A MARKETING STRATEGY FOR SASOLWAKS IN THE USA HOT MELT ADHESIVE INDUSTRY

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'n BEMARKINGSSTRATEGIE VIR SASOLWAKS IN DIE VSA-WARMSMELTKLEEFMIDDEL-INDUSTRIE

SASOLWAKS is 'n belangrike neweproduk uit Sasol se olie-uit-steenkoolproses. Sasol se hardewas is vir baie jare, weens sy unieke eienskappe, 'n gesogte grondstof in verskillende aanwendings soos in die vervaardiging van kleefstof, ink en plastiek. Die meeste hardewas word deur die Wasdivisie van Sasolchem uitgevoer en veral die warmsmeltkleefmiddel-industrie in die VSA is 'n groot verbruiker van *SASOLWAKS*.

Die warmsmeltkleefmiddel-industrie het die afgelope dekade sterk gegroei, en *SASOLWAKS* het weens sy uniekheid 'n markleier geword. Die afgelope paar jaar het *SASOLWAKS* veral in die VSA toenemend onder mededingende druk gekom en wasverkope kon nie die groeitempo van die warmsmeltkleefmiddel-industrie handhaaf nie. Nieteenstaande die voordele wat hierdie tipe kleefmiddels bied, is daar verskeie bedreigings in die eksterne omgewing rondom aspekte soos omgewingsbewaring en tegnologiese vooruitgang. Sasol het onlangs ook 'n wasuitbreidingsprojek aangekondig wat verdere druk op die Wasdivisie plaas om verkope in die buiteland te verbeter.

Die doel van hierdie studie is om 'n bemarkingsstrategie aan die bestuur van Sasolchem voor te lê om *SASOLWAKS* se winste in die belangrike VSA kleefmiddel mark te optimiseer. 'n Literatuurondersoek is uitgevoer om vas te stel watter faktore in aanmerking geneem moet word tydens die proses van strategiese bemarkingsbeplanning. 'n Model word ontwikkel wat die belangrikheid van die klant, en die behoefte aan markinligting by strategiese bemarkingsbeplanning inweef.

Aan die hand van die model en beskikbare interne inligting, word die warmsmeltkleefmiddelmark in die VSA ontleed en generiese strategieë word vir *SASOLWAKS* aanbeveel. Een van die belangrikste gevolgtrekkings wat gemaak word is dat die Wasdivisie sy kosteleierskap-strategie sal moet verander na 'n fokus-strategie. Hierdie bring mee die behoefte aan

verbeterde markinligting wat as vertrekpunt dien vir effektiewe strategiese bemarkingsbeplanning. Spesifieke voorstelle word gemaak ten opsigte van produk-, verspreiding-, prys- en kommunikasiebesluite. Die aanbeveling is dat hierdie riglyne gebruik moet word om 'n onvattende bemarkingsplan op te stel om te verseker dat die groei- en leierskapoogmerke vir *SASOLWAKS* wel behaal word.

PART I PROBLEM INTRODUCTION

Part I of this study introduces Sasol, its chemical marketing subsidiary, Sasolchem, and the Wax Division. *SASOLWAKS* is an important raw material used in the formulation of hot melt adhesives and its market leadership position in export markets is reviewed. Despite the rapid growth rate of the large US hot melt adhesive industry, *SASOLWAKS'* sales growth to this market has been disappointing. Various environmental factors, both macro and micro, are expected to have a major effect on the future supply of *SASOLWAKS*. Using action research methodology, this study aims to improve the Wax Division's understanding of the US hot melt adhesive industry and provide management with broad strategic guidelines to enable it to effectively compete in this market.

CHAPTER 1.

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Sasol is the 401st largest company in the world. It is the biggest focused, non-conglomerate in South Africa and the only commercially viable synthetic fuel producer in the world (Mostert, 1991:10).

The history of Sasol dates back to September 1950 when the South African Coal, Oil and Gas Corporation Limited became a public company. In 1955, the first fuel synthesis reaction was achieved in Sasolburg, and by the end of that year motorists could fill up with Sasol petrol. Meintjes (1975:18-73) explains that Sasol's intention and purpose was far more than to supply petrol and diesel oil. For this reason two synthesis plants were built, yielding virtually the full range of products normally derived from crude oil. The second of these synthesis plants was the Arge process which producers predominantly higher boiling point materials, primarily waxes.

On 21 March 1955 the sales organisation, Sasol Marketing Company, came into being, entering the competitive field of marketing petrol and chemicals. By January 1957, the steadily increasing volume of products manufactured by Sasol was successfully marketed in South Africa and abroad. In particular Sasol waxes (tradename *SASOLWAKS*) were very widely marketed in their hard, medium and soft forms for various applications, such as candles and polishes (Meintjes, 1975: 87-88).

The original Sasol Marketing Company is today known as Sasolchem and remains Sasol's marketing arm responsible for placing all chemical products in both domestic and international markets. The Wax Division is the strategic business unit responsible for the production of wax at the Sasolburg plant and marketing *SASOLWAKS* products worldwide. It is important to note that most of the wax derived from Sasol's synthetic oil-from-coal process is much harder than wax derived from crude oil, and consequently is in great demand internationally in various applications where a hard wax is required. These hard *SASOLWAKS* grades are to a large extent sold in the major world regions of North America, Western Europe, the

Far East and South-East Asia through various distributors.

Hardwax is used in diverse applications, but primarily as a raw material component in the adhesives, inks and plastics processing industries. A large portion of the Wax Division's income is from hardwax sales in these markets.

1.2 PROBLEM STATEMENT

The Wax Division currently markets approximately 34 000 tons / annum of hardwax. As the South African market is relatively small, exports account for 32 000 tons / annum (Sasolchem, 1992c:1). Sasol's hard waxes are known internationally under the trade name *SASOLWAKS*. The bulk of *SASOLWAKS* is exported to the major world regions of the US, Europe and the Far East, where Sasolchem is represented by various distributorships. In these industrialised economies, *SASOLWAKS* is an important raw material for a variety of industries, particularly hot melt adhesives, inks, plastics, polishes and textiles. The hot melt adhesive industry in particular is a very important consumer of *SASOLWAKS*. Examination of export sales information (Sasolchem, 1992a:9,17,19) confirms that almost 60% of *SASOLWAKS* sold internationally is used in the hot melt adhesive market. It is clear from table 1.1 (p.3) that in all regions Sasol is the market leader in supplying hardwax to this industry.

TABLE 1.1 HARDWAX SALES IN THE HOT MELT ADHESIVE MARKETS 1991

(thousand tons per annum)	US	EUROPE	FAR EAST	TOTAL
Estimated Hardwax Consumption	18,4	10,1	6,3	34,8
SASOLWAKS Sales	7,7	6,5	4,4	18,6
SASOLWAKS Market Share	42%	64%	70%	53%

SOURCE: ***Adapted from Sasolchem (1992a:9,17,19)***

The hot melt adhesive market has shown spectacular growth over the last 10 years, especially in the US. Begley (1989:SR6) quotes growth estimates ranging from 6% to 15% per annum. These adhesives have rapidly gained wide appeal especially for packaging.

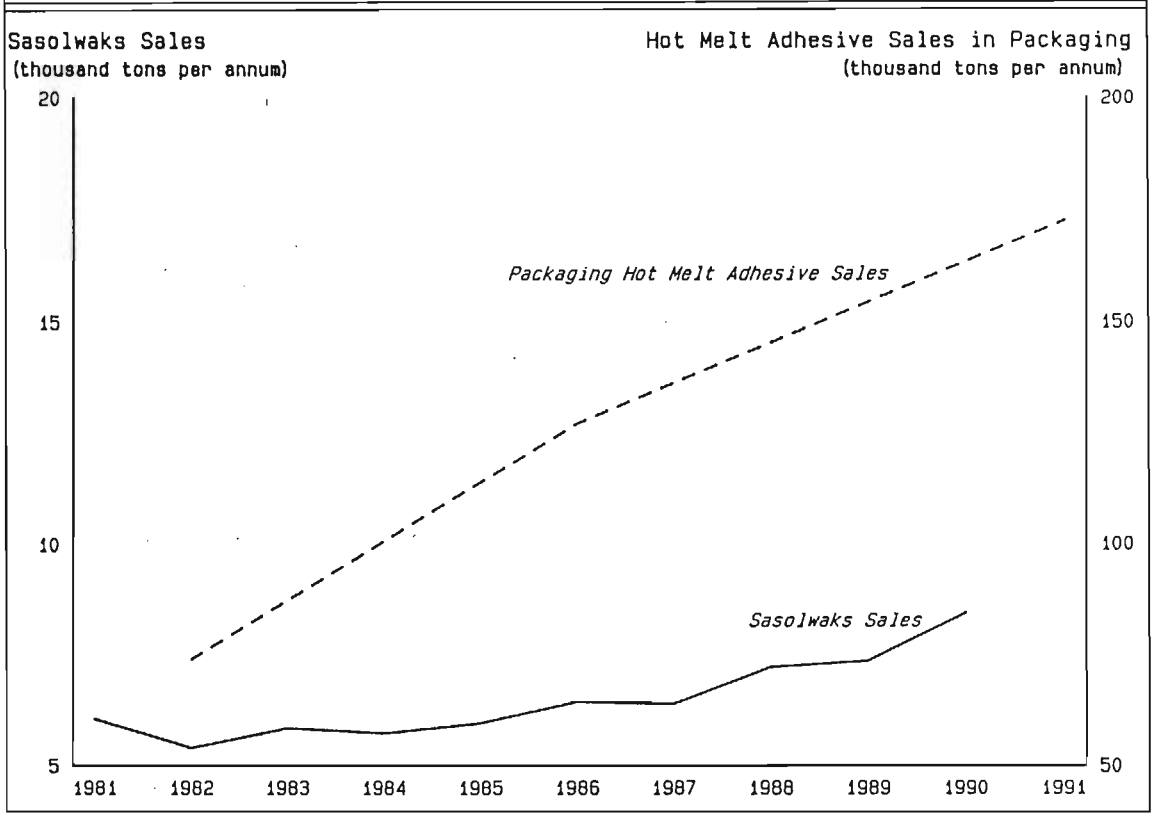
With more than 250-million consumers, the US remains the world's largest single market for packaging materials. Packaging is a $70-billion business, and the packaging market has been growing at an average compound annual growth rate of 4% (Keck, 1992:37). Hot melt adhesives enjoy a dominant position in the packaging industry due to their ability to provide very quick set to the adhesive bond. This leads to major productivity increases in sealing paperboard boxes and cartons - thus boosting factory throughput on high-speed packaging lines. *SASOLWAKS* is used extensively by adhesive manufacturers as a raw material in formulating packaging hot melt adhesives.

SASOLWAKS has a unique combination of physical properties that has earned it market leadership over the past 35 years. Low viscosity and highly crystalline molecular structure facilitate adhesive application and provide a strong, quick-setting adhesive bond. The high melting point guarantees excellent adhesive performance even at elevated temperatures (Rauch & Verbanic, 1986:4).

Despite the excellent performance of *SASOLWAKS* and the impressive growth of the hot melt adhesive market, figure 1.1 (p.5) indicates that sales of *SASOLWAKS* in the US has not kept up with the pace of growth in packaging adhesives. It appears that *SASOLWAKS* is losing market share in the hot melt adhesives industry. A possible reason is the increasing competition from other synthetic hardwaxes produced from ethylene (Dee, 1991:6).

The Wax Division, by nature of its international distributor relationship, has always been dependent on distributor efforts to maximise exports. Moore & Munger, Inc. has been the exclusive distributor of *SASOLWAKS* in the US for more than 30 years. Since Sasolchem is geographically so distant from the US, direct customer contact is very limited. In this respect, Moore & Munger plays a key role in supplying *SASOLWAKS* to serve customer needs. It is possible that a lack of market intelligence and feedback to Sasol may have contributed to Sasol's inadequate understanding of changing needs and ineffective response to new competition.

FIGURE 1.1 GROWTH IN THE US HOT MELT ADHESIVE MARKET vs SASOLWAKS SALES



SOURCE: ***Adapted from Moore & Munger (1981-1992); Frost & Sullivan (1987:2) and De Bell & Richardson (1972:34)***

It is the firm belief of the Wax Division that a better understanding of the US hot melt adhesive market is required to determine the changing needs of this industry. The planned expansion of hardwax production capacity in 1993 (Robertson, 1991:1) places further demands on the Wax Division to formulate and implement appropriate strategies to grow *SASOLWAKS* sales to the hot melt adhesive industry.

1.3 PURPOSE OF THE STUDY

The primary objective is to provide the Wax Division management with broad strategic guidelines for marketing *SASOLWAKS* in the US hot melt adhesive industry. These strategies should form the basis of a strategic marketing plan that can be implemented to better position *SASOLWAKS* to prosper in this highly competitive, dynamic industry.

A secondary objective is to provide a clearer understanding of the marketing concept, its relation to strategic marketing planning and the critical role of marketing information. It is hoped that an understanding and appreciation of these concepts will provide further impetus to Sasol's gradual shift from its historic production orientation to a market-driven culture.

1.4 RESEARCH SCOPE AND METHODOLOGY

This brief introduction to the problem facing the Wax Division and resultant study objectives suggests that *action research* is an appropriate methodology to carry out this study. A review of the definition and process of action research, in fact, indicates remarkable similarities with the process of strategic marketing planning.

McKernan (1991:5) describes action research as: "The reflective process whereby in a given problem area, where one wishes to improve practice or personal understanding, inquiry is carried out by the practitioner - first, to clearly define the problem and secondly, to specify a plan of action... Evaluation is then undertaken to monitor and establish the effectiveness of the action taken. Finally, participants reflect upon, explain developments, and communicate these results to the community..."

The research scope and methodology used for this study, is best introduced by reviewing some of the major concepts underlying the character of action research. McKernan (1991:32-33) explains that action research:

- Focuses on a single unit or specific case (case study methodology is a preferred form of research);
- Focuses on increasing human understanding;
- Is concerned with sharing results to improve the quality of human action and practice;
- Focuses on problems of immediate concern;
- Is scientific: by stating problems, formulating action hypotheses, planning data collection, analysing results and reformulating hypotheses, the action researcher exercises rigorous scientific principles of procedure;
- Does not consider problems to be "fixed": as research proceeds the problem may be seen in a new light and a new definition of the situation may be required;

- Is collaborative: all those with a stake in the problem have to be included in the search for a solution; and
- Invites critique, as this is a pivotal aspect of the process and an important step towards understanding and interpretation.

The following discussion confirms the relevance of these concepts to the action research methodology selected for this study .

Since the US is the world leader in the use of hot melt adhesives in the packaging industry, this study will specifically focus on the US market. In view of significant *SASOLWAKS* exports to the rest of the world, however, an improved understanding of the US market should also provide valuable insight into market trends in other world regions. The results of this study should be shared with export managers in these areas as a basis for improving their marketing strategies.

The hot melt adhesive market in the US is extremely competitive and adhesive manufacturers are continually endeavouring to minimise costs in an attempt to maintain a competitive advantage (Plishner, 1992:47). Manufacturers are understandably very secretive about their adhesive formulations for fear of their proprietary information falling into competitors' hands. It is thus very difficult to extract any details from them on hardwax raw material requirements or other related wax market information.

The wax expansion project and the immediate need to increase *SASOLWAKS* sales was reviewed (p.5), as was the lack of market intelligence (p.4). This shroud of secrecy hanging over the hot melt adhesive market should not, however, deter an attempt to research the problem. McKernan (1991:225) explains that it is critical to examine what information and data one has and how one might proceed to interpret and understand these. It is important to note that one should not wait for adequate information before beginning analysis. As McKernan (1991:150) points out, a rich source of evidence for the research practitioner can be found in analysing documents such as texts, newspapers, minutes of meetings, letters, diaries, memos or scripts. In fact, any written account may be considered a document.

The case record is an edited selection of the full data available, depending on the researcher's judgment as to what is likely to be of interest and value as evidence

(McKernan, 1991:75). The primary case records forming the basis of the study of the US hot melt adhesive market include market research reports, published marketing information in newspapers, magazines and trade journals, and confidential Sasolchem and Moore & Munger documents containing intelligence from strategic conferences, Board reports, sales statistics and minutes of meetings.

The model proposed in figure 3.1 (p. 27) as a framework for guiding strategic marketing planning covers the essential aspects of the process of action research. The strategic situation analysis; target market and positioning strategies; implementation and control of the marketing plan to deliver customer satisfaction, is in fact no different to problem definition; plan of action; effectiveness evaluation embodied in the definition (p.6) of action research. This would suggest that the process of strategic marketing planning is merely a specific type of action research.

The scope of this study is limited to providing strategic guidelines based on the information presently at hand. It is recommended that the analysis and recommendations provided are studied by Wax Division management and other relevant parties with a view to drawing up a marketing plan whereby action can be controlled. The discussion has indicated that action research is a shared search for knowledge and thus sets up knowledge as "provisional" and open to question. The author does not regard himself as an expert, but as an inquirer and co-learner. Critique is welcomed that will assist in an understanding of the US hot melt adhesive market and formulating appropriate *SASOLWAKS* strategies.

1.5 ORGANISATION OF THE STUDY

The study is organised into three parts:

PART I - PROBLEM INTRODUCTION

Chapter 1 (p.2) introduces Sasol, *SASOLWAKS* and the role of the Wax Division of Sasolchem. *SASOLWAKS* is an important raw material to export markets worldwide, particularly the hot melt adhesive industry where *SASOLWAKS* is the market leader. The unsatisfactory growth rate of *SASOLWAKS* sales to the important US market is summarised. The purpose of this study is to carry out action

research which will provide the basis for marketing strategy recommendations to compete more effectively in the US hot melt adhesive industry.

Chapter 2 (p.12) further supports the relevance of this study. The brief review of various causal factors, both internal to Sasol and in the external environment, confirms the need for this study.

PART II - THEORETICAL OVERVIEW

A model is proposed outlining key aspects of strategic marketing. A literature review is carried out to discuss various components of the model.

Chapter 3 (p.18) introduces the need for strategic marketing planning, relating it to an understanding of the marketing concept and the critical role of marketing information. A general overview of the strategic marketing planning process is presented. A model is proposed integrating these key concepts into the framework for the marketing situation audit, target market and positioning strategies developed for *SASOLWAKS* in part III (p.83).

Chapter 4 (p.29) provides a brief understanding of market segmentation and generic business strategies to compete in the target market. The value of the experience curve and product life cycle is explored, as is the role of industry environment and the competitive situation in custom tailoring strategies. Key aspects of future strategy are also outlined.

Chapter 5 (p.43) is a broad literature study of specific strategies that need to be considered in positioning the market mix. Useful recommendations are made to guide industrial product, distribution, pricing and communication strategies.

