

Marketing strategy – case analysis (ecco)

Business



Marketing Strategy Case Questions (Galka) ECCO A/S Global Value Chain

Management Marketing Strategy Term 4 2011 Team #6 03 August 2011 1.

Perform a Porter's Five Force Analysis Force 1: Barriers to Entry | | Questions

| Answer | Reason for Barriers to entry | | 1. | Do Larger firms have a

cost/performance | Yes (Positive) | Larger firms like ECCO have resources to

cut down their | | | advantage? | production cost and can invest more on

technology and R to | | | | consolidate the market. | | 2. | Are there any

proprietary product | Yes (Positive) | Firms believe in core competencies of

product development and | | | differences? | | production technology focusing

on differentiating their product | | | | from competitors.

| | 3. | Are there Established Brands? Yes (Negative) | Threat from well

established brands for market share and profit. | | 4. | Do customers incur

large switching | Yes (Positive) | Switching cost incurred in terms of quality

and usability which | | | costs? | | cannot be leveraged by buying other

convenient and less | | | | expensive products. | | 5.

| Is large amount of capital required for | Yes (Positive) | High investment in

assets like Specialized technology, | | | entry? | equipments, infrastructure,

etc. Thus hard for new entrants in | | | | the market. | | 6. | Is there a steep

experience curve? | Yes (Positive) | Relatively low cost of operations is a very

powerful strategic | | | | advantage that can be achieved by learning and

experience curves| | | | to dominate market share. This is possible only for

large | | | | incumbent firms like ECCO, Adidas, Nike, etc. | | 7. | Is it difficult

to access distribution | Yes (Positive) | Firms have good integration for

distribution of their shoes via | | | channels? | | group distribution centre,

sales agents, retailers and | | | | supermarkets. | | | | 8. | Is there a limited

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supply of skilled | No (Negative) | Availability of skilled personnel in the footwear industry holds | | personnel? | | some opportunity for human resources to new entrants | | 9. | Are there any patents? | No (Negative) | Thus no competitive advantage for firms legally and exposure for | | | | new entrants.

| | 10. Do entrants face very strong | Yes (Positive) | Larger firms consolidate the market by their market knowledge, | | | retaliation? | | strong customer service, latest technology and high quality | | | | shoes. Thus on these factors new entrants face very strong | | | | competition and retaliation. | | | Inference | Positive | High barrier to entry | (Iqbal, 2009) Force 2: Intensity of Rivalry | Question | Answer | Reason for intense rivalry | | | Rapid Segment Growth | Yes (Positive) | Tremendous demand for good quality formal, casual semi-sport and | | | | sport shoes making market more attractive and intense for | | | | competition. | | | Many incumbent competitors | Yes (Negative) | Intense competition for the same customers and resources.

| | | | Maximizing market share becomes essential. | | | Cyclical demand with intermittent | Neutral (Positive) | Companies are developing shoes that are pleasant to walk regardless | | | over-capacity | | of the weather conditions. | | | High fixed cost relative to total cost | Yes (Negative) | Cutthroat competition because extra revenues incur little extra | | | | expense. | | Few significant product differences | Yes (Positive) | Products with significant differences like shoes for fashion, | | | | elegance, sports, etc. attract varied customers. Thus, good scope | | | | to target these segments.

||| Specialized competitors | Yes (Negative) | Competitors like Nike, Timberland, etc. offering complete product |||| line of shoes. || High exit barriers | Yes (Negative) | ECCO places a high cost to exit from the market in form of expenses |||| incurred in assets. Thus, it has to operate in the market even if |||| it makes less profit. ||| Low customer switching costs | Yes (Negative) | Customers switching cost is mostly based on their preferences of |||| quality and price. Thus hard to attract customers in the industry |||| because of established brands and brand loyalty.

||| Fairly simple product | Neutral (Positive) | The products are convenient and aesthetically designed which is |||| produced by intense R & D and innovation. ||| Inference | Negative | Intense Rivalry | (Iqbal, 2009) Force 3: Competition from Substitutes | | Question | Answer | Reason | | 1. | Those having very similar or superior | Yes (Negative) | ECCO has a big threat for substitution from other established firms || performance || like Clarks, Geox, Timberland, etc. | | 2. | Little to no customer switching costs | Yes (Negative) | Less expensive substitutes | | 3.

| Customer likely to substitute | Yes (Negative) | Cost driven and brand attracted customers are more likely to switch |||| to substitutes. ||| Inference | Negative | Good competition from substitutes | (Iqbal, 2009) Force 4: Bargaining power of Buyers | Question | Answer | Reason | || Few buyers relative to the number of | No (Positive) | Large number of buyers. ||| firms |||| Few Customers, each with relatively large | No (Positive) | Large pool of customers in China, Thailand, and other customers for || purchases | | aesthetically designed and perfectly fitting shoes. || No significant switching costs | Yes (Negative) | Switching to other substitutes cost very
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little to the customers in terms of price but may cost in quality and design. Level of information required by Yes (Positive) Consumers seek more information to relate to with the product. consumers Customer awareness of information need Yes (Positive) High customer awareness on information of quality, design and variety of shoes developed from new technology and research.

