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Winning Strategy In An Industrial Lubricants Selling: Case Study

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Abstract: *Porter's model to approach market with specific strategy is most accepted strategy model in domestic ,regional,international & global markets. In recent years it has been observed that although one can apply this model as generic guidelines for approaching various markets but at times marketing team has to use combination of cost leadership ,differentiation& focus strategies to win some specific projects/new business. This combination decision can be based on continuous review of existing strategy &it's outcome (business results). In this article experience,observations & results has been shared based on variation in market strategy approach pertaining to supply of specialty lubricants to one of the large power sector company in India. Success story of combination strategy (Integrated Strategy: both cost leadership& differentiation strategy) has been shared to make it more evident.*

I. Introduction

1.1 Strategy Concept

Strategy is first and foremost a broad and complex concept. In an attempt to provide a definition,Porter (1996) states: "Strategy is the creation of a unique and valuable position, involving adifferent set of activities."15 The essence of strategic positioning is to choose activities that yieldsuperior profitability because they are different from rivals' and thus create a sustainablecompetitive advantage. Note that a competitive advantage is not necessarily enduring,which iswhy strategy must be distinguished from operational effectiveness (OE). Both elements cangenerate competitive advantage, which improves performance, but OE is relatively easy toimitate and, consequently, the competitive advantage risks eroding. In fact, Saloner, Shepard &Podolny (2001) mean that the major threat to the sustainability of a competitive advantage is thatrivals can diagnose and duplicate or make obsolete the competitive advantage.

1.2 Porter & Porter's Three Generic Model(1980)

Porter is considered by many as the most influential strategist in the field of business-strategy.Eng (1994) for example estimates that "the arguments underlying the generic strategiesadvocated in Porter's, Competitive Strategy (1980) have influenced much of the current thinking in strategy formulation." In effect, Porter's model has been widely tested (e.g. Hambrick, 1983; Dess& Davis, 1984; Akan et al, 2006; Reitsperger et al, 1993; Calingo, 1989) but despitecriticism and efforts to modify, expand or combine the strategy typology with others' (i.e. Miles& Snow's (1987) typology), the original model has remained the most commented, analysedandtested contribution. It is has been praised for being easy to understand, appropriately broadwithout being vague, and building upon previous findings.

Porter's (1980) model of generic strategies addresses practitioners with an analytical techniquefor gaining understanding of industries and competitors. By "practitioners" Porter implies"managers seeking to improve the performance of their businesses, advisors to managers,teachers of management, security and analysts or other observers trying to understand andforecast business success or failure, or government officials seeking to understand competition inorder to formulate public policy."20 The reason why strategic planning is a primary concern tobusiness managers in particular but also other practitioners is that it may lead to significantbenefits for a firm. In effect, an explicit process of strategy formulation can determine a firm'slong-run competitive strength and generate a persistently higher rate of profit than its rivals bycreating a sustainable competitive advantage. However, in order to compete successfully in thelong-run a firm must first choose an appropriate positioning. Porter proposes three differentapproaches to gaining or strengthening competitive advantages (competitive strategies)proposed:

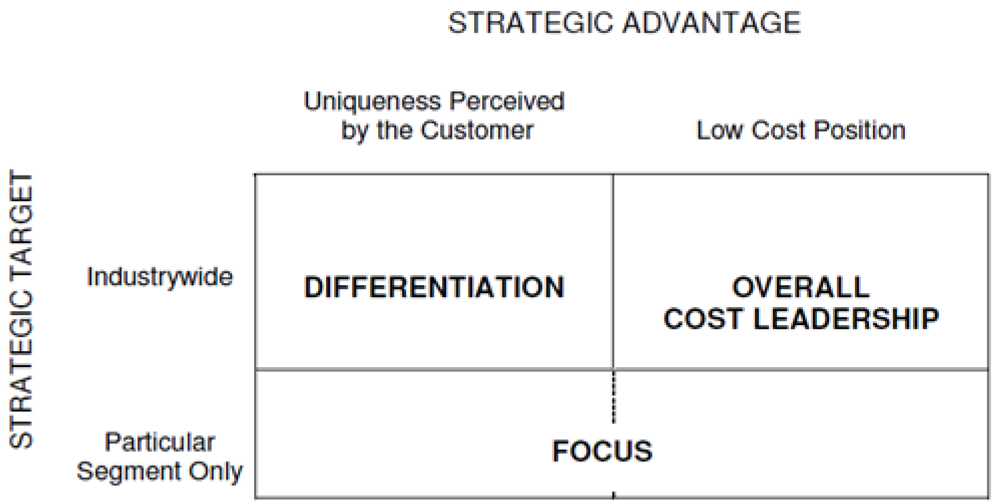
1.Overall cost leadership: Low cost relative to competitors is the theme running through the entire overall cost leadershipstrategy and the objective is clearly overall industry cost leadership. Attaining cost leadershiptypically requires aggressive construction of efficient scale facilities and vigorous pursuit of costreductions through experience, tight cost and overhead control, avoidance of marginal customeraccounts, and cost minimization in areas like R&D, service, sales force, advertising, etc. Whenattempting to achieve an overall cost leadership position, low cost relative to competitors is thetheme running through the entire strategy.

