with companies in industries which are manufacturing and delivering alternative products or services. Alternatives in that sense have broader application than substitutes. Substitutes may differentiate in forms but offer

the same functionality. Alternatives include solutions which may have different functions and forms but serve the same purpose (e.g. computer writing SW versus paper and pencil).

Path 2: Look across strategic groups within the industry

In most industries companies review themselves within defined groups. In these groups it is anticipated that companies have more or less the same strategic approach and therefore they are the closest competitors (e.g. luxury car segment).

Path 3: Look across the chain of buyers

In most industries or strategic groups of industries the competitors concentrate on a commonly defined group of buyers. However, usually there are more instances directly or indirectly involved in the purchasing process. In many cases the purchaser who pays for the product will differ from the user of the product which again can be influenced by somebody else. The user and possibly the influencer can have a significant influence on the purchasing decision. All these groups should be considered in the strategy.

Path 4: Look across complementary product and service offerings

Undiscovered value is often hidden in complementary products and services. The key may be to refine the total solution the customer is searching for. In this case it can help to review the customer decision process from the point of view of what happens before, during and after products are used. In this case a simple example may be – a very nice shop with unique products but difficult to reach because there are no car parking places.

Path 5: Look across functional or emotional appeal to buyers

In many industries the company's competition is either function driven or emotion driven. In this context it might be a promising strategy for a function driven product to consider a more emotional approach or vice versa. (e.g. Apple iPhone, iPod etc.)

Path 6: Look across time

All industries are influenced by trends over the time. Looking and anticipating such trends with the right perspective can disclose opportunities for generating blue oceans.

4.3.4.2. Focus on the big picture, not on numbers

As described by the authors of "Blue Ocean Strategy" the second principle focuses on the big picture and not on numbers. This principle is key to reducing the planning risk of investing lots of effort and time but delivering just red ocean moves.

With the strategy canvas the current situation of the company, the industry environment and the competition will be visualised. By analysing the competition and industry by reconstructing the boundaries with the six paths approach, the profiles of the competitors will become clearer. With the listing and valuing of the factors of the company and its close competitors, the necessary investments and actions will be visualised. All these analyses and reviews lead to the big picture.

4.3.4.3. Reach beyond existing demand

The key component of achieving value innovation is at the same time the third principle of blue ocean strategy - reach beyond existing demand.

To achieve this, companies have to act in two directions. First they have to focus more on the existing customer. That means that the company should try to enlarge the share of supplies among existing customers. Secondly it should look for finer segmentation to meet more exactly the customers' demand.

A third group of customers which can increase the demand are the so called non customers. By analysing and observing the non customers the company can detect new demands.

The authors divided this big group of non customers into three tiers which might be attracted as customers. The tier number says something about the distance from the company's offer.

First tier are non customers who are at the edge of the company's market or area of offers and are waiting to jump in or out, thereby generating minor business at the company. This group of customers is very often looking for more valuable offer which they have not found yet. If the company identifies the missing point it can attract and win these customers.

Second tier are non customers who know the offers of the industry and see them as an option for sourcing but at the particular time are for some reason not interested in purchasing from these companies. One quite common reason could be that the possible customer has already sufficient suppliers for the particular product or service.

Third tier are non customers who are farthest from the company's market or offer, so far that they never thought about the offers of this industry.

It does not matter on which tier the company focuses, but it should be the group with the most promising chances to get them as customers and to increase demands.

4.3.4.4. Get the strategic sequence right

The company has looked across the paths to discover possible blue oceans. With the strategy canvas the blue ocean strategy has been visualised, and the market analyses delivered some interesting business opportunities as well as buyers and customers.

Now the next challenge is to build a sustainable business model to ensure the success in the blue ocean idea. This leads to the fourth principle of blue ocean strategy: get the strategic sequence right.

The following four questions are the strategic sequence for validating the commercial viability of the blue ocean idea.

Buyer utility – Is there an exceptional buyer utility in the company's business idea?

Price – Is the price of the product or service easily accessible to the mass of buyers?

Cost – Can the company attain the cost target to profit at the strategic price?

Adoption – What are the adoption hurdles in realising the business idea? Is the company addressing them up front?

If all these questions are answered positively, the blue ocean idea is viable.

4.3.5. Key success factors

The strategy canvas is a very powerful diagnostic tool and an action framework for building a blue ocean strategy.

The approach to create additional demand for the company by looking beyond the boundaries of the current market and offers and by focusing on non customer groups is definitely a key success factor in addition to the diagnostic and action framework.

Developing and entering new markets is always linked with certain risks. The practice of six paths, which has been developed in the context of the reconstruction of market boundaries, is a crucial and a supportive approach to make the risk visible.