Customer can in-house your function No (Positive) Customers have negligible scope to in-house the function because of the fully integrated value chain. Highly price sensitive customers No (Positive) Customers more concerned about quality and usability and less sensitive for price. Not enough product uniqueness No (Positive) More unique and differentiated products based on new technology and research give choice to customers for selection and less power to bargain. Customers' businesses not very profitable Neutral (Positive) Customers like retailers and supermarkets make fair profit because of the increasing demand of quality and aesthetically designed shoes. Inference Positive Weak bargaining powers of buyers (Iqbal, 2009) Force 5: Bargaining power of Suppliers Question Answer Reason Inputs are not standardized No (Positive) The inputs are standardized and important as this affect the quality and economics of shoes. Suppliers cannot be switched very easily No (Positive) ECCO owned several tanneries in Netherlands, Thailand and Indonesia for leather supplies to ECCO's factories all over the world.

Suppliers can forward integrate No (Positive) Trend of backward integration in raw materials to decrease production cost and maintain
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higher quality standard and more control in the processes of the raw materials (leather). Input substitution is low | Yes (Negative) | The raw materials are produced by specifications thus is hard to substitute. Few suppliers | Yes (Positive) | Limited suppliers because of backward integration blocking the power and concentration of suppliers in the industry. Percentage of supplier's business | Yes (Positive) | ECCO owns 80% of its manufacturing process in-house and have its own leather supplies. Inference | Positive | Weak bargaining powers of Suppliers | (Iqbal, 2009) Conclusion From the perspective of ECCO, the shoe making industry is growing very rapidly and is very attractive.

On the other hand, industry has weak bargaining power of buyers and suppliers, comparatively fair competition from established brands like Geox, Clarks, Timberland; intense rivalry and competition and high barrier for new entrants. These factors are making the market attractive for ECCO to make large profitability and need to increase its market share with respect to its Global Value Chain Management. 2. Identify drivers for the following areas: Socio-cultural, Political-legal, Economic, and Technology Socio Cultural Drivers o One of the key components of ECCO shoes was to manufacture shoes of extremely high quality. This in turn implies having employees that had an attention to detail.

ie. Thais. This indicates the reason for the 40% of the production and complicated designs being completed in Thailand. ECCO wanted to set the plant in Xiamen to ensure that the new China plant will have a lower turnover rate, where they knew employees could be trained and would stay on for a longer period. o Good and competent services offered by the local
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authorities of Xiamen's also encouraged ECCO to set the plant in that location. Political-legal Drivers o Having a plant based in Slovakia, enabled ECCO to alleviate any interruption to production in cases of political arrests in Thailand.

Economic Drivers o China entering into the World Trade Organization allowed foreign companies to have 100% ownership of production sites. ECCO could use China as a global platform as China manufactured 50% of the world's shoe production. o ECCO'S formulae of keeping everything in house shifted with the rising labour costs for employees in Portugal. As a result, ECCO established 26 subsidiaries globally and four international production units to achieve lower labour costs and to spread risk. Technology Drivers o Due to ECCO's high demands on lead times and quality, they were forced to be self-sufficient by adopting new technology and tannery methods to be disseminated. With more foreign sites carrying majority of the production, ECCO's entire R was based on their foreign production sites.

This approach was adopted to optimize utilization of raw materials and production processes. o With rising labour costs in Portugal, they reduced the number of employees at the unit and made the unit more capital intensive to make it the leading developer within laser technology. o Fierce competition within the industry had resulted in investments for new technologies. 3. ECCO has a fully integrated vertical value chain. What are the pros and cons of this strategy? Pros Differentiation from its competitors in a way that ECCO will be the only company which holds ownership for its manufacturing.

o Economies of scale and scope. o Higher degree of control over the entire value chain and product system to maintain integrity. o Cost reduction and competitiveness due to this integrated system and quality outcome maintained throughout the value chain process. o Reduced threat from powerful suppliers for leather due to them owning the tanneries. In addition, their own research laboratories will help them in experimenting to improve the tanning methods and quality of leather.