PART III - A MARKETING STRATEGY FOR SASOLWAKS

Chapter 6 (p.84) analyses the broad US hot melt industry, the major players in the market and the environmental trends impacting on this industry. The role of *SASOLWAKS* vis-á-vis competitive waxes is investigated. Finally, an analysis of internal strengths and weaknesses provides an insight into the strategic situation facing the Wax Division.

Chapter 7 (p.104) identifies the packaging hot melt adhesive segment as the target market where *SASOLWAKS* currently commands a competitive advantage. Strategy guidelines are suggested to strengthen its position in this segment. Generic strategies are recommended to grow sales in other segments and other markets.

Chapter 8 (p.113) summarises the broad marketing objectives of the Wax Division. Guided by the appropriate literature, it recommends specific product, distribution, price and communication strategies to attain these objectives.

1.6 TECHNICAL TERMS

- **Hot Melt**
  Thermoplastic compound, 100% solid at room temperature, which becomes sufficiently fluid when heated to be pourable or spreadable, and cools to form a coating or adhesive bond. The adhesive is described as a hot melt adhesive.

- **Petroleum Wax**
  Soft waxes derived from the refining of crude oil. They are either paraffin or micro in nature. Traditional applications are the manufacturing of candles, polishes and coating paper.

- **Fischer-Tropsch Wax**
  Sasol's hardwaxes originating from coal and produced as a co-product of fuel by the reaction of hydrogen and carbon monoxide.

- **Polyethylene**
  A plastic compound manufactured by the polymerisation reaction of ethylene.

- **Polyethylene Wax**
  Hardwaxes produced by the reaction of ethylene or by-products from a certain polyethylene manufacturing process.

- **Ethyl Vinyl Acetate**
  One of the most important copolymer raw materials that provides the adhesive with strength.

- **Tackifier**

  A resin raw material with a complex molecular structure that provides the "stickiness" of the adhesive.

CHAPTER 2.

CAUSAL FACTORS TO THE STUDY

2.1 INTRODUCTION

Since hot melts have to compete with other types of adhesives (solvent and water-based) it is important firstly to address hot melts in the broad framework of the US adhesives industry. A variety of macro developments are driving this industry and influencing the various market players. Sasolchem's leadership position as a hardwax supplier to the hot melt adhesives industry was reviewed in section 1.2, (p.3) and management clearly need to be aware of and react to these changes.

Similarly, on the micro level, there are internal developments within the Sasol group that are placing additional demands on the role *SASOLWAKS* must play in the hot melt adhesive market.

This chapter aims to provide a brief introduction to the role of these factors in the justification of this study.

2.2 MACRO FACTORS

There are several technological and market forces that are shaping the dynamics of the US adhesive industry, affecting raw material suppliers to this market:

2.2.1 Adhesive Industry Growth Rate

According to Einhorn & Strobel (1991:40) the adhesive industry has enjoyed reasonable growth during the past few years. During 1990, it became clear that the industry, having reached a certain stage of maturity, was not going to grow rapidly during the immediate future. Adhesive manufacturing capacity greatly exceeds demand and, with unit demand dropping in many segments, margins are suffering.

The hot melt adhesive segment of the business is also cooling off. Begley (1989: SR6) remarks that players in the hot melt adhesive industry acknowledge

that the tide of strong growth has receded, and for the immediate future they can look forward to respectable but unspectacular market expansion. The major markets they serve are all approaching maturity, leaving an array of niche areas to carry on higher-than-average growth.

2.2.2 Intense Competition from Other Hardwax Producers

Internal market intelligence provided by Dee (1991:6), indicates a growing threat from a specific type of polyethylene wax. Certain plastic manufacturing processes produce, as a by-product, a wax slurry that can be refined to produce a polyethylene wax at very low cost. This hardwax is being offered very cheaply in competition to *SASOLWAKS* at some major hot melt adhesive accounts. The concern is that with the growth of the plastics industry, more and more of this material will become available at low prices. Although its quality is inferior, with improved refining techniques this product may pose a more serious threat to *SASOLWAKS'* dominance in hot melt adhesives.

Sasol is still the only commercial producer of oil-from-coal in the world and its Fischer-Tropsch hardwax is unique (Mostert, 1991:10). However, Shell has announced its construction of a large oil-from-coal facility in Malaysia which will have the capability of making significant volumes of Fischer-Tropsch hardwax similar to *SASOLWAKS*. Shell is sampling potential customers (Rauch & Verbanic, 1992a:2).

2.2.3 Wax Substitution by Other Raw Materials

Wax functions as a hot melt solvent for the adhesive blend, reducing both melt viscosity and cost. However, there are warnings that wax can lead to poor interfacial adhesion with substrates. Tse *et al.* (1990:193) claim: "We can formulate wax-free hot melt adhesives by using a low melt viscosity ethyl vinyl acetate copolymer modified solely with tackifier". Since low viscosity is one of the major competitive advantages of *SASOLWAKS*, this news is alarming.

2.2.4 Impact of New Products

In keeping with the changing trends and marketing focus, new products are

constantly being introduced by most hot melt suppliers. Noonan (1990:57) points out that the focus is on constant research and development to bring out a host of new product ideas and applications. Creativity is the key. Hot melt adhesive producers are going beyond their standard material bases in compounding as well as looking at different applications for adhesives. For example, hot melt adhesive sales in microwave food packaging are increasing rapidly. Polyurethane could be the feedstock to carry hot melt adhesives into the next century, especially if the newly patented "foam melt" technology can successfully trim the heavy price tag (Anon, 1990:9).

2.2.5 **Environmental Aspects**

Glenn & Downey (1991:1) expect environmental issues to have a significant impact on the US wax market. As a relatively low-cost material with excellent performance characteristics, wax has gained a strong position in a wide range of products. This position is now being challenged by such environmental issues as recyclability, biodegradability, and compostability, among others. If left alone, the long term outlook for wax in several key market segments is not good. If wax is to survive on a "green" planet, it will need the help of the wax suppliers.

Despite this apparent threat, regulatory compliance introduces certain opportunities. According to Naude (1991:4) the efforts of adhesive formulators are largely concentrated on removing solvents from adhesive formulations and the development of waterborne and hot melt alternatives. It is suggested that the hot melts are pulling ahead of waterbornes in terms of market penetration because they increase production speed and require less space for application.

2.2.6 **Economic Aspects**

The economic rebound from the recession provides further opportunities for improving *SASOLWAKS'* sales growth. Lünsche (1991:10) reports that analysts expect exports will continue their strong performance in 1992 as the world's leading economies are set to show firmer growth rates. Sasol can capitalise on this opportunity, as it has reconfirmed its goal of becoming an international player in petrochemicals and entering areas where it has a competitive advantage (Efrat, 1992:1). This study aims to provide effective strategies that match the

competitive strengths of the Wax Division with the threats and opportunities in the external environment.

2.3 MICRO FACTORS

Internal developments within Sasol will make a variety of demands on the performance of the Wax Division. Improved market information and more focused research and development efforts are becoming key aspects of planning effective marketing strategies to effectively compete in selected target markets.

2.3.1 Sasol I Expansion Project

Announcements have recently been made (Robertson, 1991:1) that Sasol plans on spending R850-million on rejuvenating the ageing Sasol One oil-from-coal plant. The strategy is to concentrate on producing higher value products from available feedstock, hence the emphasis to switch from fuels to chemicals. This will result in an increase in wax production from 64 000 tons to 120 000 tons per annum. The Wax Division of Sasolchem accepts a major challenge in marketing the additional waxes.

2.3.2 Requirements for Market Information

It is imperative that marketing decisions are based on good market information. Swanepoel (1991:20) sees the 21st Century as a challenge to commerce and industry, and business is urged to prepare for the future. In a changing environment, South African businessmen need to be aware of, and ahead of, international developments. It is thus critical that the Wax Division's strategy is guided by a thorough understanding and appreciation of the US hot melt adhesive market.

2.3.3 Provide Direction to Research and Development

Clark (1992:12), president of the Council for Scientific & Industrial Research, provides valuable guidelines on the changes needed in South Africa's approach to technology. These changes are equally relevant to Sasolchem's wax research efforts. Clark urges that we should no longer depend on the "strategy of hope"

approach to research and development management which was popular among large bodies in the 1950s. Here, bright people and money were combined in the hope they would produce new, successful products. Now the emphasis should be on examining the nature of the changing environment, and finding ways to provide solutions to specific problems. An understanding of the new technologies and other forces driving the hot melt adhesive business will assist in providing direction to the work carried out in wax research.

2.4 SUMMARY

The brief analysis of various external factors in Sasolchem's macro environment suggests an uncertain future for *SASOLWAKS* in the US hot melt adhesives market. Intense competition from cheap polyethylene waxes is a major threat that needs to be addressed. The effect of environmental issues and new technologies that eliminate wax from hot melt adhesive formulations should also be considered. The trend away from solvent based adhesives and the recovery of the world economy nevertheless provides opportunities for improving *SASOLWAKS'* sales growth to the hot melt adhesive industry. The Sasol One wax expansion project will provide sufficient hardwax to capitalise on these opportunities. Market information and effective research and development guidance to produce wax products that satisfy adhesive customer needs are important elements of strategic marketing to be addressed.

PART II THEORETICAL OVERVIEW

Part II of this study is a literature review of important aspects of industrial marketing strategy. A model is proposed relating the marketing concept to strategic marketing planning. Various components of the model relating to strategy formulation are discussed.

CHAPTER 3.

UNDERSTANDING AND PLANNING MARKETING STRATEGY

3.1 INTRODUCTION

There is no shortage of literature on the theory of strategic marketing planning. Whether one examines the work of McDonald (1985:10), Kotler (1984:62), Cravens (1987:14) or Hutt & Speh (1985:248) all generally agree on a framework that includes the following:

- Definition of the company mission, which provides a broad outline of the company's business domain, beliefs and long term goals;
- A situation analysis which examines the specific product/market characteristics, customer needs, competitor analysis, threats and opportunities in the external environment, as well as the internal strengths and weaknesses inherent in the company's current strategy;
- The selection of a generic strategy that focuses the company's strengths and weaknesses to address the threats and opportunities prevailing in the selected target market;
- Specific strategies related to the product, channels of distribution, price and marketing communication to achieve certain objectives; and
- Organisational structure and controls that will govern the implementation of the marketing strategy.

This chapter briefly outlines the process of strategic marketing planning. It also stresses the importance of strategic marketing, its relationship to the marketing concept and the need for marketing information. A model is proposed that depicts how these are interrelated, and serves as a framework for developing the strategies proposed in chapters 7 (p.104) and 8 (p.113).

3.2 THE NATURE OF MARKETING AND THE MARKETING CONCEPT

Before exploring the theory of strategic marketing, it is appropriate to first reflect on

the basic nature of marketing. O'Shaughnessey (1987:2) introduces the subject with the simple truth that success in business is success in a market. Firms go out of business not by closing factories, but by unprofitable marketing. Firms usually enter a business by creating products, but stay in business only by creating and retaining customers at a profit. It is the task of marketing to guide the firm into generating only those products for which customers can be attracted; to position the product in a market with the right promotion, servicing, pricing and distribution - right, that is, from the customer's point of view - and to continue to do so at a profit, so that the effort and risk of producing and marketing are worth that much more than the expense involved.

Webster (1979:6) elaborates on this theme, indicating that the hallmarks of modern marketing are customer orientation and a long-range, or strategic, viewpoint that make an organisation responsive to its ever-changing environment. In this view, the critical function performed by every economic organisation is the creation of customer satisfaction through the provision of goods and services carefully developed in response to customer needs and wants. For this business firm, profit is a reward for creating a satisfied customer.

Peters & Austin (1985:37-40) observe that an obsession with customers is a key sustainable strategic advantage that characterises excellence. They emphasise: "Customers, not markets. Not marketing. Not strategic positioning. Just customers. A market has never been observed paying a bill. Customers do that." Peters & Austin (1985:107) contend that a company should *smell* of customers.

O'Shaughnessy (1987:9) goes even further by questioning to what extent a customer should be satisfied. He argues that a firm that merely satisfies loses out to the firm that pleases. Since a buyer's preferences are based on what are considered to be relevant differences between competitive offerings, customer expectations are intimately related to what competition (known or anticipated) is offering. Hence, the more competitive the market, the more a firm must meet or exceed customer expectations to beat the competition.

Cravens (1987:9) argues that the marketing concept is commonsense logic based on three vital cornerstones:

- Start with the customer's needs and wants as the foundation of business purpose. An organisation must identify these needs and wants and then decide which ones it should try to satisfy;
- Next, an organisation must determine how it will satisfy these needs and wants. This is the responsibility of all members of the enterprise, not just those assigned to the marketing function; and
- Finally, the opportunity to meet organisational objectives will occur through the enterprise's efforts to deliver customer satisfaction.

There appears to be agreement that the marketing concept revolves around the design of offerings to secure customers. Customer orientation asserts that marketing must be concerned with making available what customers *want*, rather than with trying to persuade people to buy what the firm finds is convenient, congenial or just profitable to make.

3.3 THE NEED FOR MARKETING PLANNING

Business successes and disasters often share one characteristic: strategic planning, or the lack of it. Cravens (1983:68) claims there is an overwhelming base of evidence indicating that strategic planning is one of the high priority action areas of US business today. The glamour and mystery often associated with strategic planning mask what should be viewed as a demanding yet logical process of deciding the mission and objectives of the enterprise and then devising strategies for reaching objectives.

Lotshaw (1970:4) contends that the businessman has lacked a customer orientation because of a narrow viewpoint of marketing which sacrifices long term profits for short term volume. The expansion of formal marketing planning as a part of the total business planning will assist in the correction of these deficiencies. Because of the proliferation of alternative products and services resulting from the rapid pace of technological change, the industrial firm can no longer be "all things to all people" but rather must increasingly focus on particular market segments in which the firm can achieve a competitive advantage.

Industrial products are typically sold to a number of user groups, each of which has its particular application requirements. This diversity means that the requirements of

each market or user segment must be understood and dealt with individually to ensure a successful sales and marketing effort. Ames (1972:325) agrees that all-purpose products or "buckshot approaches" to the marketplace simply will not work in a world of increasing specialisation.

Bonoma (1981:16) adopts a different approach, conceding that marketing is an inexact discipline. Understanding why one particular marketing strategy produces success while another does not may be impossible. Not surprisingly, then, managers are frequently reluctant to tamper with marketing strategies that have been successful in the past, even when market conditions have changed. Instead, managers frequently persist with old marketing strategies, even as profits and other indicators suggest the need for change. He labels this inability of management to adapt to market changes "marketing inertia", and argues that managements possessing a certain rigidity in values are most inclined towards marketing inertia. To counter this inability to adapt, he advises managers to improve their understanding of market practices and conditions through such means as auditing their markets and closely monitoring their customers' attitudes. Bonoma (1981:17) explains that inertia can develop when a successful company lets itself get out of touch with its customers, sales force or distributors.

Michaels (1982:13) urges management to develop a clear sense of direction. As the saying has it: "if you don't know where you are going, any road will take you there". All too often, key decisions regarding target consumers, product categories, the roles of advertising and price strategies are not explicit and not updated as competitive and environmental factors change. Inertia seems to carry many companies along.

Abell (1978:131) refers to the term "strategic window" to focus attention on the fact that there are only limited periods during which the "fit" between the key requirements of a market and the particular competencies of a firm competing in that market are at an optimum. Investment in a product line or market area should be timed to coincide with periods in which such a strategic window is open.

Ames (1968:196) suggests that many product managers are so bogged down with other responsibilities that they have no time to do the planning expected of them. If planning is the core of the product manager's job, it should clearly receive top priority.

In summary, marketing planning plays a critical role in identifying which customer needs the organisation is able to satisfy and to devise specific strategies that focus on particular market segments in which the firm can achieve a competitive advantage. Management is strongly advised to adapt to market changes and make time for planning.

3.4 THE NEED FOR MARKETING INFORMATION

Any plan can only be as good as the information on which it is based. Business decisions affecting market performance should thus reflect a sound understanding of the needs and wants of potential customers, yet building and then maintaining the required market expertise is often quite difficult. Woodruff (1976:173) explains that marketing managers may not have frequent direct contact with customers due to the corporate hierarchy or their physical location, which keeps them tied to a desk and away from the distribution points where products are sold. Complicating the physical separation of managers and customers is the tendency for markets to change - sometimes slowly, sometimes rapidly.

Appleton (1968:123) emphasises that in today's accelerating rate of change and highly intensified competition, the greatest challenge to an executive is the management of change. Change can be viewed as having four dimensions: technological, political, social and economic. A common denominator of the above is "knowledge of the business". This is gained by going through the planning process which is initiated with nothing more than an immense amount of pertinent, well organised marketing information. Lack of good formal or informal marketing intelligence results in sub-optimal courses of action which can cost the corporation hundreds of times the cost of gathering the market information it could have used.

Gross (1985:165) points out that research into business markets can offer a high payoff when applied critically in high leverage situations such as:

- Influencing a high-cost decision;
- Influencing the shape of a major new activity;
- Influencing the direction of business strategy;
- Influencing marketing productivity; and
- Creating new fundamental knowledge and theory.

According to MacDonald (1968:131), poor product performance, competitive action, inadequate marketing efforts, as well as obsolescence and timing, are frequent causes of new product failure. However, the reason most commonly cited was inadequate market knowledge. Hutt & Speh (1985:459) refer to the concept of strategic control which is based on a comprehensive evaluation of whether the firm is headed in the right direction. The essence of control is information. A control system is nothing more than an organised body of information which allows management to evaluate how the firm has done and where future opportunities may be.

There is agreement that information is a vital element of marketing strategy and this would suggest that any businessman who can answer certain basic questions better than his competitors has a major strategic advantage. The literature also provides broad guidelines on the type and various sources of information required:

3.4.1 **Information Type**

MacMillan (1982:275) mentions three major areas to which resources must be deployed for intelligence to be effective. First is *product intelligence*, which can have high importance, especially in the early stages of the product life cycle, when the desired nature of the product, its desired characteristics, production methods, delivery methods and service requirements are still being articulated by the developing market. Second is *market intelligence* - information concerning the current and emerging needs, values and relative power of major distributor and customer groups. Market intelligence can be particularly important in the mature stage when the emergence of new needs or changes in old needs signal opportunities for segmentation. Finally there is *competitive intelligence*, which is always important, but emphasis switches from direct competition in the early stages of the life cycle to substitute competition as the product matures. Grabowski (1987:39) argues that the more volatile the marketplace, the greater the need for detailed, accurate information on a competitor's activities. Everyone in the company has a role to play in collecting competitor information, which should be evaluated by a central intelligence committee.

