Growth strategies in mature markets

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This article is a result of the examination project ‘Market study for identification of growth strategies’, which was conducted in cooperation with Atlas Copco. The project is a case study and aimed at identifying growth strategies for a market leader in a mature market.

Today’s global economy enables an abundant flow of knowledge, technology and information. This means that companies have greater access to resources and business opportunities, which can lead to long-term growth. Despite this, there is research that shows the difficulties to achieve annual growth. The same studies show that companies that succeed are the ones that focus on innovation and continuous product development.

A study that researched public companies valued at $1 billion or more, analysed the number of companies that had a steady growth of at least 5% annually, from 1999 to 2009. There were 2347 companies included in the research, of these only 10 had a growth of at least 5% annually1.

Atlas Copco is a clear market leader in the Swedish compressed air market, yet has recently seen increased competition, which has resulted in a decline in market share. Furthermore, the company experience a more stabilised market with a lower rate of new customers. For the company, this has meant that they have an increased awareness of the need to find new ways to evolve the business in order to adapt to the changing market conditions. In order to achieve sales growth the company needs to expand their knowledge of the current market conditions and identify new ways of growing faster than competition. The purpose of the examination project is therefore to identify growth strategies for a market leader in a mature market.

Methodology
The project has been performed using a case study methodology where a descriptive and exploratory market perception has been obtained. Furthermore, a deeper understanding of the market has been developed from a combination of quantitative and qualitative research, which in turn has enabled the identification of growth opportunities. In the project, current knowledge in the area of growth strategies has been compiled as a basis for further analysis. By using a model developed by McDonald & Dunbar, which is presented below, different growth strategies have been analysed2.

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Analysis
The primary research shows that there are five key players that cover the majority of the market. All players have sales and service operations for the product and they cooperate with several local retailers. The case study company is the market leader with more than half of the market share and, together with the largest competitor covers 80% of the total market share. These two companies have the advantages of strong customer relations and distribution channels through many retailers. This results in high barriers of entry for new market entrants. Furthermore, data shows that the market has been stable over the last years.

Customers in the market are many and have high costs for changing suppliers as this could result in production stops and thereby high costs. Additionally, customers have a hard time integrating vertically as the suppliers usually consist of companies who are part of the same corporation as the market players. The companies with this type of supplier structure have an advantage as it enables greater flexibility and increased cooperation for product development.

Companies must develop and implement growth strategies in order to survive in an increasingly global and competitive market. If not, companies risk decreasing profitability and losing out to competition.

Market penetration is the strategy of increasing sales of the company’s products within existing customer segments; it is a strategy that should be analysed and, if possible implemented first. This strategy is usually associated with the least amount of costs and risks as the company already developed the competencies and expertise for the existing products and customer segments. On the other hand, it is a relatively stable market with low growth and where the existing players already cover the majority of the market. This means that the company has two alternatives for market penetration; increase sales to current customers or capture market share from competitors.

In order to sell more to existing customers, it is recommended that the company follows growth opportunities via the operational units that are closest to the customer. These units work on a daily basis with the products through service operations and, therefore also informed at an early stage if a product needs changing or upgrading, in other words identify growth opportunities. These units operate from a different division than sales engineers and efforts should be implemented to increase the cooperation between these units.

The project also shows that there is a large potential for growth through acquiring the competitors retailers, or by recruiting these retailers as the company’s own. The long product life cycle allows for long-term customer relations and customers often get bound via for instance service agreements, this means that retailers in the local market have a continuous contact with the customer. This enables the creating of strong and personal relationships on a local level. When a retailer changes supplier or gets acquired it often means that the customers will follow.