4.4. SWOT (strength (S), weakness (W), opportunity (O), threats (T)) analysis

With the information gained in the self assessment and the environmental analyses, a SWOT analysis will be performed. This analysis summarises the strengths, weaknesses, opportunities and threats of the company and visualises them. This is a good tool for preparing the ground for new strategic decisions.

	positive	negative
internal	**Strengths** Internal capabilities which the company can use to achieve competitive advantage and its objectives	**Weaknesses** Internal limitations which may hold back the development of the company
external	**Opportunitie**s Are chances in the market for the company to grow and expand its business	**Threats** External factors which may endanger and limit the growth of the company

Figure 14 – SWOT analysis frame

4.5. Company strategy

The next logical step after data collection is the analysis of them and based on the results the development of the company strategy (see Figure 15).

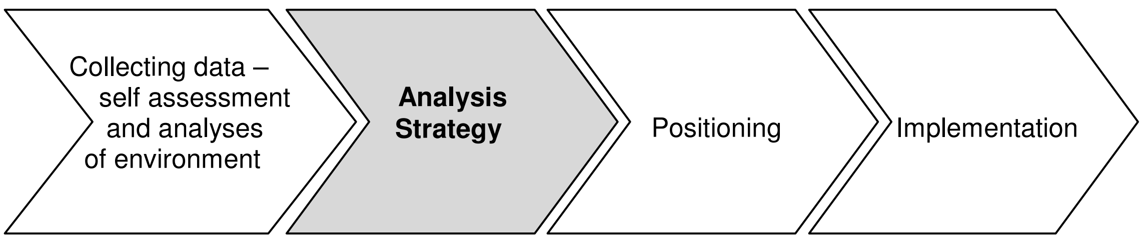

Figure 15 – Process – Analysis, Strategy common approach

In this chapter we will describe some tools for strategy development in defined markets.

4.5.1. Porter's generic strategy

Every company strategy is customised to the circumstances and structure of the particular company and is insofar to a certain extent a unique strategy. However, Porter identified above all these dedicated strategies three internally consistent generic strategies which can be used on their own or in combination to defend a position. These three generic strategies or approaches to the market are

- overall cost leadership
- differentiation
- focus

By using these strategies the company can, based on its potential and performance, defend its market position and outperform its competition.

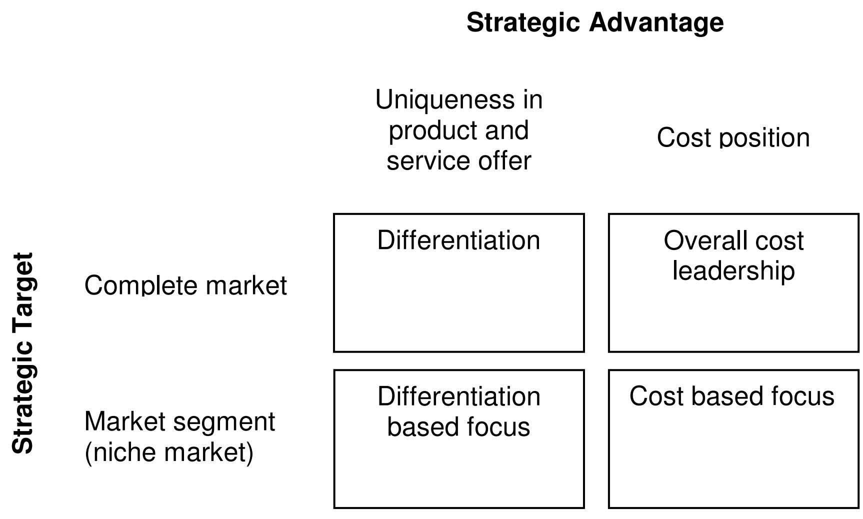

Figure 16 – Generic strategy [13]

[13] Michael E. Porter, Competitive Strategy, Free Press, 1980

Overall cost leadership

This is a very strong and sustainable strategy to gain and defend the market position. Usually it is based on cost leadership in high volume production and consequently relatively high market share. To maintain such a strategy requires continuous strict cost management in the whole production process - from purchasing to production, from company organisation and structure to sales and service. This is a quite costly process which pays off if the target is achieved or maintained. If this strategy is chosen for market entry it means that the company needs to have a very healthy economic structure to survive the introduction phase. The financial strength has to be available until cost leadership is achieved, otherwise the entry process will fail.

Differentiation

This strategy focuses on the differentiation of the products and services in comparison with the rest of the market. This differentiation can be technological, by design, brand name, features, services offered, quality, availability on the market (distribution) or any other distinction which is visible and can be communicated.
Differentiation which is accepted by the customers gives the company the freedom to ask a premium for its product which again means higher margins. In addition it helps to defend the achieved position because of characteristics which are not easy to copy or to substitute.

Focus

The third of these strategies is to focus on a defined market segment or target customer group. This means that the products or services offered are aligned to the specific demands of the target market or customer group. With this focus the company can gain an advantage over its competitors, especially a cost advantage (which does not mean cost leadership) compared to other companies.