3.4.2 Information Source

- **Market Contact:** Peters & Austin (1985:25-31) promulgate listening - conscious, proactive, "naive listening". The lion's share of new ideas comes from the users. They refer to "management by walking about" as the technology of the obvious. It is being in touch, with customers, suppliers, your people. It facilitates innovation and re-inforces organisation values to every member of the organisation.

  The industrial salesman's role in achieving this end-user understanding is crucial, and in many respects the most important activity he performs. The intelligence he develops about the end-user's needs, business patterns, economics, and so on, should serve as the lifeblood for future product/market plans. This is discussed further in section 5.5.2 (p.72).

- **Market Research:** According to Wilson (1973:x) there is a hunger for certainty in marketing operations. This has prompted the emergence of industrial marketing research as a major management aid. Yet, Daniels *et al.* (1976:350) point out that it is ironic that, although managers know less about the foreign environment than the domestic, the amount of research done abroad is small compared with that done domestically.

  Hague (1986a:87) observes a trend towards a distancing of the industrial company from its customers due to an increasing tendency to use distributors who can hold stocks and quickly service the end-user accounts. This situation suggests all the more need to carry out market research. Industrial companies with a large number of end users recognise that these are not all the same, and market research has become important in identifying segments of special interest.

  Michaels (1982:14) includes the use of market research as one of the primary elements in building "marketing muscle". He claims that you cannot have a marketing organisation unless product development and customer selection are driven by an intimate knowledge of target consumers - their identity, location and buying power; their needs and wants; the ways they use the product; and their attitudes towards your company and what it makes. Such knowledge can

only come through painstaking market research.

- **Published Market Information:** Despite consensus on the benefits of market research, Olivier (1989:128) points out that field research has become so expensive that it should be commissioned only where essential. He explains that we live in the age of the "information explosion", with information pouring out from governments, official bodies, trade associations and the media. The manager can satisfy many of his information needs "off the page" or "down the wire" at relatively low cost. But knowing *where* to look is a recent skill.

  Behof (1986:46) agrees that 95% of all necessary corporate data can be found in the public arena. Goldstein (1985:244) recommends the following sources of market information generally available in the business and economics section of any large university library:

  - Basic sources (handbooks, directories, business publications);
  - The national market (gross national product information, census statistics from the US Department of Commerce);
  - Regional data on the economy (newspapers, commercial banks, State Board of Trade Reports);
  - Activities that make up the economy (statistics from the Census of Manufacturers and Census of Business, trade publications);
  - Advertising and promotion;
  - Distribution of goods and commodities (Department of Agriculture); and
  - Market behaviour (proprietary company studies, consumer surveys, industrial surveys).

  Since the main value of marketing data remains strategic planning, Olivier (1989:128) recommends the construction and management of a marketing database or management information system that is adequately resourced.

It is clear that market information forms the basis of understanding customer needs, competition and environmental influences on various product markets. The type and extent of information required varies through different stages of the product life-cycle. Market research, customer contact and published market information are important sources of intelligence.

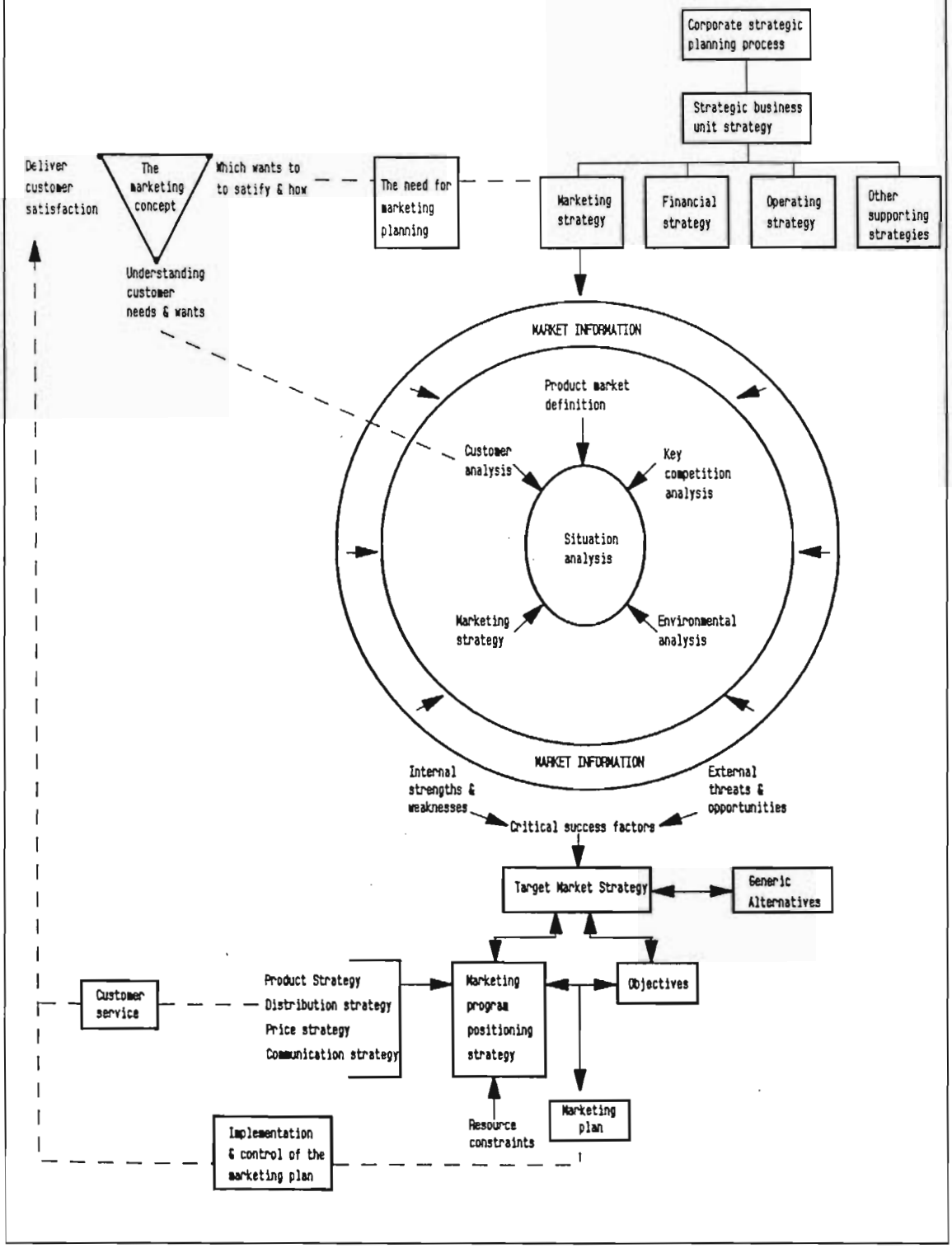
3.5 AN OVERVIEW OF THE STRATEGIC MARKETING PLANNING PROCESS

It is not the intention of this study to cover the numerous proposals in the literature describing the process of strategic marketing planning. However, it is appropriate to summarise a generally accepted framework that will form the basis of the model to be developed, integrating the marketing concept, marketing information and marketing planning.

Cravens (1987:25) reviews the key elements of the strategic marketing planning process. He explains that strategic marketing planning starts with an understanding of the corporate mission, objectives and strategy of each business unit. Next the marketing situation analysis considers market opportunities, buyers, competition, and the strategic marketing situation confronting the organisation. The selection of the people (or organisations) to be targeted by the company follows the situation analysis. The market target decision indicates the needs to be satisfied by the marketing program positioning strategy. Positioning is the combination of product, channel of distribution, price and communication strategies selected by management to position the firm against against its key competitors in meeting the needs of the market target. Finally, the strategic marketing plan assembles the various decisions in targeting, setting objectives, and marketing program positioning. Strategic marketing planning is a continuing process of making strategic decisions, implementing them, then evaluating and managing the marketing strategy.

This framework can be expanded to include Cravens' (1987:9) explanation of the marketing concept. The model in figure 3.1 (p.27) is proposed to provide a clearer understanding of the interdependence between the marketing concept, strategic marketing planning and marketing information. It also serves as a framework for preparing the marketing strategy for *SASOLWAKS* in part III (p.83).

FIGURE 3.1 THE STRATEGIC MARKETING PLANNING PROCESS



SOURCE: Adapted from Cravens (1987:322,579)

3.6 SUMMARY

While the marketing concept offers considerable direction to management in charting the course of an enterprise into the future, implementing the marketing concept is a continuing activity requiring carefully selected strategies and effective management of the strategies over time. The marketing concept contains the supporting logic for developing marketing strategies. It does not indicate how these strategies should be developed, but rather what should occur when the strategies have been properly planned and implemented. Thus the major distinction between the marketing concept and marketing strategy is that the former expresses a desired outcome while the latter delineates the strategic actions necessary to achieve it. In both instances, however, accurate information providing a clear understanding of the customer's needs and wants is critical.

A model was developed integrating the marketing concept, marketing strategy and market information. It was argued that an understanding and desire to implement the marketing concept leads to the need for marketing planning. Market information is a prerequisite for the effective analysis of the marketing situation.

Key components of the model concerned with strategic choice and strategy formulation are:

- The target market strategy which analyses the important choice which customer needs to satisfy, based on broad strategies that provide a competitive advantage. This is discussed in chapter 4 (p.29).
- Specific product, price, distribution and communication strategies to optimally position the organisation to compete in the selected target market(s). Chapter 5 (p.43) explores various recommendations in the marketing literature.

CHAPTER 4.

TARGET MARKET STRATEGY

4.1 INTRODUCTION

Cravens (1987:582) regards the market target decision to be the focal point of marketing strategy; it serves as the basis for setting objectives and developing a positioning strategy. Options range from using a mass strategy to serving one or more sub groups (niches or segments) of customers within a product market. Generally the US hardwax market is segmented by product application. Since the hot melt adhesive segment has already been targeted as the subject of this study, the approach to market segmentation need only be briefly summarised. Hlavacek & Reddy (1985:42) caution the industrial firm, however, to distinguish between an industry and market segments within an industry, and this will be further investigated in chapter 7 (p.104) when the hot melt adhesive market is segmented even further.

The aim of this chapter is:

- To provide a brief overview of the various categories to segment an organisational market;
- Assuming that segments can be identified in a product market, to determine what target to follow and the various factors that affect this decision;
- To review various tools in the literature that provide broad strategy guidelines; and
- To briefly examine key issues for formulating future marketing strategy.

4.2 APPROACHES TO MARKET SEGMENTATION

Bonoma & Shapiro (1983:1) define segmentation as "the process of separating a market into groups of customers, prospective customers or buying situations so that the members of each resulting group are more like the other members of that group than like members of the other segments".

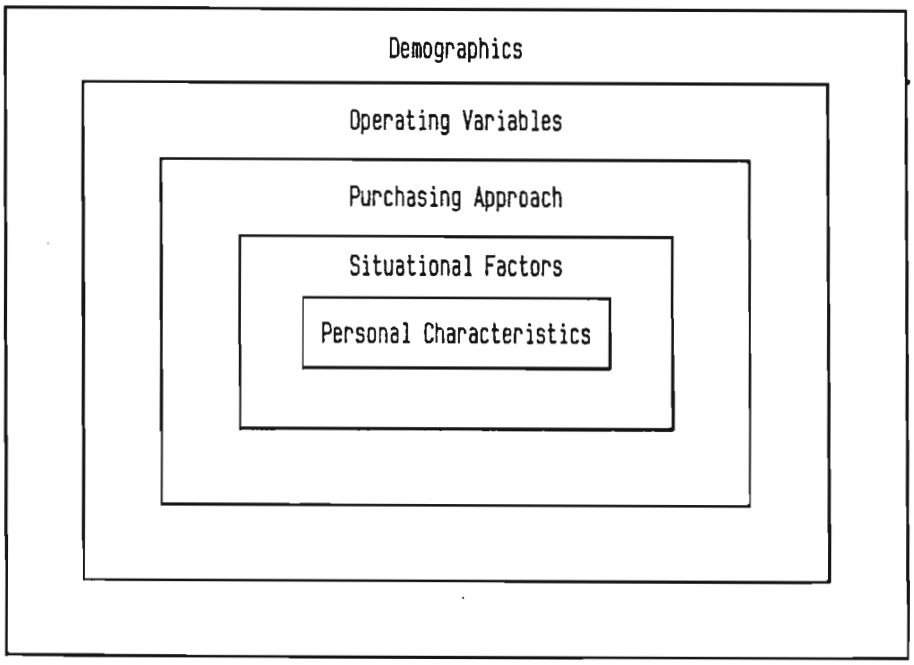
Bingham & Raffield (1990:204) identify the following categories of variables for

segmenting organisational markets:

- Type of economic activity;
- Size of organisation;
- Geographic location;
- Product usage; and
- Structure of the procurement function.

Bonoma & Shapiro (1983:10) have developed a nested approach which stresses segmentation according to the amount of investigation required to identify and evaluate different criteria. Layers are arranged so as to begin with organisation demographics the easiest to access. Then come increasingly complex criteria, including company variables, situational factors and personal characteristics, as summarised in figure 4.1 (p.30).

FIGURE 4.1 A NESTED APPROACH TO MARKET SEGMENTATION



SOURCE: ***Bonoma & Shapiro (1983:10)***

The abovementioned would suggest that industrial product markets are highly heterogeneous, complex, and often hard to reach because of the multitude of products and uses as well as a great diversity among customers. Formulating a coherent marketing strategy can be extremely difficult in such an environment. Proper segmentation can be of great assistance in this respect.

4.3 GENERIC BUSINESS AND COMPETITIVE STRATEGIES

Kotler (1984:265) explains that market segmentation reveals the market segment opportunities facing the firm. The marketer then has to evaluate the long-run profit potential of each segment as an aid to deciding how many segments to choose.

Thompson & Strickland (1987:106) claim there are countless strategy variations and options. However, when one delves beneath the differences in detail and looks at the basic character, the amount of fundamental strategy variation narrows considerably. From this more generalised perspective it is possible to single out three generic approaches to competing in the marketplace. According to Kotler (1984:267) the firm can adopt one of three market coverage strategies:

- **Undifferentiated Marketing.** The firm might decide to ignore market segment differences and go after the whole market with one market offer;
- **Differentiated Marketing.** Here the firm decides to operate in several segments of the market and designs separate offers to each; or
- **Concentrated Marketing.** Many firms see a third possibility that is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or few sub-markets.

Cravens (1987:307) agrees, indicating that management has the option of selecting one or more niches as a market target or, instead, the option of using a mass strategy. The following factors often affect this decision:

- **Stage of the Product Life.** As the product moves towards maturity, the opportunity (and need) for segmentation typically increases;
- **Extent of Buyer Differentiation.** The more complex the structure as to competing firms, variety of product offerings, variation in user needs and wants,

and other factors that contribute to complexity, the more likely is it that a useful niche scheme can be found;

- **Market Position.** Low-market share firms can often strengthen their position against the competition by finding a niche where they have (or can achieve) a differential advantage; and
- **Structure and Intensity of Competition.** The more firms there are serving an industry, the more likely it is that segmentation will be an appropriate market target strategy.

Other considerations such as availability of resources and production / marketing scale economies may limit the amount of segments a firm may feasibly target. These factors will guide the selection of a generic strategy for *SASOLWAKS* in chapter 7 (p.104).

Porter (1980:3-33) suggests that it is industry structure as reflected in the strength of just five forces that determines the state of competition (both the rules of the game and strategies available and, ultimately, the profit potential of the industry). A firm should identify the extent to which it can influence or defend itself against these five forces. Under this concept of extended rivalry, all these forces offer competitive threats to the business. These five forces are:

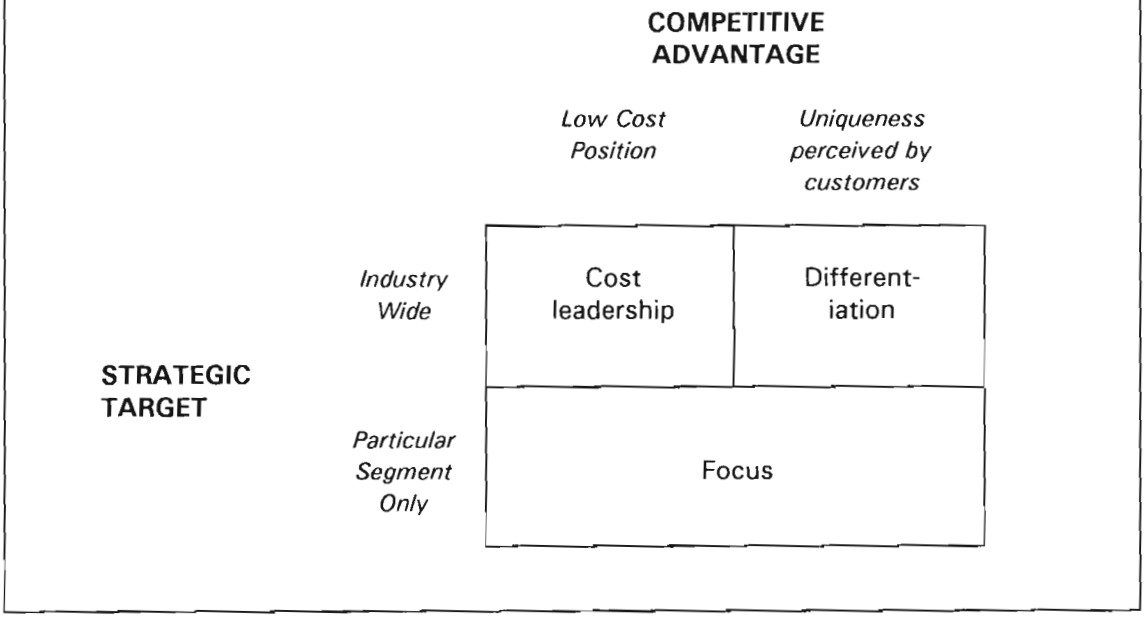
- Threat of new entrants;
- Bargaining power of buyers;
- Threat of substitutes;
- Bargaining power of suppliers; and
- Intensity of rivalry.

Porter (1980:35) argues that there are just three generic strategies for coping with the five competitive forces. They are:

- Cost leadership;
- Differentiation; and
- Focus.

The generic strategies are shown in figure 4.2 (p.33).

FIGURE 4.2 **GENERIC STRATEGIES TO PURSUE COMPETITIVE ADVANTAGE**



SOURCE: ***Porter (1980:39)***

Each of the generic strategies involves a fundamentally different route to competitive advantage sought with the scope of the strategic target in which competitive advantage is to be achieved. The notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy, and achieving competitive advantage requires a firm to make a choice. Porter (1985:12) cautions that being "all things to all people" is a recipe for strategic mediocrity and below-average performance, because it often means a firm has no competitive advantage at all. It will be identified in section 7.5 (p.107) that *SASOLWAKS* runs the risk of being caught in this position in the US market.

