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Maturity vs. Saturation: Part II

Analyzing strategic options for products in the mature portion of the product life cycle. Part two of a three part series.

Chemark describes four levels of saturation within the maturity portion of the product life cycle curves. We believe that innovation in product and/or service can create extended life without inventing a new product/service in the process.

In last month's article we discussed electrostatic powder coatings used in the industrialized regions of the world as being mostly in the mature portion of the life cycle. We provided detailed examples of product/service evolution that could extend the life of powder coatings.

Other coatings, paints, adhesives, sealants and specialty chemical products have similar issues with being mature including depressed margins, slowing growth, over-capacity, too many competitors, greater propensity to "sell on price" and low differentiation hurdles, among others.

STRATEGIC OPTIONS

Products in the mature portion of the life cycle have many strategic options. Here are five we want to discuss:

- Continue to cut costs and "hang-in";
- Divest the product line offering or business and "get out";
- Reinvent the offering, positioning the new offering in the embryonic or growth portion of the curve;
- Extend the product line offering;
- Move to adjacent markets.

CUT COSTS AND "HANG-IN"

This strategy has limits and its success is risky and depends on how deep your pockets are versus other competitors. If you can outwait all others, you can win because you will be the last company standing, therefore, totally in control, as a result.

DIVEST THE PRODUCT LINE OFFERING OR BUSINESS AND "GET OUT"

The question here is, in a mature market, with excess capacity and little product or service differentiation, who would buy? Certainly the potential buyer would hold all the cards and the value of your business would suffer greatly.

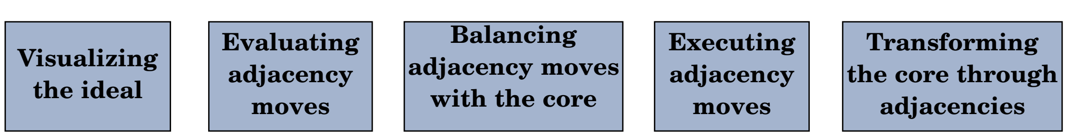
REINVENT THE OFFERING, POSITIONING THE NEW OFFERING IN THE EMBRYONIC OR GROWTH PORTION OF THE CURVE

Depending upon your technical strengths and creativity, you may have something there. Then again, you may not. In the latter case, your options are to (a) bring in technical expertise from the market; (b) acquire a product line; or (c) acquire a business. Each option has its drawbacks and associated cost-of-entry aspects. However, Chemark knows of a very successful company that practices the "a" option to a tee. When the president wants to attack a segment he hires the two best technical and sales persons in that segment and pursues from there.

EXTEND THE PRODUCT LINE OFFERING OR BRAND

Product line extension is not new. By definition it is the act of introducing additional items in the same product category under the same brand name, such as new colors, or user-friendly packaging form.

Roadmap to Successful Adjacency Development



Source: Chemark

Line extensions have risks and have provoked debate among marketers. The downside is line extensions may lead to a brand name losing its specific meaning. However, line extensions have a much greater chance of success than do brand-new product offerings.

A company may use its existing brand name to launch new products in other categories. The 3M Scotchkote brand has many products dealing with coatings and BASF's Glasurit brand offers several hundred SKUs for the auto refinish segment. Like line extensions, brand extensions offer some of the same advantages. Ralph Lauren has successfully licensed his name to clothing, home furnishings and paints. Yet, like line extension, brand extension also involves risks. Pierre Cardin on wine; Shell Oil on ketchup; Drano to milk; and Boeing to cologne all failed in transferring their sizeable brand strength outside of its logical acceptance.

MOVE TO ADJACENT MARKETS

Commenting on adjacent markets, Jack Welch once said, "Expanding into adjacent businesses is the easiest way to grow. By challenging the organization to continually redefine their markets in a fashion that decreases their share and opens their eyes to opportunities in adjacent markets."

Adjacency strategies have three distinctive features:

- They are of significant size or can lead to substantial growth.
- They build on a strong core business amd draw strength from a strong core business.
- Adjacency strategies are journeys into the unknown, extending the core and pushing out the boundaries and step up in risk versus a typical organic growth formats.

There are five steps Chemark feels are absolutely key in developing a successful adjacency strategy including visualizing the ideal; evaluating adjacency moves; balancing adjacency moves with the core; executing adjacency moves; and transforming the core through adjancencies (*See diagram on page 30*).

In our next article Chemark will expand its consideration of adjacent market considerations, and discuss commodity versus specialty segments within the paints, coatings, adhesives and sealants industries. Please send us your ideas and comments. ***CW***

See Chemark's ad this month on page 53.