Example:

Because of the size of the company and the current market share we chose a combination of the two strategies of differentiation and focus. The strategy of cost leadership which we would have preferred was from the structure and position point of view not viable. The company was too small, not a high volume producer and had much bigger competitors.

Our focus was innovation to offer unique solutions to our customers with excellent service. That means we were ready to support our customers from the development point until the high volume production of a product.
This means a higher effort in the R&D department which in return pays back in acceptance from the customer side. If we are successful with our approach our customer also gains advantages on his customer side:

- relation strengthened
- partnership not just supplier relationship
- status as expert with special know how others cannot offer

4.5.2. Porter's five forces[14] (structural analysis)

The competitive strategy of a company very much depends on its environment. Such environmental influences can be the industrial structure in which the company acts, social and economical circumstances and the capabilities of its competitors. Depending on the structure of the industry the intensity of the forces which affect companies may vary very much, e.g. typically high or very low returns. To describe and analyse the market field, Porter introduced the model of five forces:

- purchasing power
- supplier power
- competitive rivalry
- threat of substitution
- threat of new entry

[14] Michael E. Porter, Competitive Strategy, Free Press 1980

This model can be used to understand the interaction and threats of the industry the company is in. It can be used to estimate the opportunities and develop strategies to survive in this market field.

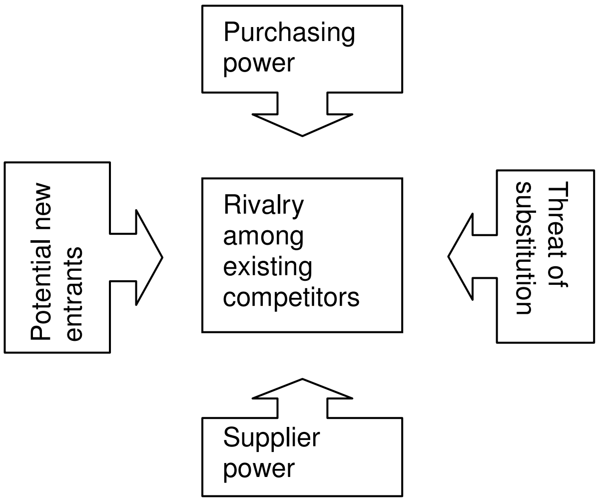

Figure 17 – Five forces [15]

Purchasing power	the customers are much bigger and consequently they have much bigger purchasing power or purchased products are easy to replace by other suppliers, etc.
Supplier power	the supplier offers a unique component, service or raw material which cannot easily be replaced, etc.
Potential new entrants	the entry barriers in this market segment are substantial or not; power of resistance of the established companies, etc.
Threat of substitution	the service or product offered in this market segment can be replaced by another technical solution or service; products are substituted by more competitive price/performance offers, etc.

[15] Michael E. Porter, Competitive Strategy, Free Press 1980

Example:

A company which deals with customised inductive components faces in its current (ancestral) market places increasing competition and is losing market share through heavy price competition. Big competitors who have in the past not focused on this market segment are now also entering. To avoid and escape the competition to a certain extent, the company decides to move to a more interesting new field which is on the one hand still very competitive but gives much more opportunity for differentiation based on technical issues and innovation power. These “five forces” are a useful tool to analyse the environmental situation in this market segment. This pictogram helps to visualise the threats and opportunities.