There is thus agreement that the first step in selecting a marketing strategy is deciding whether to offer a single, undifferentiated product to the entire market, or to differentiate the product offering to appeal to various segments of the market. The next decision is whether to compete on a broad basis or select a narrow target. Product life cycle stage, market position and competitive intensity are some of the factors that influence choice of generic strategy. Most important, however, is that a choice is made on how to achieve a competitive advantage.

4.4 EXPERIENCE CURVE ANALYSIS AND THE PRODUCT LIFE CYCLE

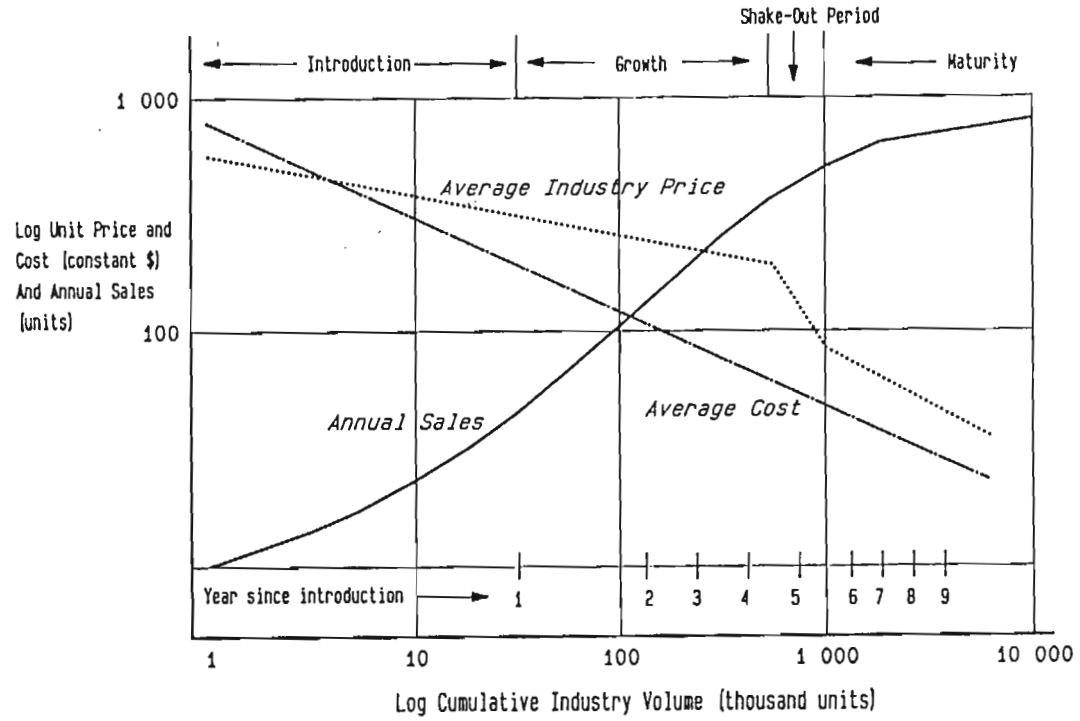
According to Robinson (1986:167), experience curves have received attention from strategists because they allow for estimates of existing and future company, competitor and industry segment cost patterns. They allow for quantitative estimates of cost behaviour and provide powerful guidelines for setting strategy in industries in which the experience curve exists. Most applications of experience curves appear to have been found in the manufacturing sector. The experience curve is based on the discovery that costs decline by a predictable and constant percentage each time accumulated production experience (volume) is doubled. It is vitally important to realise the fact that as experience is gained, costs do not necessarily decline. Costs that are not carefully managed will inevitably rise. Experience merely gives management the opportunity to seek cost reductions and efficiency improvements. A thorough effort must be made to exploit the benefits of experience (Hutt & Speh, 1985:268).

Robinson (1986:201) advises that the key to setting strategy is market segmentation, followed by predatory price-cutting to create barriers to entry, to gain market share, and thereby to decrease costs. It was indicted in section 4.3 (p.31) that the product life cycle concept could be used to guide the decision of a mass versus differentiation strategy. Figure 4.3 (p.35) demonstrates how the experience curve can be linked to the product life cycle to provide a base for further developing industrial marketing strategy. It can be seen that industry prices can be expected to decline sharply as markets approach maturity. It is essential that costs are driven down the experience curve to remain profitable during the shake-out period.

According to Webster (1979:91) the behaviour of the product life cycle is caused by three forces over which management has little or no control: changing customer needs and preferences, advancing technology, and changing competition. In this light, then, the product life cycle concept has three very significant implications for marketing strategy. Firstly, it shows clearly the need for a continuous stream of new product ideas. Secondly, it suggests that different marketing strategies are needed at different stages of the product life cycle. In other words, the marketing program should contain an appropriate mix of product quality, price, distribution and promotional features to reflect the nature of competitive forces at each stage. These are summarised in table 4.1 (p.36). Thirdly, the product life cycle shows the importance of planning for the total life of the new product at the time the product is

being developed and its market introduction planned. Without such a long-term view, encompassing the realities of competition and tight margins in the later stages of the product life cycle, estimates of long-run profitability and return on investment may be exceedingly optimistic (Webster, 1979:93).

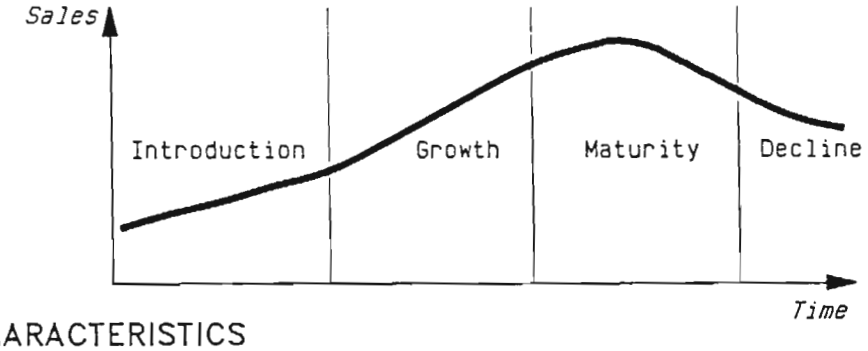
FIGURE 4.3 PRODUCT LIFE CYCLE STAGES AND THE INDUSTRY PRICE EXPERIENCE CURVE



SOURCE: ***Day & Montgomery (1983:51)***

It is important to note that the product life cycle concept is not prescriptive. However, Kotler (1984:372) concurs that the concept is used by many managers to interpret product and market dynamics. As a *planning* tool, the product life cycle concept characterises the main marketing challenges in each stage and suggests major alternative marketing strategies the firm might pursue. As a *control* the product life cycle concept allows the company to compare product performance against similar products in the past. As a *forecasting* tool, the product life cycle is less useful because sales histories exhibit diverse patterns, and the stages are of varying duration.

TABLE 4.1 **MARKETING STRATEGIES IN DIFFERENT STAGES OF THE PRODUCT LIFE CYCLE**



CHARACTERISTICS

Sales	Low sales	Rapidly rising sales	Peak sales	Declining sales
Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
Profits	Negative	Rising profits	High profits	Declining profits
Customers	Innovaters	Early adopters	Middle majority	Laggards
Competitors	Few	Growing number	Stable number beginning to decline	Declining number

MARKETING OBJECTIVE

	Create product awareness and trial	Maximize market share	Maximise profit while defending market share	Reduce expenditure and milk the brand

STRATEGIES

Product	Offer a basic product	Offer product extensions, service warranty	Diversify brands and models	Phase out weak items
Price	Use cost-plus	Price to penetrate market	Price to match or beat competitors	Cut price
Distribution	Build selective distribution	Build intensive distribution	Build more intensive distribution	Go selective : phase out un-profitable outlets
Advertising	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market	Stress brand differences and benefits	Reduce to level needed to retain hardcore loyals
Sales Promotion	Use heavy sales promotion to entice trial	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal level

SOURCE: ***Kotler (1984:373)***

In summary, experience curve analysis can be used to capitalise on opportunities for improved efficiency within the firm, or to better understand competitive behaviour. The product life cycle concept is useful in exploring the underlying dynamics of a market and in evaluating alternative strategy scenarios. It should not be used to prescribe simple strategies, but rather as an analytical tool.

4.5 STRATEGIES MATCHED TO TYPES OF INDUSTRY ENVIRONMENTS AND COMPETITIVE SITUATIONS

How firms custom tailor their generic strategies is conditioned partly by the industry environment in which they compete and partly by each firm's situation in that environment (Thompson & Strickland, 1987:113). An analysis of the position of *SASOLWAKS* in the US hot melt adhesive industry in chapter 6 (p.84), concludes that although *SASOLWAKS* is the market leader, the industry is not only beginning to show signs of maturity, but is also in the depth of a recession.

Appropriate strategies for *SASOLWAKS* under these conditions are further explored:

4.5.1 Strategy and Industry Evolution

Porter (1980:190) identifies three stages in an industry's evolution:

- Emerging industries;
- Transition to industry maturity; and
- Declining industries.

He agrees that the types of threats and opportunities, and hence what would constitute strengths and weaknesses for the firm, differ at varying points in the evolution of an industry and the firm's position in the industry. It was indicated in section 2.2.1 (p.12) that hot melt adhesives sales are "cooling off" because the industry segments they serve are approaching maturity. It is therefore appropriate to review Porter's (1980:237-253) recommendations during *transition to industry maturity.*

This phase is accompanied by slowing growth, falling profits, excess capacity, intense competition and less product innovation, with a shift in focus to non-product aspects of the offering (for example, image, service). Customers become

knowledgeable about the product and so may increase their relative power. The transition to industry maturity should be a transition to a more efficient better co-ordinated, tighter controlled organisation where market share is increased not so much by converting from rivals, but by retaining present customers, increasing their level of business and attracting new entrants to the market. More specifically, market share is likely to be enhanced either by catering more closely to segment wants or by developing new segments.

Porter (1980:247) lists a number of errors commonly made by firms in transition to industry maturity. One such error lies in sacrificing market share for short-term profits by not reacting to aggressive promotions by rivals. Another error lies in neglecting market penetration and market development for a focus on product development. Finally, intense competition is apt to tempt firms into adopting ill-focused strategies that lack the critical mass necessary for success.

4.5.2 **Strategies for Leaders and Dominant Firms**

The competitive positions of industry leaders and dominant firms normally range from stronger than average to powerful. The main competitive strategy issue for an industry leader is how best to sustain what has been achieved and how to become or remain the leader. Thompson & Strickland (1987:114-115) suggest three different competitive postures:

- **Stay on the Offensive Strategy**. This strategy is based on the principle that the best defence is a good offence. The keys to success are constant innovation and the launching of initiatives that keep rivals guessing, off-balance and scrambling to respond. The innovative goal is to be the source of innovative products, quality enhancements, improved customer services, ways to cut production costs and use of different distribution channels;

- **Hold and Maintain Strategy**. The essence is a good defence, according to Thompson & Strickland (1987:114). The goal is to make the leader's competitive advantage more sustainable by erecting "fortifications" to protect its present market standing. Specific actions can include increased spending on advertising, customer service and product capacity; broadening the product line to close off possible vacant niches or to match attributes of challenger brands; figuring out ways to increase customer switching costs; keeping prices

reasonable and quality attractive; or

- **Competitive Harassment Strategy**. Thompson & Strickland (1987:115) suggest the leader should send clear messages to rivals that any moves to cut into the leader's business will be "bloody" and will provoke heavy-handed retaliation. Strategic themes include being quick to meet all competitive price cuts (with even larger cuts if necessary) and having sales persons "bad-mouth" the products of aggressive small firms.

4.5.3 Strategies During Recession

Kotler (1984:434) points out that during a recession firms are under terrific pressure to lower their break-even point by increasing efficiency and reducing fixed costs. Top management puts pressure on their purchasing department to search for ways to do with less or to trade down in what they buy. The purchasing agents get tough with their existing suppliers, trying to wrest lower prices and threatening to switch to other suppliers. Thus sellers have to think hard about price and value positioning as they try to maintain their business with existing customers. It is also a time for new opportunities. Sellers who can innovate products that will save companies money will find a welcome mat at the door.

Appropriate strategies under these circumstances recommended by Kotler (1984:436-439) include the following:

- Analyse product line profitability, prune out losing products and redirect resources into building up or entering more promising markets;
- Companies with a good image and superior product should emphasise value and avoid aggressive price tactics that might cheapen its image. Rather consider introducing "economy models" to meet the market's need for lower prices and more value per dollar; and
- Companies should find ways to incite their sales force to try harder. For example, some companies add bonuses for selling the higher-profit products and excess-inventory products.

According to a report in Chemical Marketing Reporter (Anon,1992:9), to spark growth, companies have stepped up spending on research and development. Research and development now represents 4,4% of sales in the US, up from 2,8%

20 years ago. Total research and development expenditure in South Africa amounts to between 0,7% and 0,8% of gross domestic product, suggesting additional investment in research and development may be required if South Africa is to become a competitive exporter in world markets (Wood, 1991a:9).

In summary, there appears to be some consistency in the strategies for dominant firms and firms operating in industries approaching maturity. Recurring themes include innovation to more closely meet specific segment needs, improved service levels, and tighter control over costs in order to maintain competitive price levels.

4.6 STRATEGIC GUIDELINES FOR THE FUTURE

In a study (Webster, 1981:15) of top manager's views of the marketing function, there was virtually unanimous agreement that marketing is the most important management function in their businesses, and they see it becoming more important in the future. They believe that the development and maintenance of an effective marketing organisation is a major requirement for success in an economic environment of increased competition and slow growth.

A survey by Coopers & Lybrand (1986:1) suggests that "strategic marketing" is the new buzzword among top executives who are becoming aware that they need to redefine and improve their marketing and market planning orientations - or suffer the consequences. The majority of executives surveyed said they planned significant increases in marketing research to help them reach the right market niches in the most cost-effective manner possible. Over the remainder of the decade, these companies will strive to refine their information collection and analysis procedures to provide greater insights, precision, and timeousness. Most plan to increase budgets for market planning staffs and new-product development programs.

Rockwell & Particelli (1982:250) see the winners of tomorrow as companies that realise that success is a journey, not a moment in time. They will continue to improve. Committed to change, they will:

- Address the specific needs of market segments;
- Use strategy as a management prerequisite;
- Manage with stringent criteria;
- Customise structures based on strategic roles of new products;

- Build sustainable advantages in economics and marketplace value;
- Exploit cumulative experience from each new product introduced;
- Institutionalise entrepreneurship through incentives for risk taking; and
- Reward the new products manager for return rather than volume.

Michaels (1982:12) identifies the most effective marketing organisations as being customer oriented; they take an integrated approach to planning; they look further ahead and they have highly developed marketing systems. Unfortunately, these elements of a solid marketing capability cannot be implanted overnight: building "marketing muscle" is at least a three-year endeavour, requiring *change* in at least six areas:

- Investment by top management;
- Injection of outside talent;
- Development of a clear sense of direction;
- A refocusing on the consumer;
- Use of market research; and
- Introduction of genuine product management and product-line planning.

Darling & Taylor (1989:34) expand on the concept of change. They remark that competition in many countries has reached high levels of intensity that are continuously moving upwards. Business organisations need to respond expediently to changing environmental factors. At no other time has the need for business organisations to operate at their most efficient and effective levels of marketing been greater than it is at present. Unfortunately, most organisations are not operating at even a high level of marketing effectiveness and efficiency. One specific reason for this, in a number of organisations, is internal resistance to marketing, particularly to significant changes in the international marketing programme and its role in the organisation.

Change, however, cannot be implemented outside the framework of *corporate culture*. Manning (1992:12) is convinced that corporate culture is one of the greatest management traps ever. Unfortunately, what worked yesterday won't necessarily work today. And tomorrow it'll almost certainly be of no use. So to cling to the past, to values, policies and ways of doing things that made sense in another time, makes no sense at all in a learning organisation. An organisation's culture is shaped most powerfully by its leadership. The best culture is the one that

makes the firm most competitive over time. But always, the one thread that runs through everything you do must be your drive to win with your customers. With this goal in mind, there are characteristics that describe the best companies: vision, anticipation, focus, flexibility, knowledge, boldness, responsiveness, commitment, creativity and communication.

4.7 SUMMARY

Market segmentation is the practice of dividing up a market into distinct groups that have common needs, and that will respond similarly to a specific set of marketing actions. Before target markets can be chosen, the marketing manager must decide how many segments and which segments will provide the best return, given limited resources. The basic choice between an undifferentiated mass approach or a differentiated niche strategy is often governed by factors such as the stage in the product life cycle, market position and intensity of competition.

The experience curve and product life cycle analysis were introduced as valuable tools for understanding market dynamics and evaluating strategy. Guidelines were provided on tailoring generic strategies to match industry environment and competitive situation. There appears to be agreement in the literature that customer orientation and the addressing of the specific needs of market segments are critical elements for the winners of tomorrow. This implies a refocus on the importance of the marketing function, the need for marketing information and strategic marketing planning. Organisation leaders should begin reshaping the organisational culture to overcome internal resistance to change.

CHAPTER 5.

STRATEGIES FOR POSITIONING THE MARKETING MIX

5.1 INTRODUCTION

Once the firm's best differential advantage has been determined in selected target markets, specific product, price, distribution and communication strategies must be designed and implemented to optimally position a firm in each target market segment.

Whereas chapter 4 (p.29) provided broad guidelines on various strategic courses a firm should take, this chapter provides a deeper insight into specific marketing mix strategies prescribed in the literature.

5.2 INDUSTRIAL PRODUCT STRATEGY

Formulating a strategic marketing plan for an existing product line is the most vital part of the company's marketing planning efforts (Hutt & Speh, 1985:266). Having identified product attributes of importance to organisational buyers, and having compared the firm's product offerings with those of competitors, the planner now considers the current and projected performance of the total product mix.

5.2.1 Product Portfolio Analysis

The value of product life-cycle analysis was covered in section 4.4 (p.34). However, Webster (1979:93) points out that firms seldom have careful procedures and systems for evaluating old products and deciding to eliminate them when they begin to consume resources instead of contributing to the firm's profitability and growth. But, as new products are the lifeblood of a business, old products can be a major drain on the resources of the firm, requiring excessive management attention, selling effort, and other life-sustaining resources. Systems for the evaluation and euthanasia of old, sick products have as much potential for sustaining company profitability as those whose purpose is to develop and introduce new products.

