

The industry structure concentrated marketing essay



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Emerson Electric Company has a strategy of producing high quality products at a low cost. Emerson was known for acquiring financially successful companies and retaining their existing management. However in 1979, Emerson acquired Skil Corporation, a financially mediocre performing company for \$58 million. Skil was a leading manufacturer of portable power tools catering to professional and consumer markets. Skil manufactured products such as circular saws, cordless drills, roto hammers and mid- priced drills. Skil manufactured multiple different models for different countries depending upon the local needs of the market. Facing increasing competitive pressure from Black & Decker Skil's financial results has suffered. Skil sold through all their distribution channels and were well established in hardware stores and had a strong position in circular saws in contractor supply channels. Their sales force serviced all distributors except mass merchandisers. They sold tools on a worldwide basis with their greatest consumer base in Europe. Emerson Electric Company has the challenge of improving Skil Corporation's market share given that the industry is saturated and consists of major competitors like Black & Decker.

Skil Corporation: Issues

The gap between professional buyers and do-it-yourself customers has narrowed down significantly. Now both sets of consumers demand high-quality durable products with low cost. Skil's strongest product is the circular saw and their competitors are not as strong in this product. Unfortunately Skil lacks any significant competitive advantage along with other products such as the corded and cordless drills. The issue is that Skil does not have a clear marketing strategy and this is one of their reasons for their mediocre

performance. When Skil Corporation sells their products to hardware stores they rely on that stores marketing strategy. In addition Skil has high operating costs due to their inefficient operational setup which significantly drives down their operating income. They are not properly utilizing their plants to full capacity. Skil has multiple single-function facilities and plants with varying production capacities. Unfortunately Skil Corporation does not possess all the critical skills required to gain sustainable growth in the industry.

Porter's Five Forces Analysis: Portable Electric Power Tool Industry

1) Supplier Bargaining Power: Low

Skil Corporation does not depend on suppliers as critical required components are fabricated in-house. The supplier's pricing to manufactures depends upon the volume. Manufacturer's plants are non-Union which leads to easy of in-house production. Automation is leading to reducing dependency on traditional suppliers.

2) Buyer Bargaining Power: High

Consumer segment buyers tend to be price sensitive and this segment was growing rapidly than the professional buyers. As consumers tool becoming more sophisticated, professional buyers started buying consumer tools. Brand loyalty and price became critical factor as well combined with the fact that there were not many product differentiators in the market.

3) Threat of substitute products or services: High

Due to the improvement in battery technology the cordless tool became a substitute for the corded tool. Consumer tools became more sophisticated which lead to alternative choices to industrial tool. This has lead to a higher market share for consumer tool and reduction in professional products.

Automation became a substitute for traditional machining.

4) Threat of New Entrant: Low

Out of 70 manufacturers the top 3 which consists of Skil, Sears and Black & Decker were holding 71% - 78% market share there is stiff entry barrier for new entrant. Black & Decker have a U. S market share of 40% - 43%, Sears has a share of 16% - 20% and Skil has a share of 15%. Automation trend leads to heavy investment which was another hurdle for potential new entrants.

5) Rivalry among existing competitors: High

In this particular industry there is slow industry growth combined with a high number of competitors such as Black & Decker.

Portable Power Tool Industry: Barriers to Entry

Overall after the analysis we came to a conclusion that the barriers to enter into the portable power tool industry are significantly high. The major barriers consisted of technology, economy of scale in manufacturing and capital investment.

Capital Investment and Technology: According to the case study developing a new tool took a team of 4-6 engineers around 2-4 years. A new entrant

also needed approx. \$200, 000-\$700, 000 per year investment in R&D and \$250, 000-\$800, 000 in tooling. Therefore it can be concluded that having the right technology and resources were a huge entry barrier for new organizations.

Eco of Scale in manufacturing: The cost of molding, machining and die casting depended on the volume per part. No one manufacturer had the technology and scale to produce all the necessary components. Large manufacturers possessed only the critical components that directly affected the performance of the product which were produced in-house. The rest of the components were purchased from specialized suppliers. The cost of purchased components was determined by the volume of purchase.

Companies also had to bear large investments in R&D to come up with new product designs and had to spend extra for creating new manufacturing setup. Reduction of average variable cost was also possible through automation in manufacturing which required capital investments.

Defensive Strategies/Recommendations that Skil Corporation should implement:

They should expand their product line to fill in gaps that competitors may defend.

Maintain low prices on products that match other competitors. Their marketing strategy needs to be more aggressive. They should not rely heavily on the hardware stores that they sell their products to for a marketing strategy.

They should sign exclusive agreements with distributors.

Implement the small plant utilization strategy that they have in Europe since that seems to be their strongest market.

Diversification Strategies

Add new markets and increase sales and profitability. This can be done by expanding into new market segments within the portable power tool industry.

Merger and or acquisition of other businesses might be an attractive method of diversification you can buy the equipment the facilities and acquire the staff and skills with the new firm.

Partnerships and or alliances with other businesses can be an alternative method of market diversification.

BCG Matrix

Market Growth Rate (Cash Usage)

Low High

Stars <http://www.businessdevelopmentuniversity.com/wp-content/uploads/2010/05/star.jpg>

Question Marks

Skil Corporation <http://wondrouspics.com/wp-content/uploads/2012/04/question-mark2.jpg>

<https://assignbuster.com/the-industry-structure-concentrated-marketing-essay/>

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