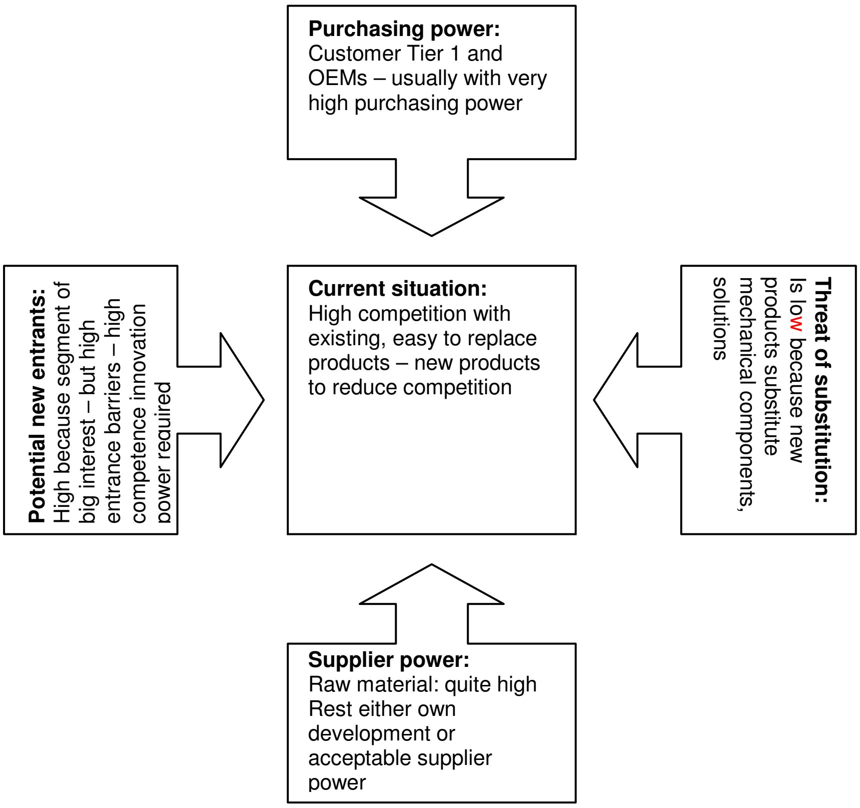

Figure 18 – Porter’s five forces applied

This illustration describes the competitive environment for this particular business. The assumption of this review is that this market segment offers new business opportunities on the one hand but demands high product and quality competences on the other hand from the supplier. The strategy of the company, according to this review, is to invest in its competences and innovation power in order to be ahead of the competition. As soon as it has captured a new customer it will have a long term business relationship because of the high entrance barriers which not every competitor can easily pass. In the decision-finding process the entry barriers need to be reviewed in two directions. One direction is how high the entry barriers are for our business and secondly how high they will be for our subsequent competitors.

4.5.3. Ansoff Matrix

The matrix, named after its developer Igor Ansoff, supports the strategy development. However it is in itself not a recipe or strategy but visualizes the growth possibilities with regard to products and markets. The matrix provides generally speaking four growth areas.

		Markets	
		Current	New
Products	Current	Market penetration	Expansion
	New	Product development	Diversification

Figure 19 – Ansoff Matrix [16]

Penetration	stands for a growth scenario with existing products within the current market or to grow with the current market
Expansion	means developing new markets with existing products
Product development	means growth with new products within current markets
Diversification	means new products in new markets

[16] Ansoff 1965

This matrix concentrates on markets and products. Strategies developed from this matrix become more risky the more they move away from current markets and products and therefore also away from current competences.

4.5.4. Portfolio analysis

The original portfolio approach was introduced by Markowitz (1952) [17]– in the field of finance. In 1970 the Boston Consulting Group (BCG) managed to apply this approach to the analysis of chance and risk of current and future products on the market. Since this time this analysis is often called the BCG portfolio. It displays the market position of products or services with respect to market growth and market share.

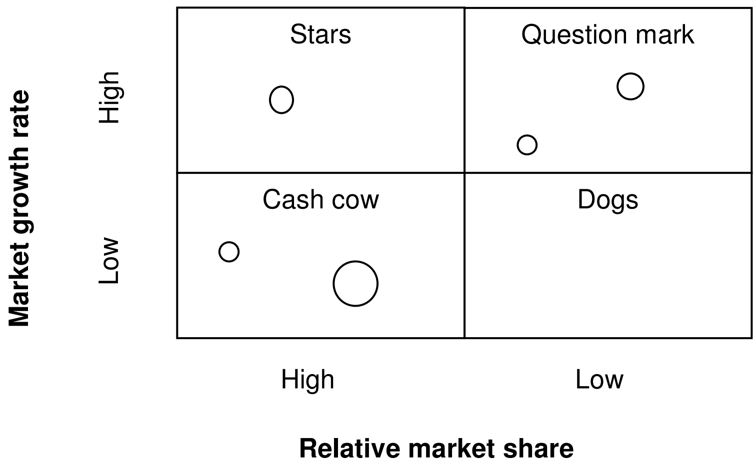

Figure 20 – Portfolio analysis

With this portfolio matrix the company can visualize the position and the status of a product and its business potential. Based on this matrix the company can take product and development decisions. The products are usually displayed in circles whereby the size of the circle indicates the current business volume of the product. The position of the circle tells something about the life cycle position of the product.

Cash cow – Products in this segment show low growth but high market share. With low investment, these products generate a lot of profit which can

[17] Internet; URL; http://wirtschaftslexikon.gabler.de/Archiv/54810/portfolio-analyse-v7.html vom. 03.12.2010 23:41

be re-invested in new activities. Every company needs such products to earn the money for new products or businesses.

Stars – Products in this segment have high market share in a fast growing market. Usually such products still need high investment to finance their growth with the aim of being developed into cash cows.

Question marks – Products in this segment demonstrate high growth potential but low market share. These products need very high investment to keep or expand market share. In this case the management has to decide if the product is worth the investment and can be developed into a star or it needs to be stopped and phased out

Dogs – Products in this segment are in a slow growing market with a low market share. These products may pay for themselves but do not generate additional cash for other investments.

4.6. Market segmentation[18] (part of STP concept)

STP stands for segmentation (S), Targeting (T) and positioning (P)

In this chapter we will review the process for the positioning in the market. The segmentation of the market and the selection of a segment deliver the necessary focus for an effective market approach (targeting and positioning).