Product portfolio analysis is a creative analytical approach for assessing alternative product/market opportunities.

Both Turnbull (1990:12-13) and Thompson & Strickland (1987:184) include the following as most commonly quoted techniques for evaluating a portfolio of products or businesses to determine investment objectives:

- The Boston Consulting Group approach, which focuses on market share and market growth; and
- General Electric's business screen, which classifies products or businesses into one of nine cells depending on the attractiveness of the industry and the position of the business within the industry;

Product portfolio analysis provides, therefore, a framework for determining the most profitable areas for the firm to channel resources into and the areas from which to withdraw (O'Shaughnessy, 1987:19). This provides a basis for choosing among various investment objectives such as:

- Growth;
- Hold/defend;
- Turnabout;
- Harvest; and
- Divest.

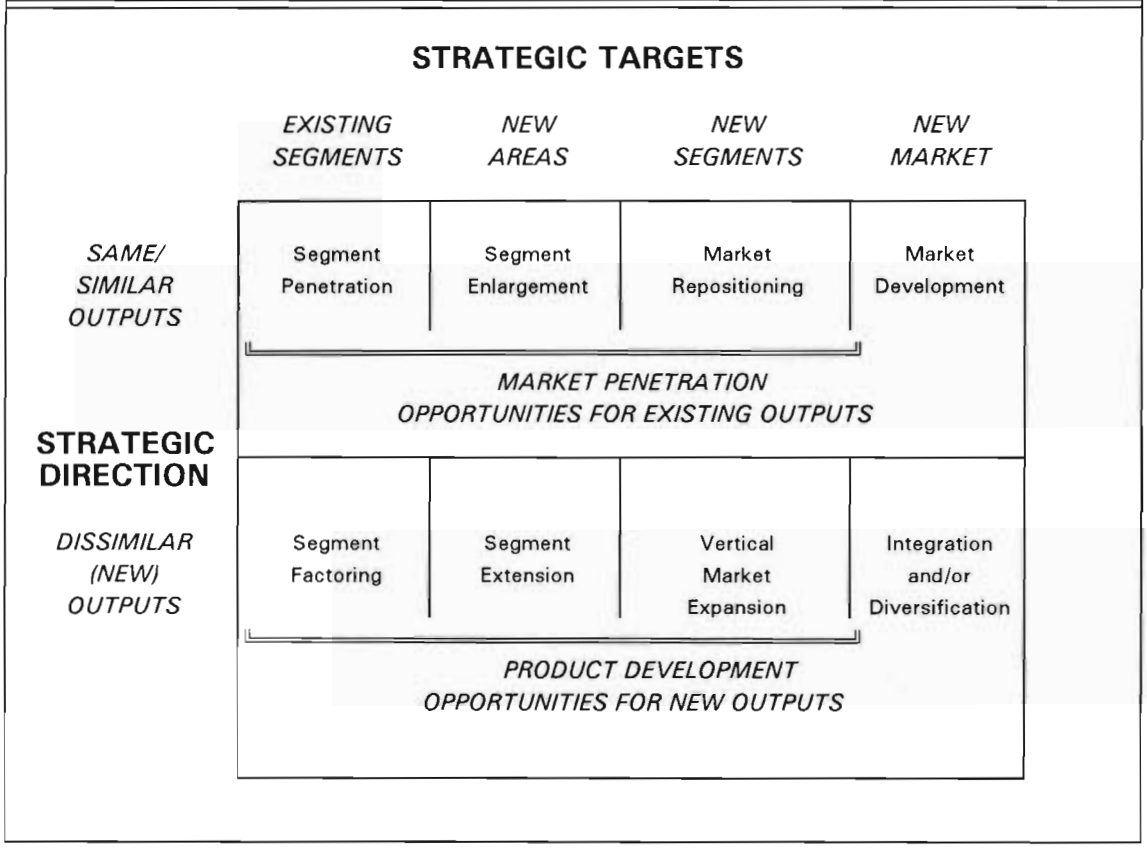
It will be argued in section 8.3.1 (p.114) that the Wax Division needs to pursue a growth strategy. Figure 5.1 (p.45) summarises a set of growth options that may be considered. Growth can be achieved with existing, or new products by further penetrating existing market segments, covering larger geographical areas, approaching other segments of the market or seeking entirely new markets (O'Shaughnessy, 1987:41-43).

5.2.2 **Perceptual Mapping**

In considering the various growth options, it is imperative to analyse the sources of competitive advantage. Porter (1985:45) insists that to diagnose competitive advantage, it is necessary to define a firm's "value chain" for competing in a

particular industry. A firm's impact on the buyer's value chain is particularly important. Value is created when a firm creates competitive advantage for its buyer - lowers its buyer's cost or raises its buyer's performance. However, this value created for the buyer must be perceived by the buyer (Porter, 1985:53).

FIGURE 5.1 **GROWTH OPTIONS**



SOURCE: ***O'Shaughnessy (1987:40)***

Perceptual mapping is a consumer-based technique useful for its diagnostic and strategic application to industrial products and product classes. Sinclair & Stalling (1990:55) regard this technique as especially useful for evaluating the threat of substitute-products and in developing strategies for successful competition. Information gained from the perceptual map can provide guidance in new product development and product positioning.

General positioning strategy guidelines proposed by Sinclair & Stalling (1990:63-64) include:

- Increasing the salience of a dimension on which the firm's product rates well;
- Changing the perception of a product or an attribute in order to reposition the product itself. While marketers should never attempt this strategy if the product does not possess an adequate quantity of the attribute in question, the strategy is ideal when misconceptions about a product exist. If the product lacks the attribute, repositioning through new product development might be possible;
- Altering the perceptions of competing products, boosting the position of the firm's product while pointing out the fallibility of competitive claims; and
- Adding characteristics to those considered in the model. Through marketing communications, a firm can make consumers aware of an attribute that has previously not been considered salient, or may not even have existed. This type of strategy is most often attempted when a product is at the mature stages of its life cycle.

5.2.3 **New Product Development**

Both product portfolio analysis and the perceptual mapping technique are likely to suggest a strategy of new product development. In fact, Webster (1979:90) views new products as the lifeblood of any business. They energise the company's marketing, sales, and distribution activities and provide new opportunities in the face of declining markets for existing products. Management of new products is one of the most challenging tasks in marketing, and new product development and commercialisation can be a very risky business indeed. Despite the high probability of a new product failure, Webster (1979:90) insists that new products are a necessary response to changing customer preferences and dynamic competition in the marketplace. A stagnant product line is good evidence that an industrial firm has failed to keep up with advancing technology and the state of the art in its industry.

- **New Products - Success or Failure?**

Hutt & Speh (1985:284) insist that market knowledge and marketing proficiency characterise industrial firms that launch successful new products. Before a commitment is made to a particular product design, the industrial product planner

must know the key buying criteria or specifications that the target market segments use in purchasing such products. Hutt & Speh (1985:285) suggest that eventual market share for a new product is dependent on market awareness, technical acceptance, individual preference, and group decision making.

Gupta *et al.* (1986:10) point out that factors such as environmental stability, complexity, diversity and hostility are uncertainties that increase the information processing needs of an organisation and, hence, the need for co-ordination and control among organisational sub-units. They further propose the greater environmental uncertainty perceived by an organisation, the greater the need for research and development - marketing integration in the product innovation process.

Moore (1987:7) provides the following insight into the new product practices of large industrial product manufacturers in the New York area. There is widespread agreement:

- That proper atmosphere and management support are required for a new product program to be successful over time;
- On the importance of product champions; and
- That successful companies have a balanced strategy in terms of marketing and technology and were focused in terms of what opportunities to pursue.

He further concludes that there is little disagreement that the primary path to successful new products is through the satisfaction of customer needs or the solution to customer problems. In fact, continual, informal, in-depth contact with leading customers throughout the development process can be a principal factor behind the success of new products. New product failure, on the other hand, is frequently associated with inadequate detailed marketing studies and test markets.

Webster (1979:121) agrees, claiming that there are many examples of new industrial products that failed due to inadequate marketing effort, including lack of careful market analysis and a failure to define market segments with precision. Among the causes of new product failure mentioned are:

- Failure to define precisely that segment of the total market in which the product is likely to have the greatest value for users;

- Underestimation of the amount of marketing effort required, resulting in an inadequate deployment of resources;
- Inadequate understanding of the composition of the buying centre and of its decision process, causing an underestimation of the amount of time required for the intrafirm adoption process;
- Lack of awareness of established relationships between potential customers and existing suppliers;
- Lack of awareness of influence patterns and market structure in the potential customer's industry; and
- Lack of integration between marketing and research and development.

5.2.4 **Successful Product Planning**

It would appear that in many businesses today, effective planning for the entire product line is simply too large and complex a responsibility for one man to handle. Ames (1968:189) claims companies failing to recognise this fact and strengthen their organisations accordingly have found their product-market strategies in trouble. New products fail because marketing executives, already overloaded with existing product responsibilities, lack time to plan the market entry of the new ones. Minor products never realise their full potential because marketing managers are too busy trying to meet their major goals. This is why more and more businesses have turned to the product manager concept. The advantages, according to Ames (1968:189) have included:

- Better definition of each product's market, future direction, and needs, and a clearer conception of the company's relative competitive position and opportunities;
- Clearer understanding of the economic consequences and market impact of alternative decisions and strategies for each product;
- More explicit and better-integrated product goals (volume, profit, market share) and sounder specific programs in all areas of the business;
- For key line executives, better understanding of these goals and strategies and of the efforts they will require; and
- More effective implementation and follow-up of agreed-upon plans, and more timely adjustments when needed to strengthen product positions and profits.

5.2.5 The Strategic Management of Technology

According to Harris *et al.* (1982?:531), it is clear that throughout the coming decades, competitive advantage, new product development, new markets, productivity and profitability will be tied directly to technology. Advances on the technological front are revolutionising both mature and high-technology industries, radically altering traditional business strategy and triggering dramatic shifts in global market share. The industrial winners in this era of economic imbalance and escalating competition will be those firms that seize and exploit technology as a corporate strategic weapon - an asset that can be effectively managed in support of business and corporate strategy.

Porter (1985:164) supports this notion, claiming that of all the things that can change the rules of competition, technological change is among the most powerful. It should be noted that technological change is not important for its own sake. It is important only if it leads to a sustainable competitive advantage. Key issues in formulating technology strategy include the following:

- **The Choice of Technologies to Develop**

Porter (1985:177) has observed that in many firms, research and development programs are driven more by scientific interest than by competitive advantage sought. At the core of a technology strategy should be the type of competitive advantage a firm is trying to achieve. The technologies that should be developed are those that would most contribute to a firm's generic strategy, balanced against the probability of success in developing them. Depending on which generic strategy is being followed, the character of technology strategy will vary a great deal, as shown in table 5.1 (p.50). Technology strategy must also be consistent with and reinforced by choices in other value activities. Porter (1985:176) explains that a technology strategy designed to achieve differentiation in product performance will lose much of its impact if, for example, a technically trained sales force is not available to explain the performance advantages to the buyer and if the manufacturing process does not contain adequate provisions for quality control.

TABLE 5.1 PRODUCT AND PROCESS TECHNOLOGY AND THE GENERIC STRATEGIES

	COST LEADERSHIP	*DIFFERENTIATION*	*COST FOCUS*	*DIFFERENTIATION FOCUS*
PRODUCT TECHNOLOGICAL CHANGE	Product development to reduce product cost by lowering material content, facilitating ease of manufacture, simplify logistical requirements etc.	Product development to enhance product quality, features, deliverability, or switching costs.	Product development to design in only enough performance for the target segment's needs	Product design to meet the needs of a particular segment better than broadly targeted competitors.
PROCESS TECHNOLOGICAL CHANGE	Learning curve process improvement to reduce material usage or lower labour input. Process development to enhance economies of scale.	Process development to support high tolerances, greater quality control, more reliable scheduling, faster response time to orders, and other dimensions that raise buyer value.	Process development to tune the value chain to a segment's needs in order to lower the cost of serving the segment.	Process development to tune the value chain to segment needs in order to raise buyer value.

SOURCE: ***Porter (1985:178)***

- **Technological Leadership or Followship**

The decision to become a technological leader or follower by achieving either low cost or differentiation is, according to Porter (1985:182), based on three factors:

- Sustainability of the technological lead;
- First-mover advantages; and
- First-mover disadvantages;

Wood (1991b:3) argues that South Africa does not have the skilled manpower or the resources to compete with countries such as the US. The recommendation is that South Africa should concentrate on the "follower" alternative, improving technology developed overseas rather than developing new technology at a grass roots level.

5.3 INDUSTRIAL DISTRIBUTION STRATEGY

Distribution is part of the total product offered to the customer, a major dimension of service. The role of physical distribution as part of the service package and the functions of the middle-man in the marketing channel must be carefully defined in the context of overall marketing strategy.

One of the most critical, but often unperceived problems facing the manufacturer of industrial goods is the extent to which the channel of distribution effectively bridges the gap between manufacturer and customer. Matthews (s.a.:220) points out that this bridge is important because the manufacturer relies heavily on the channel of distribution for functions ranging from the actual sales effort to warehousing and physical handling.

5.3.1 Physical Distribution as a Tool of Competitive Marketing Strategy

Competitive strategies were at one time centred largely around product features and prices. Stewart (1965:242) remarks that this list has now been expanded to include physical distribution. Many companies are creating strong competitive advantages for themselves by out-performing their competition on customer service and product availability. Moreover, by helping to lower the customer's inbound freight, receiving and inventory costs, an even stronger advantage can be gained. The realisation that a highly responsive, reliable physical distribution system can facilitate marketing

efforts and actually help to generate additional sales volume is spreading rapidly. This is supported by research work carried out by Perreault & Russ (1976:5) and summarised in table 5.2 (p.52). Their findings indicate that logistical services rate second only to product quality in influencing industrial purchasing decisions.

TABLE 5.2 A STUDY OF HOW INDUSTRIAL PURCHASING MANAGERS EVALUATE LOGISTICAL SERVICE.

Supplier Characteristics	Relative Importance in in the Purchase Decision
Product Quality	0,176
Distribution Service	0,171
Price	0,161
Supplier Manager	0,152
Distance to Supplier	0,114
Required Order Size	0,108
Minority/Small Business	0,078
Reciprocity	0,046

SOURCE: ***Perreault & Russ (1976:5)***

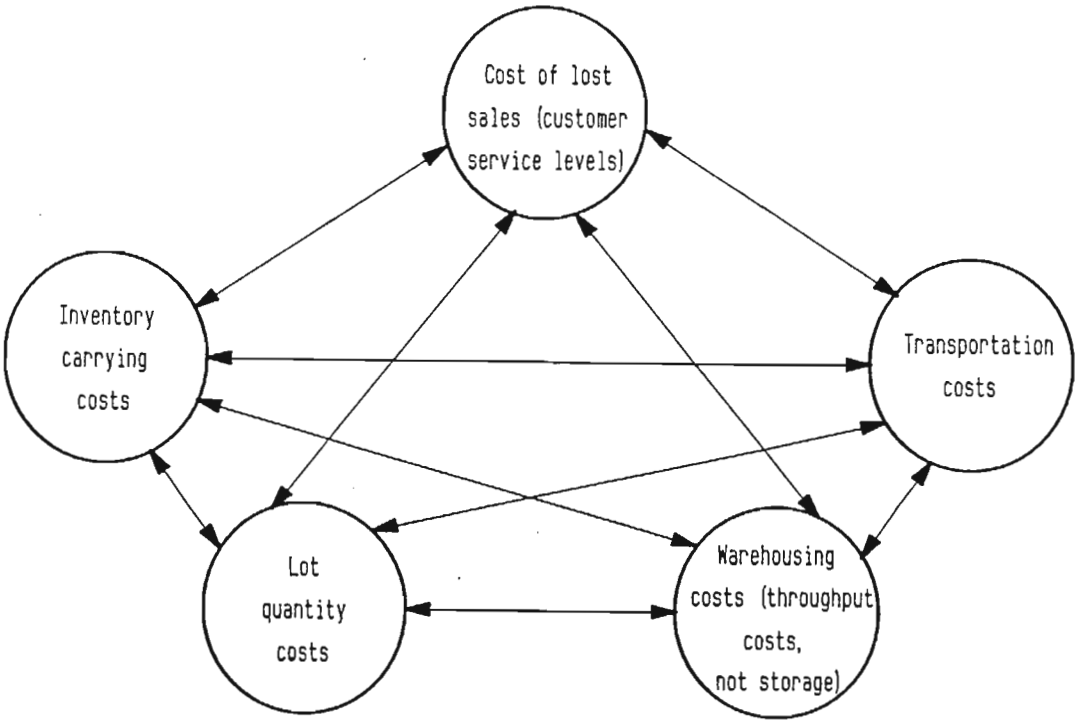
Despite the apparent consensus regarding the importance of physical distribution logistics, Webster (1979:180) points out that effective management of the logistics function as a part of the marketing mix has been hindered in many industrial firms by viewing it as part of the manufacturing function. One side effect of this has been a tendency to view logistics as a cost element (involving inventory investments and transportation expense) and to regard cost reduction and control as the major dimensions of effectiveness, rather than thinking in terms of customer service. Very often, the objectives of maximising customer service and minimising distribution cost are in direct conflict. This means that real conflict can exist between manufacturing and marketing in their views of the distribution function.

An important step toward resolution of this conflict was the development of what Webster (1979:180) describes as the "total distribution cost concept". At any

given customer-service level, management should minimise total logistical cost rather than attempt to minimise the cost of each component. Lambert & Armitage (1980:47) quantify poor service as the cost of lost sales. They agree that effective management and real cost savings can be accomplished only by thorough evaluation of the various cost trade-offs in the logistics system, as demonstrated in figure 5.2 (p.53).

The aspect of customer service will be further addressed in section 5.3.2 (p.54).

FIGURE 5.2 COST TRADE-OFFS IN THE LOGISTICS SYSTEM



SOURCE: ***Lambert & Armitage (1980:47)***

Lalonde & Mason (1985:5) remark that for the past 30 years the strategy of choice has been to use inventory to solve many of the problems facing the business firm. However, during the past decade, a number of important forces are quietly changing

the face of a significant range of purchasing, manufacturing and distribution systems: the high cost of money making asset productivity a key management goal; a whole new set of technological changes on the horizon - the primary change being the nature and cost of information; the changing nature of the competitive environment in which customers are becoming more sensitive to service performance. Lalonde & Mason (1985:8-13) suggest various "principles of logistics" which could form a foundation for response to these forces. Among these are: upgrading the order-processing system to include more timely and focused use of customer order information; improving internal communications and procedures which would be designed to reduce unplanned variances in the system; simplifying transactions to remove, wherever possible, human intervention in the system; linking the collection, transmission and storage of data within the system or between the system and outside suppliers, customers or third party distribution service suppliers.