The company can also capture market share from competition through its own internal sales channels; for this the aftermarket organisation is important as services and service products can be offered to the competitors customers. The majority of customers that purchase the product are in need of service solutions as the product lifecycle is long and a continuous service is crucial for the products functionality. This means that there are great possibilities for the company to, during the full product lifecycle, offer service solutions to the competitor’s customers. It is important that the activity isn’t seen as completed when a first relation is established with these customers; in order to capture
the customer completely it is important that an effective system is developed in order to convey the potential growth opportunity to the sales divisions within the company.

As the market has a low level of growth, the company’s growth through penetration will in many cases be at the expense of competitors’ volume decline. Therefore, it is important to analyse, before implementation of a penetration strategy, what risks and actions from competitors that could come as a result.

Market development strategy encourages companies to widen their scope of targets and search for new users. Through the research of the company’s customers, the project shows that the company during the latest three years has sold products to customers within several different industries. By looking at this spread of users, the company can identify new customer needs. This can result in a change of customer segmentation and the capturing of new customer segments. In order for the company to be able to effectively market develop to these new potential customers, it is important to perform market audits whereby the customer segments are put in comparison according to the market capitalization size of each and the company’s potential to capture the segments efficiently. First, at that stage, potential risks and costs can be clarified, as well as growth potential that each positioning could allow.

Another method of market development and to find new users could be forward integration. The company can take advantage of their large customer base and study if there are new potential customers in the networks of current customers.

Growth through this strategy means that the company targets new customers who likely have other needs and requirements for the product offering. This in turn means that a modification and adapting of the product offering could be required in order to satisfy the customer’s needs. These types of changes can range from making changes in the product and service offering, to making changes in the sales and marketing process. If the company works with customization of the offering and increasing flexibility for new work processes in the effort to capture new users, the company could gain valuable experiences and competencies. This will prepare the company and be of advantage in periods when the company is required to differentiate and develop new products for new users.

The company has several internal strengths, for instance there is a strong brand, developed customer and distribution network. In market development efforts, it is important that the company takes advantage of internal strengths and in cases where synergies are possible, take advantage of these. This strategy means that the company gets more segments, which puts more pressure on the ability of company management being able to coordinate and prioritise efficient between the different segments.

Product development is a core strategy as it enables companies to offer their customers a higher degree of satisfaction than before, thus represents a continuous source of growth. The project has shown that it is important to have effective communication from local customers to a global supplier. This is in order for the company to better understand than their competitors, which product and service gaps that the customer experience in the local market, and to be able to use this knowledge in the investment of product development. Due to this the company is recommended to put additional resources into developing this communication, which furthermore would benefit the effort in improving customer relations.
By differentiating, the company can offer new products in different technologies such as ‘nitrogen compression’ and ‘vacuum technology’, to new customers. Through establishment within these new markets, the company can achieve long-term growth; and in the long run also applying the mentioned strategies, market development and market penetration, in the new markets. It will be necessary for the company to execute this kind of strategy as products have a limited lifecycle. Even if product development is the source of long-term growth, it is important for the company to continuously put effort into and invest into the core business; this being, as the core business is the source of the internal resources and therefore the enabling foundation for any form of strategic differentiation to come.

Discussion

As time passes, markets mature and competition increases and the subject of growth becomes ever more important. In mature markets companies have more difficulties to identify growth opportunities and grow the business. This study has shown that despite these difficulties there are opportunities to identify growth opportunities and grow in mature markets, furthermore that companies that are market leaders have several advantages when searching for growth, such as strong distribution channels and customer relations in place.

The study shows that a greater amount of growth opportunities can be identified when several divisions of a company are included. This is especially important in mature market as companies have a harder time finding the growth opportunities; however by searching the different divisions, new links can be found which are crucial for identifying growth opportunities. These growth opportunities can be hard to discover if growth opportunities are studied in single divisions separately.

Finally the study concludes that the market position is fundamental for growth in mature markets; beyond the advantages that have been mentioned above, companies with strong market positions have more resources that can be continuously re-invested in the core business. This means that these companies can further strengthen their market position by identifying growth opportunities faster than competition, as well as achieving long-term growth.