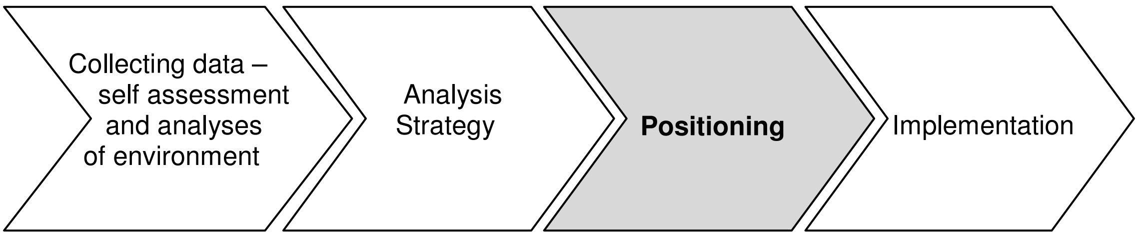

Figure 21 – Process – Positioning

[18] The chapter 4.6 is based on Principles of Marketing, Philip Kotler, 2008, Pearson Education Int. Pp 185

Markets consist of buyers, and buyers differ in one or more ways. They may differ in their wants, resources, location, buying attitudes and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. There can be segmented consumer markets, business markets, international markets, etc. In this case we will focus on business markets. In essence, the differences are not so significant. The real difference is in the details.

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. The objective of market segmentation is to analyse the market and to target niches and business opportunities which have not been addressed so far or can be addressed in a more focused manner.

The major variables for consumer market segmentation are geographic, demographic, psychographic (less important in B2B) and behavioural. As already mentioned above, there is no limitation or restriction on variables and the level of detail.

Geographic segmentation

This means dividing the market into these different geographical areas, among others

- continents,
- nations,
- regions,
- states,
- cities or even neighbourhoods

Demographic segmentation

(from my perspective not so important for B2B relations) In this case the markets are segmented according to such variables as these.

- age
- gender
- income
- size of household
- education
- religion
- race
- nationality etc.

Psychographic segmentation

- social class
- life style
- personality traits, etc.

Behavioural segmentation

- purchasing decision
- product loyalty
- usage oriented
- design oriented, etc.

In the B2B environment, segmentation has the same background but will be slightly different and not so related to individual performance. Instead, segmentation will be based on variables of geography, industrial organisation, company parameters, product application, product area and benefits.

Segmentation by **industry**

- automotive industry
- telecommunications
- power supply
- lighting, etc.

Segmentation according to **company parameters**

- company size (e.g. turnover)
- purchasing volume
- purchasing power
- product, material demand
- location

Segmentation according to **applications** and **product areas** are from my point of view very effective types of segmentation in the B2B area because in this way you can allocate certain segments to the company-related product portfolio. On the one hand this enables the company to evaluate the importance and potential of a certain product group and on the other hand the communication strategy can be more efficiently organised.

The application and product orientation is of course in many cases very much industry related but can also divert from it. For example many applications are used in various industrial fields such that segmentation according to applications may easily generate new business opportunities. In the ideal case the newly detected segments will not generate additional development activities and costs. In some cases slight adaptation might possibly be sufficient.

Segmentation according to **benefits**

- purchasing behaviour (e.g. decision finding process)
- focus in purchasing (e.g. just low price, fast delivery etc.)
- service oriented, etc.

Through segmentation of the market the company gets better and more detailed knowledge about its customers and their more specific demands. The division separates the market into more or less defined groups of potential customers who have similar needs and demands. This enables the company to generate a more target oriented and focused marketing strategy. The various segments can be approached with offers especially customised for their demands or anticipated demands. The risk of spending marketing budgets for wrong target groups will be reduced. Marketing communication and activities may be performed more cost effectively.

To achieve useful results and information the relevant market for segmentation must be defined. This is in many cases not so easy but has a big impact on the quality of data which are generated at the end. This market should not be defined too narrowly or too extensively.

Effective market segmentation also demands that the defined segments are

- measurable
- accessible
- differentiable
- substantial
- actionable

Otherwise segmentation will be an academic exercise without practical value for companies and their business activities.

4.7. Targeting (part of STP concept)

Market segmentation has been performed with the intention of identifying new interesting segments where it is worthwhile to develop and to invest. Based on the results of the segmentation the management has to decide which segment or segments seem interesting for the company from its product and service portfolio point of view.

The criteria for selection may be of quantitative or qualitative nature. The market information should be reviewed with a critical eye, because the accuracy of the data may not always be high. This is may be especially valid for quantitative information.

Most companies consider the following points for the selection of their target markets.

- segment size
- segment growth potential
- anticipated profitability
- company objectives and resources
- policy to achieve higher sales and strengthen the company position
- product variability
- the stage in the product life cycle
- geographical aspects (e.g. if the customer acts on a global basis it may also be recommendable for the supplier to consider the same approach or to satisfy demand in regions currently not covered)
- strategy of the competition, etc.

As soon as one or more segments have been chosen the next step should be discussed and entered.