Against the current global economic slowdown (accentuated in South Africa by an ongoing, long-term recession), Nagel (1992:41) is confident that a philosophy such as business logistics can lead to cost cutting and increased profits. Integrating the elements of transport, warehousing, production support services and marketing strategy, can create a sustainable advantage that will "not only knock the socks off your competitors - but will also increase your profits by cutting wasted costs". The key to linking all these elements is a computerised information system that allows data to flow from the marketing (demand) side of the business to production.

Christopher (1986:62) surveys some of the common factors that characterise companies that have successfully implemented logistics productivity improvement programs. Included among these, are the ability to manage the process of change, a focus on real productivity gains and a good communication program. Successful implementation of logistics productivity improvement programs tend to come from the piecemeal, or step by step approach rather than from a holistic "grand slam".

5.3.2 **Customer Service**

Marketers have traditionally relied on technology (product), price (cost), promotion and channels as the mix for a marketing strategy to gain a competitive edge in the market. According to Singh (1990:193), marketers, especially those in the industrial sector, are now realising that the traditional approach to developing a

marketing strategy may not be very effective for gaining that much-needed edge over competition. Recent trends suggest that customer service is emerging as an important marketing tool in such diverse companies as American Express, Sony, General Motors and Procter & Gamble. Kyj & Kyj (1987:46) offer a possible explanation for this development, in that unlike price, promotion, product design or distribution strategy, customer service is frequently an unobtrusive weapon making competitive response difficult.

Wagner (1987:13) explains that generally, the character and scope of the service offered revolves around the nature of the product. More highly technical products and ones requiring complicated applications require a greater level of service. The same holds true for new product / market development. For market share retention in competitive industries, technical specialists represent a commitment to service.

The growing emphasis on service as the most strategic issue is a natural outcome of the evolution of markets according to Singh (1990:194). Through various stages technology, cost and quality have each assumed dominant importance in customer purchase decisions. Today, as market leaders can offer the same or similar, costs and quality, the issue of service emerges as the dominant factor affecting the purchase. Most of today's markets are in this stage now.

Van Zyl (1991) agrees that the customer and customer service is central to the marketing concept. He argues that if an organisation wants to achieve a competitive advantage through customer satisfaction, a comprehensive organisational development project is required to establish a culture that supports the central value of customer satisfaction. Essential elements of this culture would include top management commitment, the measurement of customer satisfaction on a regular basis, training to provide people with adequate knowledge and skills to deliver quality products and services, and support systems that will ensure that customer satisfaction can be managed effectively. There is clearly no "quick fix".

5.3.3 **The Manufacturer-Distributor Relationship**

A good distributor network is often the key to market leadership and overall business success (Reddy & Marvin, 1986:158). Because it takes many years of continuous attention to develop and maintain, a sound producer-distributor organisation is often a high barrier to competitors.

Although industrial distributors are a vital part of the channel for many industrial products and offer significant benefits to suppliers, Hutt & Speh (1985:298) point out that marketing through them may raise important problems. The very nature of a distribution channel - with each member dependent upon another for success - carries the seeds for conflict among the members. While realising the need for co-operation, individual members seek to maximise their autonomy and, hence, their profitability. Conflict often results over issues such as inventory commitments, the carrying of competing product lines, direct sales to large accounts and unsophisticated management practices.

5.3.3.1 The Manufacturer's Responsibility to the Distributor

Narus & Anderson (1986:66-71) recommend that for manufacturers to effectively plan and implement industrial distributor programs they must:

- **Gain a deep understanding of distributor needs**. Common practices include:

- Getting out into the field and listening carefully to what they have to say;
- Learning from companywide experiences by discussing common distributor problems, sharing market information on trends affecting the function, and pondering changing distributor requirements;
- Conducting market research studies (for example annual mail surveys) that ask distributors to rate each manufacturing division on key performance dimensions and recommending program improvements; and
- Establishing a distributor council where council members meet annually to suggest policy and program improvements and discuss concerns, the competition and other pressing issues.

- **Build working partnerships with distributors**. Essential ingredients for successful partnerships are:

- Sound, two-way communication between a manufacturer and its distributors that occurs at multiple levels and uses a variety of communication means;
- Signalling commitment by referring all customer enquiries and requests to the distributor and to limit the number of distributors per trading area; and
- Effective manufacturer response to meet critical distributor needs so as to reinforce the importance and quality of the partnership in the distributor's mind.

- **Actively manage these partnerships:**

- The main short-run task is to ensure that operational promises are kept. Distributors want delivery within stated lead times, quality products that are not defective, adequate promotional and merchandising support, and rapid technical problem-solving assistance;
- Over time, a manufacturer must develop a reputation for equitable policies that are consistently and uniformly implemented;
- Manufacturers must be able to defuse the occasional disputes that inevitably arise; and
- Finally, in sustaining long-term working partnerships, manufacturers should plan for the future.

Hutt & Speh (1985:326) reinforce the concept that channel member motivation begins with the understanding that the channel relationship is a partnership. They agree that management aids, distributor councils and market protection are important tools to motivate industrial channel members. In the final analysis, however, the primary motivating device will be compensation. The surest way to lose intermediary support is with compensation policies that do not meet industry and competitive standards. Salespeople or distributors who feel cheated on commissions or margins will shift their selling attention to products generating a higher profit. The manufacturer must be current with prevailing compensation rates in the industry and adjust its rates as conditions change. The compensation provided to intermediaries should reflect the marketing tasks performed. Higher commissions should be considered should special attention be necessary for new industrial products.

Hague (1986b:149) offers further insight into the manufacturer's role in sharpening the distributor's network. "Explain and train" is his golden rule for helping a distributor to improve his operation.

5.3.3.2 Defining the Distributor's Role in Marketing Strategy

The distributor's role, according to Webster (1979:172), will vary as a function of several interrelated factors, including:

- The manufacturer's marketing strategy and especially the means he chooses to

achieve unique competitive advantage - quality, price, availability, applications engineering and technical service, full line, technical product leadership, and so on;

- The strength of the manufacturer's market position, whether he is a market leader or a minor brand;
- The technical characteristics of the product, especially the presence of strongly differentiating product features among brands and the need to make technical judgments about the response to customer requirements; and
- The importance of immediate product availability to the customer.

Webster (1979:172-173) explains that products sold through industrial distributors tend to be established products with a broad and large demand. Thus, industrial distributors fit better into a *pull* strategy, where they have the important role of servicing *existing* demand. Specific functions are (1) to provide market coverage and product availability, (2) to develop markets and solicit accounts, (3) to provide customers with technical advice and product service, and (4) to provide market information. Industrial distributors generally do not have the ability to aggressively develop markets for *new* products or to serve narrow market segments with specialised product needs.

Reddy & Marvin (1986:162) expand on the idea of developing a manufacturer-distributor information partnership. Their basic premise is that channel expertise is not the exclusive domain of either the manufacturer or the distributor. Sharing of market information, based on mutual trust, is bound to enhance the effectiveness of both partners.

Constantin & Lusch (1986:19) introduce the "marketing support system" concept, explaining that the function of institutions in the marketing channel is to support the marketing effort of those involved in the channel. Table 5.3 (p.59) outlines a 10-point program that should help the distributor position itself as a marketing support system to the manufacturer.

TABLE 5.3 TEN-POINT PLAN FOR A MARKETING SUPPORT SYSTEM

What We Are

We are in business to support your marketing effort; our resources are dedicated to that end.

We are more than just another company to process your goods through the marketing channel; we are a marketing support system.

We are an off-balance-sheet marketing resource of your company, and we consider you to be one of our resources.

Why We Are Here

To discover opportunities. We are here to help you discover and exploit opportunities to improve your customer service - and your profits. Tell us your marketing plans; we'll mesh ours with yours.

To discover problems. We are here to help you discover potential customer service problems - before they erode your profits. Tell us your customer service objectives; we'll use our resources to help you attain them.

To solve problems. We are here to help you solve existing customer service problems that are hurting your profits. Tell us about your marketing process; we'll try to design our operations around it.

For strategic reasons. We are here to help you design and implement your strategy for getting your goods to your target market. Tell us about your marketing opportunities; we'll help you exploit them.

For operational reasons. We are here to help you design and implement your tactics for getting your goods to your target market. Tell us about your operational problems; we'll work on them as if they were our own - because they are.

To improve your profit. We are here to help you manage your costs associated with getting your goods to your target market. Tell us about your operating process; we'll help you manage your costs.

To serve wants and needs. In short, because we are a marketing support system, we see ourselves as your resource (and you as ours), working as an extension of the arms of your firm in channel matters and serving the wants and needs of you, your customers, and your customer's customers. Tell us about those needs and wants; we'll help you meet them.

Source: ***Constantin & Lusch (1986:25)***

5.3.3.3 Evaluating Channel Performance

Hutt & Speh (1985:329) insist that an essential aspect of channel management is evaluation of intermediary performance against the manufacturer's channel objectives. Typically, intermediaries responsible for only a small portion of total volume would not require frequent and comprehensive evaluation. Firms producing repeat-purchase, low unit-value industrial products generally need limited evaluation.

The criteria used to evaluate distributor and representative performance could include total sales compared to market potential, inventory turnover rate, selling ability (for example: new accounts developed), financial performance, and end-user/customer evaluation.

The industrial marketing manager must use this evaluation data to make adjustments in channel operations. Corrective steps may be taken to improve performance in weak areas, while reinforcing performance of strong channel members. Some intermediates may be terminated and replaced by stronger ones.

5.3.3.4 Future Trends in Distributor Dynamics

Industrial distributors are a powerful force in industrial channels and all indications point to an expanded role for them (Hutt & Speh, 1985:300). One of these emerging trends is increasing specialisation, concentrating efforts on restricted product lines. Specialist distributors offer buyers expert knowledge, effective service and a variety of brands in a narrow line. From the manufacturer's viewpoint, these factors may serve to link the end-user customer more closely to the distributor. Consequently, a shift of market power and control to the specialist distributor is a likely result.

Despite the trend in distribution toward unitising the entire operation into a single, smoother flowing system, Reid (1984:77) maintains the strongest focus into the 1990s will be on improving the individual elements: the people, the equipment, the computer, the sub-systems such as order processing, billing, order-picking, delivery and the rest, until they mesh with each other in a way that allows them to operate in unison as a precisely synchronised team.

5.4 INDUSTRIAL PRICING STRATEGY

Determining what people are willing to pay for something is a very complex business. Washburn (1985:64) elaborates that complexity increases when one considers the need to recover costs and maximise earnings. Simple complexity becomes very complex, so much so that some claim successful pricing is an art. Others say it is a matter of witchcraft.

Before examining the various factors that influence the pricing decision and various pricing strategies, it is appropriate to briefly consider the concept of price as described in the literature.

5.4.1 The Concept of Price

Corey (1962:264) defines pricing as "the art of translating into quantitative terms the *value* of the *product* to customers at a point in *time*". In this context, the concept of "value" is quite subjective. It is the value which the customer himself recognises. It includes not only easily quantified elements such as costs savings, but also intangibles such as risk minimisation. Furthermore, the value which one customer group may associate with the product will differ from its value to other customer groups that use the product in different ways. Finally, for any one customer group, the value of the product is likely to change with time, since customer needs and product use patterns change. Corey (1962:264) concludes that a most important function of the marketing program is therefore to help the potential customer develop clearly his own subjective measure of value of the product.

Webster (1979:134) maintains that price should be viewed as part of the product offering. First, it is an important variable in the buyer's perceptions and combines with his judgments about availability, quality, and other product attributes, to determine his overall perception of value. Price to the industrial customer is obviously a major determinant on the economic impact of the purchased product on his cost structure. Second, from the seller's viewpoint, price determines not only the profitability of the product, but also the margins that are available to support the costs associated with all other aspects of the product offering, including technical support, after-sale service, delivery, credit, and so forth.

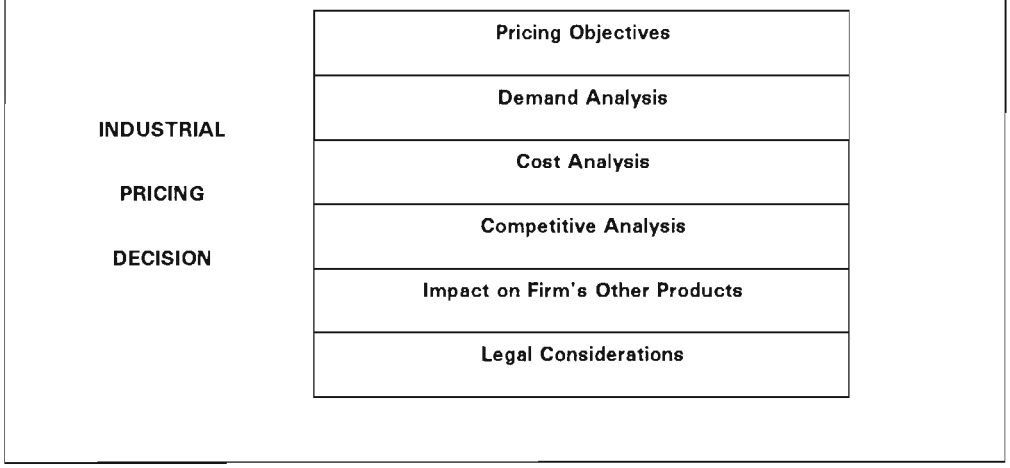
It should be evident that two strategic decisions must be made before the

determination of price. The first is the macro-segmentation decision, the selection of customers to be served. The second strategic decision required before developing pricing strategy is the definition of product strategy. Needless to say, careful analysis of customer needs and of market conditions are necessary inputs to both of these strategic decisions.

5.4.2 Factors that Influence the Pricing Decision

Hutt & Speh (1985:361) agree that there is no easy formula for pricing an industrial product or service. The decision is multi-dimensional rather than one-dimensional. The interactive variables of demand, cost, competition, profit relationships, and customer usage patterns each assume significance as the marketer formulates the role that price will play in the firm's marketing strategy. Pertinent considerations in formulating an industrial pricing decision are summarised in figure 5.3 (p.62).

FIGURE 5.3 KEY COMPONENTS OF THE INDUSTRIAL PRICING DECISION



SOURCE: Hutt & Speh (1985:362)

This section briefly reviews these factors which underline every pricing strategy alternative.

5.4.2.1 Price Objectives

According to Hutt & Speh (1985:362) the pricing decision must be based on objectives congruent with marketing and overall corporate objectives. Broadly speaking, pricing objectives will deal directly or indirectly with these three areas:

- Profit — setting a high enough price to enable the company to earn an adequate margin for profit and reinvestment;
- Competition — setting a low enough price to discourage competitors from adding capacity; and
- Market share — setting a price below competition to gain market share.

5.4.2.2 Demand Determinants

Hutt & Speh (1985:369) emphasise that knowledge of the market is the cornerstone of industrial pricing. A strong market focus, which examines how consumers trade-off benefits and costs in their decision making, establishes a base for assigning prices. The strategist should assess the relative importance of product attributes to alternative market segments and the strength of the firm's offering on each of the attributes vis-à-vis competitors. It is also important to understand the product's effect on end-user cost structure and how it influences his price-elasticity of demand. In this precarious task, the goal is to estimate as precisely as possible the probable demand curve for the firm's product.

5.4.2.3 Cost Analysis

Although cost-plus pricing is easily the most common pricing method, Shipley (1986:4) warns that it has some major deficiencies. Chief among these are that it ignores competitors' prices and customer's perceptions of the product's value. There is a tendency in a going business, operating below capacity, to accept orders that will cover incremental costs and make a contribution to overhead. Corey (1962:274) considers such action to be competitively sound in the short run but may be hazardous for the long run if all pricing is based on incremental costs. As an aid to maximising the revenue secured from the total product line, it may be useful to classify its various members according to their contribution.

Janisch (1992:14) examines broad company strategies to regenerate demand, create jobs, fight inflation and boost gross domestic product growth. He points out that in situations of severe under-utilisation of capacity, it is not uncommon to find that an increase of 30% - 40% in physical throughput can be achieved with a 10% or lower increase in total operating expenses. Simulating a much higher level of physical output on a process costing model reveals that, even in the face of substantial price cutting (in order to stimulate demand), profitabilities rise dramatically. Like successful exporters in the Pacific Rim countries, one should ask: "What price must I charge to sustain the target output levels?" Costs are then progressively managed to ensure acceptable levels of profitability.

To study the impact of costs on pricing strategy Jain (1985:713) recommends that the following relationships be considered:

- **The Ratio of Fixed Costs to Variable Costs:**
  If the fixed costs of a company form a high proportion of total costs, the business is *volume sensitive*, whereby adding sales volumes will be a great help in increasing earnings. Where variable costs constitute a higher proportion of total costs, the business is *price sensitive*, since even a small increase in price adds much to earnings.

- **The Economies of Scale Available to a Firm:**
  If the economies of scale obtainable from a company's operations are substantial, one should plan to expand market share and, in considering long-term prices, take expected declines in costs into account. Alternatively, if the expertise is expected to produce a decline in costs, then prices may be lowered in the long run to gain higher market share.

- **The Cost Structure of a Firm vis-à-vis Competitors:**
  If a manufacturer is a low-cost producer relative to competitors, it will earn additional profits by maintaining prices at competitive levels. The additional profits can be used to promote the product aggressively. If, however, the costs of a manufacturer are higher than those of its competitors, the manufacturer is in no position to reduce prices since this may lead to a price war which it is bound to lose.

5.4.2.4 Competitive Analysis

Hutt & Speh (1985:373) contend that competition establishes the upper limit on price, and indicate that industrial marketers seem to regard "competitive level pricing" as the most important pricing strategy. The degree of latitude that the individual industrial firm has in its pricing decision depends heavily upon the level of differentiation that the product has in the perceptions of organisational buyers.

5.4.2.5 Impact on Firm's Product Line

The contemporary industrial firm with a long product line faces the complex problem of achieving balance in pricing the product mix. Hutt & Speh (1985:378) explain: Are specific product line items substitutes or complements? Will a change in the price of one item enhance or retard the usage rate of this or other products in key market segments? Should a new product be priced high at the outset to protect other product line items (for example, potential substitutes)? Clearly such decisions require a knowledge of demand, costs, competition and strategic marketing objectives.