Cons If the industry grows, the profitability of ECCO will have a major impact due to high capital investments and in turn the increased risk. o ECCO may require radically different skills and business capabilities to compete and consolidate further future growth. o Balancing the capacity between the old and new activities would become difficult for ECCO to achieve. 4. Is ECCO following the inside-out to outside-in strategic perspective? What are the implications of this choice and how can ECCO increase their sales/marketing efforts? ECCO follows an inside-out strategy as opposed to its competitors following an outside-in strategy. It mainly focuses on production technology and high quality.

Due to its focus on core competencies has provided its success until now. This is highly questionable as to if is sustainable in long term. Implications of the inside-out strategic perspective o Core Competencies – ECCO can build and improve on its core competency and invest more on developing the employees which improves employee morale and reduces turn over. o R & D and Technological advancements – All improvements will be based on internal issues and needs as opposed outside environmental needs, customer perceptions and factors. Customer focus – Customer focus is low
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when compared to the outside-in perspective. Customer should be the main focus of the business and he/she decides if the business will exist in the long run.

This need has been clearly outlined in ECCO's Board meeting held before the Michael Thinghuus's visit to China.

- o Value proposition – Limited unique added value is offered to customers through ECCO's operations.
- o Market situation – Strategic decisions being made without / with limited knowledge of the market place and without an in-depth investigation and analysis of the competitors. Without the market knowledge it is difficult to identify and understand powerful large customers that yield more profitability to the company. How ECCO can increase their sales / marketing efforts
- o Evaluating ongoing customer perception of goods and services to make improvements to technologies and product offerings.

- o Evaluating the growth opportunities that are worth the attention.
- o Identifying new products or services to develop, ways to increase cost over a large sales base and ways to increase profit per unit. Creating competitive advantage by determining its distinctive capabilities, which are unique and difficult to be imitated by its competitors
- o Constantly engaging in qualitative market researches to identify the beliefs groups of customers of new ideas
- o Creating strong brands through structured brand management processes. Brand equity is undoubtedly the most important of corporate assets. 5.

How is family ownership affecting ECCO? Comment on the corporate ownership structure and its implications for strategy-making and implementation? The effects of family ownership on ECCO

Family ownership

is working positively so far for ECCO in terms of prompt long term decision making. This is evident from the Karl Toosbuy's statement saying that the IPO is not necessary for them, they are ready to take higher risks and that they act instead of waiting. This is fine for ECCO as it provides stability in the share register, and the readiness to explore and embrace new ideas that often works. The question is that if this is sustainable for long term as the financial theory states that with greater risks can achieve higher profitability but there is also a high chance of losing money. The move to China and other parts of world will consume more capital and with being a family owned business it will become more difficult to raise more funds will lead to IPO again.

The statement from Karl Toosbuy stating that “ In many cases we do not have time to investigate things as profoundly as a listed company ought to do and quite sure that we are doing the right thing” is a concern. When investing in new ideas it is important that a thorough investigation is conducted to be able to satisfactorily and effectively engage in the ideas. If the idea is not investigated properly there is chance of it failing and there isn't a way of guaranteeing it as the right / wrong thing. One advantage of ECCO being a family owned company is that they tend not to borrow heavily making them less vulnerable to the credit crunch and economic downfall situations. One other issue with the being a family owned business ECCO will not be under greater scrutiny and transparent. By being transparent and being examined there is more chance of identifying petite issues and correcting them before making a huge strategic decision / implementation.

Corporate ownership structure and its implications for strategy-making and implementation With Hanni Toosbuy being the Chairman and the owner of the company, the strategy making and implementation will be more biased towards the family's desires / needs as opposed what's best for the company. This may look very healthy short term on the owners view but is not healthy for the company in long term as having a wide range of ideas and interest from other stakeholders' perspective will benefit the company. At the same time, decision being made promptly without trying to satisfy all stakeholders will help them quickly overcome an issue and quickly act in the market place. There may be parts of the business that are more relevant for Hanni if she wears her owners / family hat but might be unnecessary and uneconomical in management's and Chairman's view. This will potentially become a conflict of interest and create chaos with decision making.

On the other hand, there are advantages of Hanni being the Chairman and Owner as it allows the core values of the business being retained and promotes a value-driven company. At the same time the decision are being made promptly without the lengthy delays due to different opinions of the management and owners. The best performing family companies have always had involvement of the family at all levels of management and the decision making processes to transfer the value of family to the company. If this approach is not exercised, the issues will start to surface due to the relationship between the family owners and management becoming too far.

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