Example:

In our regular monitoring process we found several years ago a segment which had already been growing for a certain time and which will definitely grow in the years to come: the electronic content in cars manufactured by the automotive industry. At this particular time we did not really give serious consideration to this market segment.

Because of the increasing electronic content in cars which goes hand in hand with new applications we decided that this growing market segment was worth our attention and participation. We were aware that this segment was (and still is) very demanding and competitive.

The volume of electronics being designed into the modern car has grown tremendously over the years. In the year 2000 the electronics content in a mid-sized car accounted for some 20% of its cost. Currently around 90% of innovations in new cars are electric or electronic based, with global industry analysts forecasting that by 2010 electronic content will account for 40% of the cost of a typical mid-sized car. The growth of the electronic content may even accelerate until 2015 because normal gasoline-driven cars may develop via hybrid cars into completely electric-driven cars. In the hybrid and even to a higher extent in the electric cars many additional applications will be electronically solved.

The decision to enter this market segment was mainly based on the following considerations:

Advantages

- tremendous segment size
- big growth potential
- sustainable business with acceptable profit expectations
- convergence with our product portfolio
- in line with company objectives
- opportunities for diversification

Anticipated challenges

- investment necessary
- entry will take some time
- requiring a stable supplier structure, etc.

4.8. Positioning (part of STP concept)

“Products are created in the factory, but brands are created in the mind” [19]says a positioning expert. This is for sure a statement which originates in the consumer market but is to a certain extent also valid for B2B products and business relationships.

[19] Principles of Marketing 12e, Philip Kotler, 2008, p203

It is vital to understand the customer's needs and to offer the corresponding services, products or support. If you are a reliable and competent supplier the customer will remember you and try to continue the business relationship. However, all competitors will try to serve the customer best.

In the analysis process the company can identify some competitive advantages which customers will value. These differentiating advantages should consequently be used for the positioning of the company. The differentiation can be achieved either with respect to the product or to the services offered to the customers.

The differentiations / competitive advantages may be identified as follows:

- product characteristics
- product features
- product innovations
- quality
- customer support
- reliability
- flexibility
- reactivity
- innovative solutions, etc

The crucial point in the positioning and communication strategy is that the company keeps its promising product features or services and delivers them on a regular basis.

Based on the identified strengths, weaknesses and competitive advantages the company shall define its positioning strategy.

According to Porter various options for a positioning strategy are available. Based on its performance, the company may position itself in one of these roles:

- technology leader
- overall cost leadership
- niche player

The newer classification strategy of Micheal Treacy and Fred Wiersma offers further options for positioning strategy [20]

- operational excellence
- customer intimacy
- product leadership

Because the world is not just black and white, the strategy might also be a mixture of the before-mentioned options.

Possible value proposition

Figure 22 – Possible value proposition [21]

- **More for more** positioning means that the company can ask a higher price for the additional benefit

- **More for the same** positioning means the customer gets more for the same price.

[20] Philip Kotler, Principles of Marketing 12e, p. 524
[21] Kotler, Principles of Marketing, p. 208

- **More for less** positioning means the customer gets more for an even lower price.

- **The same for less** positioning means the customer gets the same for a lower price.

- **Less for much less** positioning means the customer gets less for a much lower price.

Example

In our particular case the products are customised inductive components. Many companies are able to manufacture such products with a certain quality level. It is very difficult to differentiate at the level of product. Of course here are also opportunities for differentiation but to a certain extent these differentiations are quite narrow and again are based on service issues. In our investigation we got the feedback from our customers that in comparison to the competition they liked most our development supports, flexibility and reactivity. Elements such as quality, customer support and product reliability are expected anyway and not seen as features for differentiation.

Based on this information we finally decided to position ourselves in the automotive components supplier industry as a partner which is ready to deliver innovative support including prototype manufacturing to its customer, starting in a very early development phase with the view to be also chosen as supplier for high volume production.

This strategy bears quite some risk because co-operation in the development phase usually does not mean that you also get the contract for the mass production and it can take quite a long time from the development to the serial production. In this case we are not talking about weeks or months. We are talking about years. However if the customer is satisfied with the service he will to a very high extent be ready to continue the relationship in the serial production. On the other hand the development partner also gains additional knowledge which is of high value for both partners and can be seen as motivation for ongoing co-operation.

With regard to the before-mentioned strategy option I would see our approach as a combination in the fields of customer intimacy combined with technology and product leadership.

Because of the heavy competition and purchasing power of the customers, the price positioning will fall in the field of "more for the same price" and in some cases "more for more".

4.9. Risk estimation

In addition to all the evaluation described above the risk also needs to be evaluated and quantified. I will not enter into details on this topic but it is essential to include this point in order to complete the picture.

There are at least two big risk groups.