5.4.2.6 Legal Considerations

Out of concern for anti-trust laws, manufacturers are wary of charging one customer or group of customers more than another, even though one will pay more than another (Corey, 1962:278). The Robinson-Patman Act holds that it is unlawful to:

> *"discriminate in price between different purchasers of commodities of like grade and quality ... where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly, or to injure, destroy, or prevent competition..."*

Hutt & Speh (1985:381) explain that price differentials are permitted, but they must be based on cost differentials or the need to "meet competition". An element in the ultimate price to the buyer is the transportation cost, so clearly geography must play a role in overall price administration. Discounts are permissible but must be aligned with the firm's pricing policies and related to the requirements of key market segments.

In summary, it would appear that there is a poker-playing flavour to pricing decisions. In pricing, as in poker, it is critically important to anticipate accurately, and in the absence of complete information, what competitors' responses are likely to be to any given move. It is helpful, indeed, to know company behaviour patterns and to understand for each major competitor the background considerations which shape these patterns.

5.4.3 Market Characteristics and Pricing Strategy

Washburn (1985:64) breaks down the consumer market into packaged goods and durables and the industrial market into support consumables, process consumables and capital goods. He maintains that it is the way that markets work and the way products behave in them that dictates the strategy of pricing products for them. *SASOLWAKS* would fall into the *industrial process consumables market,* with characteristics summarised in table 5.4 (p.66). Successful pricing in this case depends upon finding ways to make these products something else - speciality or proprietary products - to avoid competitive price erosion. Similarly, new products require demonstrable superiority in quality and availability at or near established prices.

TABLE 5.4 CHARACTERISTICS OF THE INDUSTRIAL PROCESS CONSUMABLES (COMMODITY) MARKET

- Complete indifference as to source so long as specs, which may include price and availability, are met.
- Purchasing is automatic from suppliers whose offerings have been approved jointly by engineering, purchasing and manufacturing.
- The market is potentially unstable if a supplier wants to buy volume.
- Second-sourcing at a higher price is often the preferred position for a supplier to hold.
- Success and the higher price go to the supplier who can differentiate his product from the rest.

SOURCE: ***Washburn (1985:67)***

It may be beneficial to add a variety of customers to your product mix in creating a base that yields the gross margin you need. Fodor (1987:31) explains that large customers frequently pressure the industrial supplier to operate at unacceptably low margins. One form of protection is to actively seek small and mid-size customers who need and appreciate the supplier's products and services and who therefore understand and accept its pricing policies.

5.4.4 Competitive Response to Price Changes

Corey (1962:270) remarks that *price reductions* on relatively undifferentiated products are most often met immediately by all suppliers, with little resultant shift in market share. But this is not always the case, and may depend upon the following factors: competitor's costs; the speed with which competitors can react to price competition; possible conflict with other existing interests; relative sales volumes of various competitors in various segments.

Willingness on the part of other companies to follow a *price increase* will depend generally on three factors: a belief that demand conditions are such that a general price increase will not reduce the total size of the market; a feeling that all other major suppliers share this belief and have a strong desire to increase prices; and often a sense of faith that the supplier initiating the price increase has acted intelligently and in the best interests of all producers as a group (Corey, 1962:272).

Hutt & Speh (1985:374) have noticed that oligopolistic markets often display a characteristic kinked demand curve, whereby competing sellers will follow any decrease in price in order to protect their market shares, but will refrain from following price increases, in order to capture part of the market share of the price-raiser. A price decrease results in a relatively small increase in sales. On the other hand, a price increase would lead to a significant reduction in quantity demanded and, in turn, total revenue, as customers shift to lower-priced competing firms.

5.4.5 Pricing Strategies for Established Products

Jain (1985:723) points out that changes in the marketing environment may require a review of prices of products already on the market. For example, an announcement

by a large firm that it is going to lower its prices will make it necessary for other firms in the industry to examine their prices. A review of pricing strategy may also become necessary because of shifts in demand. An examination of existing prices may lead to one of three strategic alternatives: maintaining the price, reducing the price, or increasing the price. Table 5.5 (p.68) provides an overview of the objectives, requirements and expected results coincident with these strategic alternatives.

TABLE 5.5 PRICING STRATEGIES FOR ESTABLISHED PRODUCTS

OBJECTIVES	REQUIREMENTS	EXPECTED RESULTS
A. <u>Maintaining the Price.</u> Maintain position in the marketplace. Enhance public image.	Firm's served market is not significantly affected by changes in the environment. Uncertainty exists concerning the need for or result of a price change. Firm's public image could be enhanced by responding to public opinion to maintain price.	Status quo for the firm's market position. Enhancement of the firm's public image.
B. <u>Reducing the Price</u> To act defensively and cut price to meet the competition. To act offensively and attempt to beat the competition. To respond to a customer need created by a change in the environment.	Firm must be financially and competitively strong to fight in a price war that becomes necessary. Must have a good understanding of the demand function of its product.	Lower profit margins (assuming costs are held constant). Higher market share might be expected, but this will depend upon the price change relative to competitive prices and upon price elasticity.
C. <u>Increasing the Price</u> To maintain profitability during an inflationary period. To take advantage of product differences, real or perceived. To segment the current served market.	Relatively low price elasticity but relatively high elasticity with respect to some other factor such as quality, distribution etc. Reinforcement from other ingredients of the marketing mix (for example, if a firm decides to increase price and differentiate its product by quality, then promotion and distribution must address product quality.	Higher sales margin. Segmented market (price conscious, quality conscious, etc). Possibly higher unit sales, if differentiation is effective.

SOURCE: Jain (1985:746-747)

5.4.6 Pricing Strategies for New Products

The product life cycle concept provides further guidelines on pricing strategy. The strategic decision of pricing new products can be best understood by examining the policies at the boundaries of the continuum - from skimming (high initial prices) to penetration (low initial price). According to Kotler (1984:527), market skimming makes sense under the following conditions:

- A sufficient number of buyers have a high current demand;
- The unit costs of producing a small volume are not so much higher that they cancel the advantage of charging what the traffic will bear;
- The high initial price will not attract more competitors; and
- The high price supports the image of a superior product.

Kotler (1984:528) suggests a penetration policy under the following conditions:

- Where the market is highly price sensitive, and a low price stimulates more market growth;
- Where production and distribution costs fall with accumulated production experience; and
- Where a low price discourages actual and potential competition.

5.4.7 Price - Flexibility Strategy

Flexibility has become a key facet of astute price management according to Shipley (1986:1). Price decision makers are urged to react in a positive manner when price adjustments are warranted to meet competitive conditions or shifts in demand. Equally, pricing executives are warned against the dangers of over-frequent price adjustment, particularly insofar as these may endanger competitive retaliation or customer discontent. The important thing is to strike the right balance between price continuity and pricing flexibility. Firms that are able to operate such a policy of considered pricing flexibility will find that it extends their capacity for effectively reacting to the opportunities and threats arising in their turbulent environments.

5.5 INDUSTRIAL MARKETING COMMUNICATIONS

Industrial marketing communications are a mix of personal and impersonal

communications aimed at the industrial buyer (Webster,1979:216). They include personal selling, catalogues and product literature, advertising, direct mail, trade shows, publicity and public relations and promotional novelties and gifts. The effect of any one of these promotional tools is a function of its interaction with the others, although each has a distinct role to play in moving the potential customers from unawareness of the company and its products to buying action. The marketing communication literature, such as that presented by Lavidge & Steiner (1961:59-62), talks about the buyer's mental stages as a hierarchy of effects of communications. All describe response to communication in terms of a progression of mental stages from initial awareness (cognition), through the development of favourable attitudes (preference), to buying action (motivation). The basic value of the hierarchy-of-effects models resides in their ability to help the marketing communication strategist to think clearly about the objectives of specific communication tools and how he will evaluate the results of communication effort.

5.5.1 Developing the Industrial Marketing Communication Program

Webster (1979:232-233) identifies six distinctive elements in the marketing communication program.

- **Setting Communication Objectives**
  Through the analysis of customer needs and predispositions and of competitive offerings, the industrial marketer can define an opportunity in the market to stress certain benefits and characteristics of the product, thus giving it a "unique selling proposition".

- **Define the Target Audience**
  The definition of the target audience is a subset of the company's market segmentation strategy. At the micro-segment level, the target audience is defined by buying centres according to composition, characteristic decision-making styles and buying criteria used. The definition of target audience should focus on relatively short-term communication problems and opportunities. Webster (1979:232) points out that one of the most common errors is to give inadequate attention to the precise definition of target audience, resulting in "wasted exposures" or messages of virtually no value.

- **Determining Budget Level**

  Communication budgets are generally set based on industry guidelines - typically a percentage of sales. The objective-and-task method is a more analytical approach in which a strategist attempts to determine the number of effective exposures in various media required to meet a specific communication objective (Webster, 1979:234-235).

- **Developing Message Strategy**

  The *general* message strategy is a statement of marketing communication objectives that stresses particular product features and company capabilities. Going beyond, it must translate these into specific customer benefits and the satisfaction of customer needs. *Specific* message strategy, according to Webster (1979:237), consists of the creation and execution of specific messages to be placed in media, and is often the responsibility of outside suppliers of creative services, such as advertising agencies, public relations firms and direct mail houses.

- **Selecting Media**

  Different media have differential effectiveness as a function of the type of response desired and the stage in the product life cycle. Webster (1979:220) explains that advertising may be most effective in creating awareness in the new product adoption process. Personal sources of communication become more important in the later stages of the process. The importance of thinking in terms of an integrated mix of communications, each contributing to the accomplishment of specific objectives, cannot be overstated. The effectiveness of the various media was researched by Banting & Blenkhorn (1974:285-295) and summarised in table 5.6 (p.72). Personal selling is by far the most important means of promotion and will be discussed in more detail in section 5.5.2 (p.72).

- **Evaluating Results**

  The ideal would be to trace the influence of various elements of the total communications program on sales and profits. Webster (1979:243) suggests a more reasonable approach to measure changes in audience predispositions by obtaining measurements of levels of awareness and attitudes. Other measures include measures of communication activity or

exposure, and opinions and reports of people who are in a position to evaluate the various parts of the communication program. Most important will be the opinions of customers, distributors, and salesmen. If they are favourably inclined to the communications, it can be assured that they have been exposed to the communication, remembered it, and probably been favourably influenced by it.

TABLE 5.6 INDUSTRIAL MARKETER'S RANKING OF THE EFFECTIVENESS OF PROMOTIONAL MEDIA

	INDEX OF PERCEIVED EFFECTIVENESS
Sales Calls.	100
Catalogues, manuals and specification sheets	46
Direct mail.	39
Advertising.	38
Trade shows.	35
Samples trial use, demonstration	34
Publicity and public relations	31
Customer entertainment.	26
Promotional novelties (gifts)	24

SOURCE: ***Banting & Blenkhorn (1974:292)***

5.5.2 Foundations of Personal Selling

A study of the literature suggests that the role of personal selling can be understood in various ways:

- **Personal Selling as the Execution of Industrial Marketing Strategy**
  Personal selling is the means through which industrial marketing strategy is executed. Hutt & Speh (1985:422) explain that once the marketer defines target market segments on the basis of organisational characteristics (macro) or the characteristics of decision-making units (micro), the sales force is deployed to meet the needs of these segments. The salesperson augments the total

product offering and conveys the image, reputation and need-satisfying ability of the seller firm. By helping procurement decision makers to define requirements and match the firm's product or service to requirements, the salesperson is offering not just a physical product but also ideas, technical assistance, experience, confidence and friendship. As a representative for the buyer, the salesperson will often articulate the specific needs of a customer to research and development or production personnel in the manufacturing firm. Product specifications, delivery, and technical service are often negotiated through the salesperson.

- **Personal Selling as an Influence of Industrial Purchasing Behaviour**

  Parasuraman (1981:277) emphasises that a good understanding of the nature of the various influences on industrial purchasing behaviour is of critical importance in successfully selling to industrial markets. Although organisational influences are not under the control of industrial marketers, they would do well to firstly identify the structure and strength of such influences in each customer firm, and secondly to focus at least some of their promotional efforts on such organisational sources of influence, so as to have an "indirect" impact on purchasing decisions.

  Hill & Hillier (1977:13) agree that to design an appropriate marketing communications program, it is necessary to have an understanding of various elements of buying behaviour - each of which may have an effect on the purchasing tactics and strategies of the customer. An understanding of micro buying behaviour requires consideration of the types of questions shown in table 5.7 (p.74). It should be clear that there is a considerable amount of objective information required on buying tactics and strategies of customers.

- **Personal Selling as a Developer of Buyer-Seller Relationships**

  Webster (1979:50) extends the ideas regarding personal selling and organisational buying behaviour. He claims that for strategic purposes, the central focus of industrial marketing should not be on products or on markets, broadly defined, but on buyer-seller relationships. Buyer-seller relationships in industrial marketing develop in the purchasing decision process and continue through negotiation of the sale and consummation of the transaction to post-sale service and repeat orders. Ongoing relationships with customers are a major business asset.

TABLE 5.7 UNDERSTANDING MICRO BUYING BEHAVIOUR

The Anatomy of the Purchase

- What is the type of item or service purchased?
- How is it used?
- Why it is being bought?
- How novel is the purchase?
- How frequently is it purchased and what is the ordering procedure?
- Is it buyer or supplier specified?
- How essential is the purchase item and, therefore, how much risk is involved?

The Focal Points of Buying Activity

- How long is the process of deciding on a purchase?
- Is it a single or multi-strand process?
- When and where are the critical points for the prospective supplying company to become involved?
- Are these critical points where decisions are taken or when particular activities are taking place?

The Human Element in Industrial Buying

- Which people are involved directly in the buying activity, i.e. constitute the decision-making unit within the customer company?
- Which people have a peripheral influence on the buying activity? What type of individuals are these people, particularly regarding their levels and areas of responsibility, their education and training, their psychological make up, lifestyles, professional aspirations etc? How do they interact, communicate and make decisions?
- How do they fit into the organisational structure of the company?

Source-Management Techniques

- What particular concepts and analytical techniques does the buying centre use in dealing with prospective and existing suppliers? How does a customer search for sources of supply?
- How are prospective suppliers evaluated?
- How is the performance of current suppliers assessed?
- What sort of order routine is employed?
- Which types of orders receive close scrutiny?
- Have any particular concepts or ideologies been introduced into the buying function?

SOURCE: ***Hill & Hillier (1977:13-15)***

The basic unit of analysis in buyer-seller relationships is the interaction between a representative of the buying organisation and a representative of the selling organisation. When buyer and salesman meet, the nature of their interaction can be understood as a form of role-playing. Webster (1979:51-57) explains that the social role of buyer or salesman is thus a very important source of

predispositions (opinions, attitudes, beliefs, values, goals) influencing the perceptions of persons in those roles. How the buyer "plays his role" in the sales interaction and how he responds to the salesman's effort is determined by his personal needs and the organisation's goals, the interactions within the buying centre, his self confidence, the perceived risk in the buying decision, his innovativeness, the stage of his buying decision process, and his exposure to advertising and other forms of mass communication. How the salesman plays his role is determined by his ability to infer the expectations of relevant others to determine how he should play his role. Relevant others include his manager and the buying decision influences within the buying organisation.

5.5.3 **Managing the Industrial Sales Force**

In the industrial world, sales force performance has always been the most important contributor to marketing success (Ames,1972:310). Looking ahead, sharper purchasing practices, increasing technical complexity and sophistication of products and intensifying competition are certain to make the role of the industrial salesman even more important to marketing success. Despite their conviction and willingness to pay more for outstanding performance, however, only a few industrial companies are fully satisfied with the quality and productivity of their selling organisations. Ames (1972:311) believes this to all be traceable to one root cause. Stated simply, the sales force does not function according to the marketing concept. Specific shortcomings include declining productivity, poor regard for long-term selling needs, no creative effort to build up a proprietary edge with customers, little search for new markets or applications and poor flow of market intelligence.

Industrial sales *organisation* is one aspect that can be addressed to sharpen end-user focus. The most common form of industrial sales organisation is geographical. Despite the benefits of minimising travelling costs, Hutt & Speh (1985:432) point out that the major disadvantage is that each salesperson must be able to perform all of the selling tasks, for all of the firm's products, for all the customers in a particular territory. If the products have diverse applications, this can be very difficult. When the product line is large, diverse, or technically complex and when a salesperson needs a high degree of application knowledge to meet customer needs, a product-orientated sales organisation may be more appropriate. A prime benefit of this approach is that the salesperson concentrating on a particular product becomes more adept at identifying and communicating with members of buying centres and

may better identify new market segments.

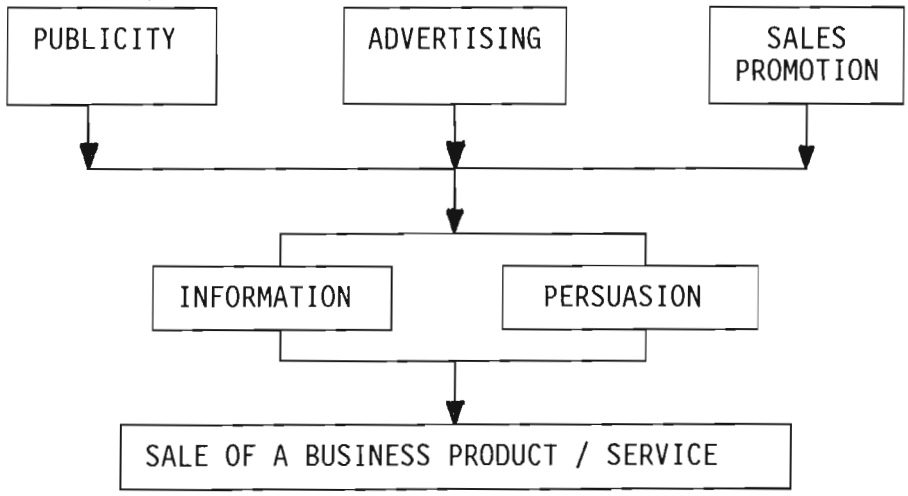
Effective sales *management* plays a vital role in building marketing strength into industrial selling. Cravens (1987:547) outlines in figure 5.4 (p.77) the relationship between the environment, marketing strategy, sales management decisions, sales person performance, outcomes and control.

5.5.4 Advertising, Publicity and Sales Promotion

Advertising, publicity and sales promotion are communication methods used by marketers to remind or persuade existing and potential customers that the product or service exists, as opposed to personal selling, which is verbal communication with a prospective customer (Bingham & Raffield, 1990:513). In the business market, advertising, publicity and sales promotion pave the way for the sales call as demonstrated in figure 5.5 (p.76).

The cost of delivering these messages to markets is relatively inexpensive compared to the cost of personal selling. Additionally, these methods reach many customers quickly and make widespread distribution possible.