2.Differentiation: Differentiation consists in differentiating the product or service offered by the firm, in otherwords, creating something that is perceived industry-wide as being unique. Differentiation maybe achieved in various ways, for example through design, brand image, technology, features,customer service, and dealer network.

3.Focus: Considering that this paper focuses on the combination of between overall cost leadership and differentiation, it does not serve the purpose of the paper to describe the focus strategy in detail.In brief, the focus strategy aims at serving a particular target or segment of the industry well, asopposed to both overall cost leadership and differentiation strategies seek to achieve theirobjectives industry-wide.

(Figure 1)

Figure 1. Porter's typology of generic strategies



Source:B.V.P.M. (2005)

All three strategies have the potential to result in above-average profits; however, all three strategies may not be equally suitable for a firm. The reason is that the three strategies differ on anumber of dimensions and pose different requirements, for example in terms of resources, skills,organizational arrangements, control procedures, incentive systems and management style.Profitability may vary depending on the wellness of fit between the firm and the selectedstrategy, which make the decision of which strategy to adopt key to the benefits of strategicplanning and requires that the choice be well founded. The challenge lies in selecting the strategythat best suits the firm's strengths and resources and is least replicable by competitors and this inturn necessitates knowledge about the firm, its business environment and competitors. With anexplicit technique for analysing industry structure and competition, practitioner may gain betterunderstanding and knowledge of both elements. Porter's (1980) model facilitates the decisionmakingprocess and improves the probability for a firm that chooses an appropriate strategy.

II. Field Experience & Case Study

As a business consultant &marketers for one the global brand of industrial lubricants we come across various sector base customers like Energy(Power),Cement,Mining,Steel etc.

As part of guided market approach by principals we need to follow market strategy laid downby them & retain/gain business across sectors. We have came across one of project requirements of lubricants in Power sector(Large Thermal Power Plant) where we worked with differentiation strategy(technology leadership) while competing for phase -1 of the project in align with market strategy during yr 2011-12. We lost this business to competitionpurely on price as customer could not see any value against our higher prices. We analysed and reviewed our single strategy approach to combination strategy during Pahse-2 of the project and successfully won the similar business which was lost in phase-1 of this project.

2.1 Case Background

As a part of my freelance businessconsulting one of my client is central India's biggest industrial lubricants strategic business partner for one of the biggest global lubricants company. They are selling lubricants to various industrial sectors like energy(power),Steel, Cement, Mining & General Engineering. As these lubricants are globally acclaimed branded products & are being perceived as costliest but best quality products due to technologically advanced product range. In industries (manufacturing/production units) lubricants are used in heavy engineering equipments& machinery & selection is mostly based on equipment builders recommendations. These recommendations may be specific brand/few brands or specifications in general which may be fulfilled by most of the lubricants company. For green field(completely new) projects lubricant requirements are for initial fill & volumes are quite substantial.

We were working since yr 2011 with one of the biggest green field project in central India which was thermal power plant with 5 units(we term here as phase 1-5),completing each phase every year. Our focus was on wining specialty lubricants business for critical equipments which was close to INR 10 million per phase. There were only 2 brands of lubricants (including our brand) were preferably endorsed by original equipment manufacturer and this customer had to buy one of this only as further technical warranty of performance of equipment were depends on that. Our all products were technologically advanced and little more proven than other competition which was also one of the large global brand. This factwas always endorsed by technical team at site as well as senior project and commercial team.

2.2 Differentiation Strategy approach during Phase-I of the project

During Phase-I of this project the entire selling efforts were based on the fact that customer is more influenced by OEM's (original equipment manufacturer) recommendation & our product recommended had higher perceived value in terms of quality & benefit. During this selling process the entire thrust were given on product differentiation (product quality & product performance) strategy. There was very little focus on cost led factor as it was being predecided that we will not focus on any price reduction. All global references were being shared & as policy differentiation strategy was strictly implemented. The final outcome was negative & we lost this high volume with very high referral value business to nearest competition which was also global lubricant brand. This brand was with cost led approach & were quite ready to counter our differentiation strategy.