Operational risks are factors which arise with the company's operation and may include the following:

- infrastructure
- factory
- factory location
- manufacturing equipment
- skilled people
- unexpected losses
- raw material
- force majeure
- partners
- supplier

Strategic risks are factors in line with strategic decisions and include as follows:

- incorrect decisions
- wrong expectations
- financial impacts (too high investment)
- political changes

5. Entering a market

After data collection, analysis, strategy development, market segmentation and positioning is the next phase in the process the implementation and entering a new attractive market (see Figure 23).

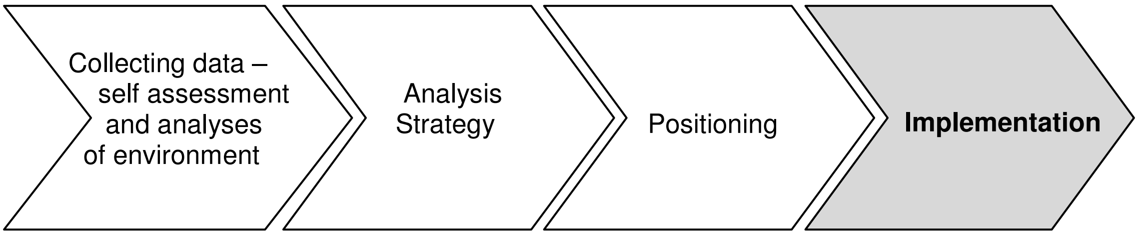

Figure 23 – Process – Implementation

With the decision to enter a new attractive market segment, regardless of what type of segmentation you choose you will analyse the opportunities and equally important the so called entry barriers. The awareness about the entry barriers and a strategy for overcoming them is crucial for success in this new market. The competition definitely will use and extend the existing barriers to avoid the entry of a new competitor.

5.1. Geographic new market

As soon as you have identified a new attractive market segment you a have to develop a strategy for entering into this market. The strategy very much depends on the nature of the new market. If you decide to tackle e.g. a new geographic area or segment the options are:

- to do it with one's **own operation** like a subsidiary or even a manufacturing place
- to enter into a **joint venture** with an already established company which is familiar with the new market
- to **licence** the production and sales of your products
- to **export** your product or service to the dedicated market

The choice of the strategy is very much dependent on the circumstances which have been identified in the target market.

5.2. New market segment

The strategy for a newly detected market segment might be different from the effort and approach point of view. Here the strategy is very much dependent on whether you can start with this new offer with existing customers or whether you have to generate awareness in completely new areas or segments.

If you are able to start with the new offer with existing customers you can take the success with these customers as a springboard for approaching new customers in this new market segment. In another case where you have no connections or relationships at the very beginning, the starting point will be generating awareness for the new product and service. This approach usually will be more costly and a longer lasting process. In the professional B2B field the first marketing concepts will mainly focus on direct marketing, which from my point of view in the B2B are most effective. In the consumer area which I am not addressing here you have to develop concepts with marketing tools which have a wider coverage and which might not be so focused.

5.3. New customer segment

For a new customer base the approach will not differ so much from the already described activities for new market segments. However here you most probably will miss the opportunity to use existing customers as a point of reference. In this case the marketing and entry concept must be very clearly adapted for the target group.

6. Concept for success

As already mentioned, at the very beginning it is crucial to execute the identification and the preparation for entering new markets in a very careful and detailed manner.

The **self assessment** should be performed in great detail and without time pressure. The process and themes for the self assessment (see Chapter 4.1) should be adapted to the company's situation. One of the very important points is to find the real key competences and not to define competences as key which at first glance seem so or which the company would like to have. To avoid these pitfalls the core competences should be checked according to the parameters which are described in Chapter 4.1.1.

The results of the self assessment should regularly be reviewed for validity.

The results should be communicated within the company so far as this is advisable (e.g. confidential information may only be communicated to entitled people). The reason for communication is to get all people from top management down to the blue collar worker committed to bringing the company forward. If you inform employees they usually feel involved and are more ready to make a special effort to achieve the company targets. Internal communication is beside smart management a very crucial point for success.

The same is valid for all the findings in the **environmental analysis** (see Chapter 4.2 and 4.3).

It is vital to develop a vision and mission if it does not already exist. Everybody in the company should know this vision and mission and the reasons and actions behind it.

As soon as the strategy is defined all employees should be informed. The top management, the middle management and the people in leading functions have to commit to supporting this developed strategy. If the commitment in the company is missing, success is very much in question.

As soon as the implementation of the strategy with regard to tackling and entering the new market starts, the required resources should be allocated by the management, otherwise the process is killed before it has started. The strategy for and decisions on what and how things need to be done have to come from the management top down. Even if the ideas are generated in other levels, the top down approach gives confidence and shows the commitment of the management. Additionally the empowerment of people at the operational levels is very important.

