

ACHIEVING GROWTH IN A MATURE MARKET AND DEFINING “BARRIERS TO ENTRY”

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QUESTION:

How do you achieve growth in a mature market?

ANSWER:

I will assume that the definition of growth is revenue growth.

The North American coatings industry is, unfortunately, a good example of a mature market showing many of the traits normally associated with mature markets (Figure 1).

- **Slow overall market growth**
- **Increased competition for market share with increased emphasis on price**
- **Experienced buyers have leverage of producers**
- **Product research becomes largely incremental – few revolutionary inventions**
- **Falling industry profitability**

Figure 1 Characteristics of a Mature Market

While U.S. coatings industry growth has roughly tracked GDP, it is possible to participate in the coatings market and experience growth well in excess of GDP. There will be certain segments of the industry with above average growth and others below average growth. There are segments that show very bright prospects with growth well above the industry average. These segments also tend *not* to show the same characteristics from Figure 1. A few recent examples in the coatings market are listed in Figure 2.

Polyurethane coatings	1970s to today
Powder coatings	1960s to today
Electrodeposition coatings	1980s
High-solids and low VOC coatings	1980s to today

Figure 2 Examples of High Growth Coatings Segments

One common theme among these “high” growth segments was the environmental regulations coming from the Clean Air Acts of 1970, 1977 and 1990; which generated wave after



wave of product development. These new products caused new segments to form, which grew as customers switched from old technology to the newer compliant technology. The overall market did not grow appreciably; in fact, certain market volumes actually shrank during this time due to the effects of higher solids. However, the growth of the new products was double-digit for many years as the new products cannibalized the old products. For those producers positioned with the new compliant products and few of the old products, growth was especially strong.

Growth Strategy: Segment the market by looking for products, customers and or regions that are growing faster than industry average and position your company to capitalize on the growth.

Another opportunity for growth in mature markets is to restructure the value chain. As simple form of value chain restructuring is increasing the value of your product by adding more features and functionality – the so-called “value-add” strategy. Other more complex examples of restructuring are backward or forward integration, elimination of “middleman” converters or distributors and the merging of product and application technologies to create new processes and systems that do not exist today. Understand the value chain you participate in – its participants, its costs and your value proposition, then seek to find “inefficiencies” that you can improve with your firm’s capabilities.

Growth Strategy: Extract value (or even create new value) by improving the flow of goods and service in your value chain. Reconfigure your business and its products through integration, alliances and innovation.

The last, and lately most popular, means of growing in a mature market is through acquisition. The U.S. coatings market is especially well suited to this strategy due to its maturity and over capacity. Acquisitions can be a risky strategy if they are overpriced, ill suited or poorly managed through integration.



Growth Strategy: If valuations are attractive and you can manage the integration, grow through acquisitions – in some mature markets it may be the most attractive means of growing.

QUESTION:

Define the marketing term “barriers to entry” and tell me why it should be important to me?

ANSWER:

“Barriers to entry” are those obstacles that a new market entrant must overcome to establish themselves in an existing market. Examples of barriers to entry are listed in Figure 3.

- Economies of scale
- Customer switching costs
- Access to distribution channels
- Retaliation from established market participants

Figure 3 Examples of Barriers to Market Entry

A good example of a barrier to entry in the U.S. coatings industry is access to distribution channels in the automotive refinish market. This barrier to entry is so difficult to overcome that few new entrants have been successful entering the market since it was first established 80 years ago.

Understanding and quantifying the barriers to entry are a vital element of strategy development. Ultimately, the new entrant must find means of overcoming these barriers and then quantifying the cost associated with these means. Too often new entrants make decisions to enter new markets based on assumptions about operating costs and profitability that reflect the status quo of the established participants. When the new entrant enters the market, they are surprised (and frustrated) to find their costs substantially higher than planned due to failure to integrate the cost of overcoming entry barriers in the early years of the business plan.

A concept often used to describe these costs is the entry-detering price, that is, the price which just balances the



rewards from entry with the expected costs associated with overcoming the entry barriers. If the market price among incumbent competitors is lower than the entry-detering price, then the threat from new entrants is theoretically eliminated. If the market price is above the entry-detering price, then the industry will likely attract new entrants.

If your business plan calls for entering new markets, you should understand the unique barriers to entry for that market and make an attempt to reflect the costs of overcoming those barriers in your plan.



About the Author



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Michael joined ChemQuest in 1999 after 17 years with DuPont Automotive, where he was Business Manager, Light Industrial Coatings. Prior assignments were in marketing and product management positions with DuPont in the Refinish automotive and fleet aftermarket business. His automotive experience also includes sales and technical experience in the engineering plastics markets. He holds a B.S. in Chemical Engineering from Kansas State University. Contact Mike at (302) 235-2217 or mdbrown@chemquest.com

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