2.3 Factors which were critical &influential in preposition

Competition were quite prepared & was very much aware on our little over confident approach on getting our price which was based on differentiation strategy. Project team was a group of various cross functions like technical, commercial ,planning ,quality assurance were involved in decision making. Also operations &maintenance(O & M) team which would be using this products on regular basis were also involved as influencer in decision making process. For O & M team cost of operations were of high importance & hence were concern on price/Lit as well. Project head & technical team was well connected with equipment manufacturer . Commercial team were looking for best deal in terms of price, delivery(supply on time at site) & credit terms.

2.4 Outcome of Differentiation Strategy approach

When we approached customer ,we were almost certain to win this business as most of the factors like preferred OEM approval , higher product technical specifications ,perceived higher pricing etc were accepted by customer during initial few meetings. As per our guidelines by principal company we were fully focused on value selling & product differentiation approach. The outcome was to our surprise that we lost this business to our nearest competition on price & competition could successfully leverage on firm differentiation strategy approach.

III. Evaluation/Analysis after lost opportunity

This lost businesswas one of the major setback as well as biggest area of concern as this was first requirement out of 5 phases & were potentially indicative on customers approach for future projects specialty lubricants requirements. When we analysed this lost opportunity we could conclude following poits:
-Our differentiation strategy were fully predictable in the market
- Preferred OEM status were over ratted by us & customer with competition support manage to take approval for other products also which were technically downgraded than our offered products .
-Competition strongly approached operations & maintenance team with techno-commercial approach. Mainly focused on significant lower price per lit during regular usage.
- We declined to offer (although there was scope to do so) further discount although we were given sufficient time to evaluate.
- Senior management failed to understand referral account importance & future business scope while insisting on differentiation strategy to follow without any special review.

IV. Solution to Success: Winning Approach

4.1 CombinationStrategy Approach: Integrationof cost leadership &differentiationstrategy in Phase-II of the project.

A best –cost provider strategy: giving customer more value for the money by offering upscale product attributesat a lower cost than rivals. Being the best cost producer of an upscale product allows a company to under-pricerivals whose products have similar upscale attributes. This option is a combination strategy that blends elements ofdifferentiation and low-cost in a unique way .This approach was immediately recommended by me for Phase-II requirement after critically analysing our Phase-I lost business opportunity.
Management of specialty lubricants companyallowed us to apply combination strategy approach as exceptional case for the phase-II of this large power sector customer. Following are the approach highlights:
-Re-worked on stake holder management mapping & major thurst were given on operation & maintenance (O &M) team requirements & concerns.

-Product positioning advantage of being OEM preferred product & higher technical specifications compared to competition product which they selected for phase –I were leveraged .

- Clearly expressed willingness to offer competitive price but also highlighted benefits & technical services being offered.

-Contentious evaluation & follow up were taken on competition supply process, after sales services ,product performance etc. to formulate combination strategy approach for next selling cycle.

4.2 Outcome of Combination Strategy approach

During Phase-I project requirement efforts were made for 1 year (Oct 2011-Oct 2012) & the outocome was not positive. Based on this experience & complete analysis ,combination strategy approach were applied (Cost lead & Differentiation strategy) during Phase-II specialty lubricants requirement which was also for INR 10 Milion. This approach were formulated immediately by end of 2012 & next requirement were to be released in mid of 2013. The approach towards this selling cycle was were carefully & methodically managed so that competition would remain under same impression of our previous strategy approach.

At the same time our opens towards cost lead consideration were also very well communicated at all required decision making levels of customer along with our upscale product verses competition standard product. After initial resistance by O & M team on using different product than being used in Phase-I, we successfully manage to convenience project as well as user (O & M) team to use upscale product at almost same price which they have procured during Phase-I. Finally in Oct 2013 this power company placed order on our company for specialty lubricants which we had lost in Phase-I.

V. Conclusion

We have applied single strategy (differentiation strategy) approach as per Portr’s model in one business cycle of the project which resulted in business loss opportunity. After analysing the situation & considering future similar business opportunity we changed our strategy approach & worked on combination strategy after understanding the need for the same. The result of combination strategy (Cost lead & Differentiation strategy) was very successful as we could win the next opportunity with the same customer having same requirement for the similar equipment & against same competitor with the same offered product. In fact lost opportunity we could utilize to win next business by combination strategy & remain in the business for other 3 phases of requirement in this project.

It is important for business leaders to continuously evaluate their business strategy models time to time based on market requirements/conditions. The combination strategy can be used very effectively when required as against single strategy model to win new customers & retain existing business.

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