

Alto chemicals europe

Business, Marketing



Alto Chemicals Europe (ARI) A: Briefly outline the main elements of the entry strategy. What does the sales force promise in return for transitioning from Ba to Sn?

ACE entered the European market a decade ago. The company decided to increase its presence slowly and steadily and therefore adopted a step-by-step procedure to gain foothold in the European market.

Entry Strategy

In the initial years, ACE gauged the pulse of the European market. The long run objective of the company was to become a fully integrated Tin stabilizer supplier and attain leadership position in the market.

It began business operations by purchasing Barium from European producers. In fact, Tin was also not manufactured in-house but was purchased from European producers as setting up production facilities for these chemicals involved high start-up investments. After venturing into the European market with Barium stabilizers, ACE started converting its customers to Tin stabilizers.

The management was aware that there existed different customer segments in the marketplace and the needs of these segments differed. For some customers, product performance was more important while others gave more importance to the price of the product. The size of the purchase also formed a good basis to segment the market. Big firms had the capacity to buy more than 500 tons per month. Since the purchase was made in bulk, these companies negotiated lower prices. On the other hand, small and mid-sized firms purchased stabilizers in truckloads and therefore paid a higher price for the product.

As an entry strategy ACE competed on the price plank and targeted customer segments where price played a very significant role.

Transition from ' Ba' to ' Sn'

The sales force promised better product performance to convince buyers to move from Barium (Ba) to Tin (Sn). Since the conversion entailed a change in the process and machinery at the buyers end, initial discounts of 2-3% below Barium prices were also offered to the buyers. The technical service staff of the company provided expert help and enabled buyers to migrate from Barium to Tin in a hassle free manner.

B: What are Graaff's arguments to limit price erosion? Suggest a compensation plan that would make this initiative more palatable for the sales force.

After thoroughly analyzing the market, Eberhard Graaff proposed a new strategy to limit price erosion.

Arguments to Limit Price Erosion

Graaff suggested that the company should focus on its strengths and resort to ' non-price' selling. The skillful sales force should highlight superior technical service and ACE's reputation as a reliable supplier while closing a sales deal. Graaff strongly advocated that the sales force should focus on converting more accounts from Barium to Tin. The intent was to generate business from small and medium-sized firms. Customer segments like wire and cable that were not price sensitive were also to be targeted under the new strategy to prevent price erosion.

As a rule, ACE was to adopt the strategy of price leadership and not compete in the market merely by ' meeting Barium prices'. Graaff envisaged that

central coordination would help in regional optimization. Thus the headquarters took on the role of setting price and volume targets for the subsidiaries. In general, ACE was to pay less attention to low price markets and focus on high price markets.

Compensation Plan

The initial reaction from the sales personnel suggests that they are averse to the changes put forth by Graaff. Therefore a suitable compensation plan is to be devised to motivate the sales force to adopt the new strategy. It is recommended that the sales personnel are given incentive on each account they convert from Barium to Tin. A fixed, upfront amount should also be paid to them when they a small and medium-sized enterprise becomes a customer.