The major steps for a successful identification of new market segments are as follows:

Step 1 - Data collection				**Chapter**
	Know your company and its capabilities			
		Process - self assessment		4.1
			What are your core competences?	4.1.1
			What are your unique selling propositions?	4.1.2
			What is your economic and technological situation?	4.1.3
			What are your resources and capacities?	4.1.4
			What is your innovation potential?	4.1.4
			Listen to your employees, involve them	
	Know your market			4.2.3
		Process - environmental assessment		
			Who are your customers and why?	4.2.2
			What are the market trends?	4.2.3
			Are there substitutes for your products and services?	4.2.3.2
			Be alert to economic changes	4.2.3.3
			Be alert to legal changes and new regulations	4.2.3.4
	Know your competition			4.2.1
		Process - environmental assessment		
			Who are your competitors?	
			What are their objectives?	
			What is their strategy?	
			What are their strengths and weaknesses?	

Step 2 – Analyse the collected information		Chapter
	Benchmark with competition	4.2.1
	Segment market	4.6
	Make assumptions	

Step 3 – Identify new markets and opportunities and define actions		Chapter
	Market segmentation	4.6
	Strategy (five forces, etc.)	4.5

Step 4 – Develop an entry strategy		Chapter
	Strategy	4.5
	Market segmentation	4.6
	Targeting	4.7
	Positioning	4.8

Step 5 – Implement the strategy		Chapter
	Get the people – management and employees – in the boat	
	Enter the defined market	5.

Step 6 – Control the success of the implementation and take corrective actions if necessary		
	Review the assumptions and strategy on regular basis	

Example:

In the course of this paper I referred in several cases to the experience of my company. Long ago the company decided to focus on customised products and solutions to escape from the cut throat competition in the mass product (catalogue product) market. After a certain period of time the growth of the business again slowed down and showed no long term perspective. That was the signal that we had to do something to safeguard the business for the future. At that time we decided to look for new attractive markets and followed the sequence described above.

Self assessment – some of the key activities and results

- review of technologies available in house
- strengths and weaknesses analysis
- manpower, capacity innovation potential analysis
- analysis of current customer base
- search for and definition of core competences
- review and re-definition of vision and mission

Results of self-assessment

Core competence

- winding technology and processes

Competitive advantage

- manufacturing processes
- flexibility
- customer service level
- innovation capabilities
- global support

Environmental analysis

- analysis of competition
- benchmarking with key competitors
- analysis of relevant market

Results of environmental analysis

- we are confronted with strong competition in established market
- we discovered new business opportunities in the automotive supplier industry
- we identified new trends in the market – dramatic increase of electronics content in cars
- Segmentation of relevant market according to applications and evaluation of the segments
  - power supply market – competition on technology and price
  - lighting industry – competition mainly on price
  - telecommunication industry – competition mainly on price
  - automotive industry – competition on innovation, quality and price
  - automation industry – competition on technology and price

Data analysis and strategy development

- investigation of opportunities and threats
- quantifying the risk
- step by step approach
- definition of product portfolio
- definition of positioning
- definition of targeting

Implementation

- resources allocated
- defined and dedicated team
- business plan

Control

- control of progress on regular basis
- review of business plan
- corrective actions

7. Conclusion

The blue ocean concept cannot be seen on its own or separate. It relies also on the experience and mechanics of the red ocean business. The big difference between these two approaches is the way the information gained is used and what strategy is developed based on this information and know how.

From the described processes and topics I believe that this thesis confirms the hypotheses that new markets cannot easily be identified and entered if there is no strategy or well planned approach behind these endeavours.

There are many examples in the market where small and very big companies failed because they did not perform their homework sufficiently. New developments and market entries take a very big effort and are real capacity killers within companies particularly at small and midsized companies and therefore it is crucial not to fail too often and to waste capacity and money.

Very often smart ideas are developed where everybody thinks they must become a success, but this assumption is based on experience and not sufficiently investigated. Of course in some cases it works. We have a saying in Austria that "the exception confirms the rule", and I believe in this case the rule is again confirmed.

There are well known examples for very smart developments which offered high benefits to the customer but were still not accepted by the market and therefore did not represent a business success.

Philips Video 2000 – This system offered a high quality which was not really demanded by the customers. It was technologically overdone and the payback was not achieved. Additionally it did not have the cost down potential to succeed (see blue ocean strategy).

Sony Mini Disk and Philips DCC – These products were from their point of view smart ideas and developments. Their problem was first that they were simply too late and secondly the companies began right from the start a cut-throat competition which confused the customers. The products were nice but technology was already much further developed. The customers were not really willing to buy these products because they were confused by the intense competition and they were already anticipating new technologies which had higher value for them (CD-R); therefore they preferred to wait for the newer technology and refused to buy these products.

Polaroid – The company made a nice product which offered the feature that the customer could get his photo right after taking it. Unfortunately the quality of the picture was quite poor and not long lasting. Furthermore other new technologies were appearing in their starting holes (new market entries, substituting technologies) which promised better performance and flexibility and therefore this product enjoyed only short success.

From the described processes and topics I believe that this thesis confirms the hypotheses that new markets cannot easily be identified and entered if there is no strategy or well planned approach behind these endeavours.

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