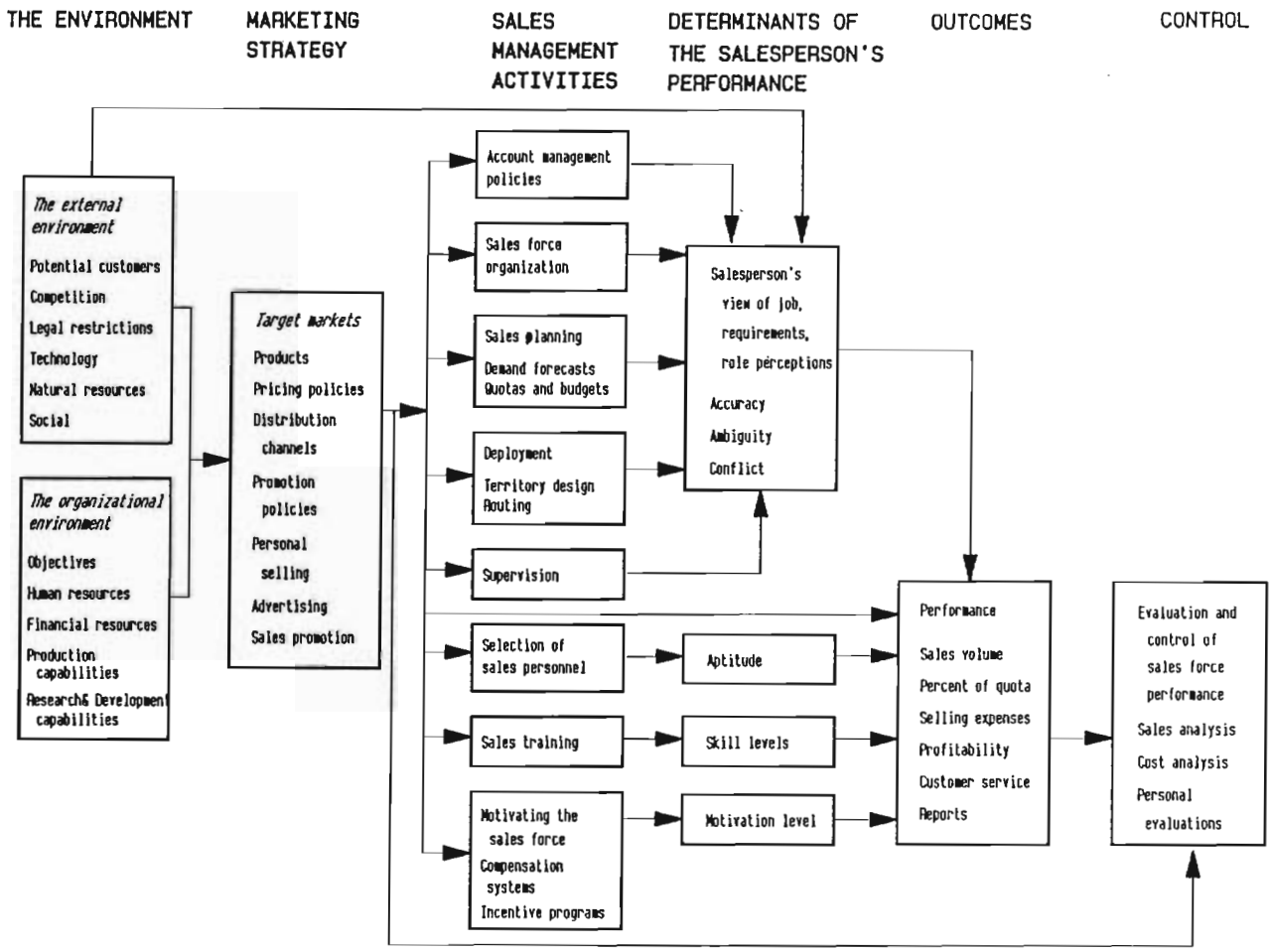
FIGURE 5.5 BUSINESS TO BUSINESS PROMOTION AND THE FLOW OF INFORMATION AND PERSUASION



SOURCE: ***Bingham & Raffield (1990:513)***

FIGURE 5.4

THE ROLE OF SALES MANAGEMENT AND PERFORMANCE



SOURCE: Cravens (1987:547)

5.5.4.1 The Role of Advertising

Hutt & Speh (1985:393) explain that in order to understand the role of advertising, one must recognise the forces that shape and influence organisational decisions. An industrial marketer must focus on a full range of individuals involved in the buying centre for a particular purchase. As sales people are not able to make contact with all these, industrial advertising fills the void. Carefully targeted advertising extends beyond the salesperson's reach to unidentified buying influentials. Advertising is often the *only* means of communicating the existence of a product to potential buyers. Advertising also increases recognition of the company's name and reputation, enhancing the salesperson's opportunity to create a sale. The McGraw-Hill advertisement in table 5.8 (p.78) vividly stresses the value of industrial advertising.

Morrill (1970:359) concludes that there is no question that a company can sell without advertising - but advertising certainly increases profitability. Aside from increasing a company's market share, perhaps the greatest value of a well-planned advertising program is that it can reduce the overall costs of selling by multiplying the effectiveness of the individual salesman far more than it increases direct selling costs.

TABLE 5.8 THE VALUE OF INDUSTRIAL ADVERTISING

"I don't know who you are.
I don't know your company.
I don't know your company's product.
I don't know what your company stands for.
I don't know your company's customers.
I don't know your company's record.
I don't know your company's reputation.
Now - what was it you wanted to sell me?"

MORAL: Sales start before your salesman calls - with business publication advertising.

SOURCE: ***Futrell (1985:114)***

- **The Media Mix**

  When advertising is used, management must select the media mix. According to Bingham and Raffield (1990:522) this is generally a combination of print media, broadcast media and direct marketing (direct mail, data sheets, catalogues and telemarketing).

  An important aspect of print media is the rapidly growing area of *directory advertising* (O'Keefe, 1987:130). In the same way that salespeople seek new buyers, so do engineers, purchasing agents, and other buyers look for products and services to meet new needs. It is thus advisable to get your name listed - particularly in specialised directories and buyer's guides that zero in on your market.

  Bly (1987:122) suggests that successful *direct mail* doesn't depend on fancy, four-colour design or "creative" copy. He provides insight into several common direct mail mistakes in table 5.9 (p.79).

TABLE 5.9 GUIDELINES FOR SUCCESSFUL DIRECT MAIL

1. The mailing list is the most important part of the direct mail campaign. Spend enough time and effort up-front when you select the list.
2. The sales letter - not the outer envelope, the brochure or even the reply form - is the most important part of your direct-mail package. A letter creates the illusion of personal communication.
3. Scientists and engineers are put off by copy that sounds like advertising jargon. Your copy must tell them exactly what they are getting and what your product can do.
4. Nothing kills the selling power of a business-to-business mailing faster than the lack of content. Do not ramble without authority on a subject; rather show customers that you understand their problems, their industries and their needs. Direct mail is not meant to be pretty. Its goal is not to be remembered or create an image or make an impact but to provide information that will generate a response now.
5. The letter must grab the reader's attention immediately. So start your letter with your strongest sales point.
6. Hot leads rapidly turn ice cold when not followed up quickly.
7. You and your products are not important to the prospect. The reader opening your sales letter only wants to know: "What's in it for me?". The sales letter should talk about the prospect's problem, then promise a solution. Talk to customers and prospects to find out their needs. Read some publications and attend the same seminars as they do.

SOURCE: Bly (1987:122-126)

Lane (1984:45) effectively sketches the role of the *data sheet*: "The slide show is over. Your salesman is gone. Now the customer is going to make the buying decision. But because he has questions - or needs more information - he turns to your product data sheets. If the answers aren't there, you can lose the sale". Companies spend the bulk of their advertising budget, time and effort developing advertisements, direct mail, trade show displays and publicity campaigns. The lowly data sheet is often created as an afterthought. If clumsily designed, poorly printed, incomplete or incomprehensive, data sheets confuse rather than communicate, and fail to move the sale along. By providing key sales points and technical information in a clear, persuasive, credible manner, data sheets can be a powerful sales tool.

5.5.4.2 Publicity

Publicity is the most difficult of the four traditional methods of communication for a marketing manager to control and use effectively, but it can be critical to the success of the overall marketing campaign (McClure, 1982:6). Publicity can round out the promotional strategy and reach segments of the targeted market untouched by other forms of promotion. Virtually every market segment is served by specialised media catering to the buying influences within the market, and publicity can penetrate these media with great precision. The cost of reaching these prospective buyers through publicity is a fraction of what the placing of advertisements in all the media serving that segment would be.

Publicity offers a flexible way of creating awareness and interest, the first steps in the buying process. Because the material appears in an editorial setting, the information seemingly has the approval of the editorial staff, lending a level of credibility missing in paid advertisements. Woodside (1982:7) agrees that credibility and impact are the major two benefits of publicity. Another advantage is the fact that publicity is communicated as a news story and, as such, readership is higher than for advertisements with similar information.

McClure (1982:7) recommends that a publicity agency or a publicity manager in the marketing or public relations department should be designated to implement the publicity plan. Proper implementation demands time and attention to details, and success is much less likely if the plan receives only the spare time of the marketing manager.

5.5.4.3 Sales Promotion

Bingham & Raffield (1990:533) regard sales promotion as the driving force that links personal selling, advertising and publicity into a meaningful, integrated promotional program. In the industrial markets, trade shows can be very effective. A well-done trade show exhibit can provide access to key decision makers, contact with prospects and an opportunity to further serve present customers. It also offers an opportunity to publicise a significant contribution to technology or to demonstrate both new and old products. Non-selling aspects include the availability of intelligence about competitors and the chance to test new products.

5.6 SUMMARY

The marketing literature reviewed provides ample strategy guidelines for the design of an appropriate marketing mix for *SASOLWAKS*.

Product portfolio analysis was introduced as an analytical approach for assessing alternative product/market opportunities as a basis for choosing among various investment objectives. Perceptual mapping is a useful technique for developing strategies for successful competition. It was concluded that only through creation of new products in demand in the marketplace can most manufacturing companies sustain their growth and profitability in the long term. In this regard, technology is viewed as a corporate strategic weapon that should be managed to provide a sustainable competitive advantage. A key in the effective planning of the product line is the product manager, whose responsibility includes integration of the product strategy into the overall business unit strategic plan.

Many companies are creating strong competitive advantages for themselves by out-performing their competition on customer service and product availability. A useful approach in resolving the conflict between maximising customer service and minimising distribution cost is the "total distribution cost" concept. However, a good distributor network is often the key to market leadership. Paramount to the manufacturer-distributor relationship is acceptance of the partnership relationship and commitment to the role each party plays in supporting the marketing channel.

Perceived value of a product to a customer group at a point in time is fundamental

to pricing strategy. Complicating the pricing decision is the need to recover costs, yet understand what upper limit on price competition can establish. The level of differentiation that the product has in the perceptions of organisational buyers is critical in this regard. Pricing strategies for both established and new products were suggested, including the importance of striking the right balance between price continuity and pricing flexibility.

Industrial marketing communications are a mix of personal and impersonal communications generally aimed at moving potential buyers from unawareness to buying action. Within specific budget constraints, the marketing communication program should direct at the target audience effective exposures in various media to meet specific communication objectives. Most effective is personal selling, which can be viewed as an influence of purchasing behaviour, a developer of buyer-seller relationships and the execution of industrial marketing strategy. Effective management of sales force performance is a vital contributor to marketing success. Advertising, publicity and sales promotion can be effective, relatively inexpensive communication tools that pave the way for the sales call.

PART III A MARKETING STRATEGY FOR SASOLWAKS

The model proposed in part II (p.27) is now used as a basis for developing a marketing strategy for *SASOLWAKS*. Part III of this study firstly analyses the US hot melt market. The relevant theory is applied to propose both broad target market strategies and specific strategy guidelines to effectively position the *SASOLWAKS* marketing mix to achieve Wax Division objectives. It is recommended that these strategy guidelines are translated into a formal marketing plan whereby implementation can commence during 1993.

CHAPTER 6.

ANALYSIS OF THE US HOT MELT ADHESIVE MARKET

6.1 INTRODUCTION

The model developed in figure 3.1 (p.27) clearly indicates that the focal point in developing a marketing strategy for *SASOLWAKS* is the situation analysis.

This chapter firstly provides a brief understanding of the "hot melt" and its position in the broad US paints, coatings, adhesives and sealants industry. The various end-use applications, industry structure and trends are examined. The major hot melt adhesive producers and the role of hot melt adhesives in meeting final customer needs is reviewed. The Wax Division is an important raw material supplier to the hot melt adhesive producers and the position of *SASOLWAKS* vis-à-vis competitive hardwaxes is explored. Various developments in the external environment are impacting on the use of hot melt adhesives and ultimately the role of wax in these formulations. Environmental trends such as the move away from solvent adhesives and the increasing need to recycle packaging are key issues that will be examined. The chapter concludes with an internal analysis of strengths, weaknesses and the strategic issues facing the Wax Division.

In was explained in section 3.4 (p.22) that marketing information is a prerequisite for marketing planning and especially in analysing the external market situation. However, section 6.7.2 (p.101) identifies limited market information as a weakness of the Wax Division. Hence, the analysis presented here is largely based on purchased marketing research (Frost & Sullivan, 1987:1-335) and various sources of market intelligence in confidential Sasol and Moore & Munger reports.

6.2 PRODUCT MARKET DEFINITION

6.2.1 Hot Melts: Definition and History

Satas & Satas (1989:20) define hot melts as "solid materials at room temperature that are applied molten and then allowed to solidify again. They must be applicable

by hot melt equipment, thus excluding high viscosity materials that are applied by extrusion or other methods".

Frost & Sullivan (1987:25) explain that most hot melt technology developed from waxing techniques used to manufacture various packaging materials. The introduction of polyethylene and ethyl vinyl acetate into wax coatings, in order to improve their properties, started hot melt technology as we know it today. Wax coatings have been replaced by hot melts, and wax coated papers are being extensively replaced by extruded polyethylene and other films.

6.2.2 **Hot Melt Composition**

Hot melts consist of several ingredients. The polymer is the most important ingredient forming the backbone of the adhesive or coating by controlling its strength and toughness. The second ingredient in order of importance is the tackifying resin. The resin acts as a solvent at elevated temperatures. It decreases the melt viscosity of the polymer, it improves the wettability, and thus, adhesion. The third ingredient is wax, which is used to further decrease the melt viscosity , to increase setting speed and also to reduce the overall cost of the hot melt (Sasolchem, 1988:1).

6.2.3 **The US Paints, Coatings, Adhesives and Sealants Industry**

Frost & Sullivan (1987:25-32) review hot melt adhesives and coatings as part of the paints, coatings, adhesives and sealants industry. These products can be applied in many different ways and, as such, hot melts are in competition with other types of materials, such as:

- Solvent solution;
- Aqueous dispersion; and
- Other (high solids / powder / reactive coatings).

The products produced by these different formulations are largely interchangeable. The growth of hot melt usage therefore depends on its successful competition against these other methods of applying coatings and adhesives, as well as on the overall growth of the large paint, adhesives and sealant industry. Table 6.1 (p.86)

provides an overview of the industry and the position of the hot melt adhesive market.

TABLE 6.1 THE US PAINTS, COATINGS, ADHESIVES and SEALANTS INDUSTRY - 1986

$ Million

	Paints and Coatings	Adhesives and Sealants	TOTAL
Aqueous Dispersion	3 000	3 100	6 100
Solvent Solution	6 000	720	6 720
Hot Melts	295	545	840
Other	3 805	135	3 940
TOTAL	13 100	4 500	17 600

SOURCE: Adapted from Frost & Sullivan (1987:27,31)

The data in table 6.1 (p.86) indicates that hot melt penetration into adhesive applications is more significant than into coating uses, although as a whole it is still relatively small when compared to other adhesive types. While paints and allied products have been growing at 2,5% - 3% annually, adhesive and sealant production is expected to grow at a rate of 6%. Frost & Sullivan (1987:26) estimate that the adhesives and sealants industry consists of 510 companies, operating 678 establishments. The states with the largest percentage of industry shipments are Illinois (12,5%), New Jersey (10.1%), California (9,9%), Ohio (9,6%) and Michigan (5,7%). US exports of paints, adhesives and sealants exceed those of imports. International trade in these products is mainly with industrialised countries - Canada, Western Europe and Japan - denoting the specialised and technical nature of these products.

Table 6.2 (p.87) shows trends in distribution between adhesive and coating types. It should be kept in mind that relatively few product areas are changing. Most coatings and adhesives have established users who are resistant to change (Frost & Sullivan, 1987:30).

TABLE 6.2 CONSUMPTION OF ADHESIVES ACCORDING TO VARIOUS FORMULATION TECHNIQUES

	1986	1991
Aqueous Dispersion	70%	71%
Solvent Solution	15%	10%
Hot Melts	12%	14%
Other	3%	5%

SOURCE: ***Frost & Sullivan (1987:31)***

6.2.4 Hot Melt Applications

Hot melts can be subdivided into three major categories, according to use. Satas & Satas (1989:20) summarise these as:

COATINGS: Applied over paper and other substrates to provide barrier properties.

ADHESIVES: Used for bonding substrates. Hot melts have found large volume applications in packaging and the assembly of various products, such as bookbinding, diaper manufacturing and footwear.

SEALANTS: Used to fill gaps and to protect equipment from moisture and vibration.

Frost & Sullivan (1987:1) estimated 1986 hot melt consumption at 511 thousand tons. By 1991, this figure was expected to increase to an annual consumption of about 613 thousand tons. According to Satas & Satas (1989:20) the growth rate is not uniform, averaging 2% - 5% in mature areas, such as packaging, and ranging from 6% - 8% in newer applications, such as structural and product assembly applications. An estimate of hot melt consumption and average growth rate in various applications is summarised in table 6.3 (p.88).

TABLE 6.3 US HOT MELT CONSUMPTION BY VARIOUS INDUSTRIES

Application	Consumption (thousand tons per annum) 1986	1990	Projected Growth %
Packaging:			
Coatings	223,6	236,4	1,1
Adhesives	127,0	172,4	6,3
Pressure-sensitive tapes and labels	39,9	49,0	4,2
Non-wovens	23,1	34,9	8,6
Books, magazines and catalogues	20,9	25,1	3,8
Diapers and incontinence products	15,0	18,1	3,9
Furniture	10,9	12,2	2,4
Road-marking paint	10,8	11,4	1,1
Textiles	10,4	11,8	2,5
Sealants	8,8	12,3	6,9
Construction	5,0	7,6	8,7
Product assembly:			
Automative	5,0	6,4	4,9
Appliance	3,6	6,1	10,9
Filters	0,9	1,5	9,9
Other	4,5	7,0	9,0
Footwear	1,5	1,6	1,1
TOTAL	**511,1**	**613,8**	**3,7**

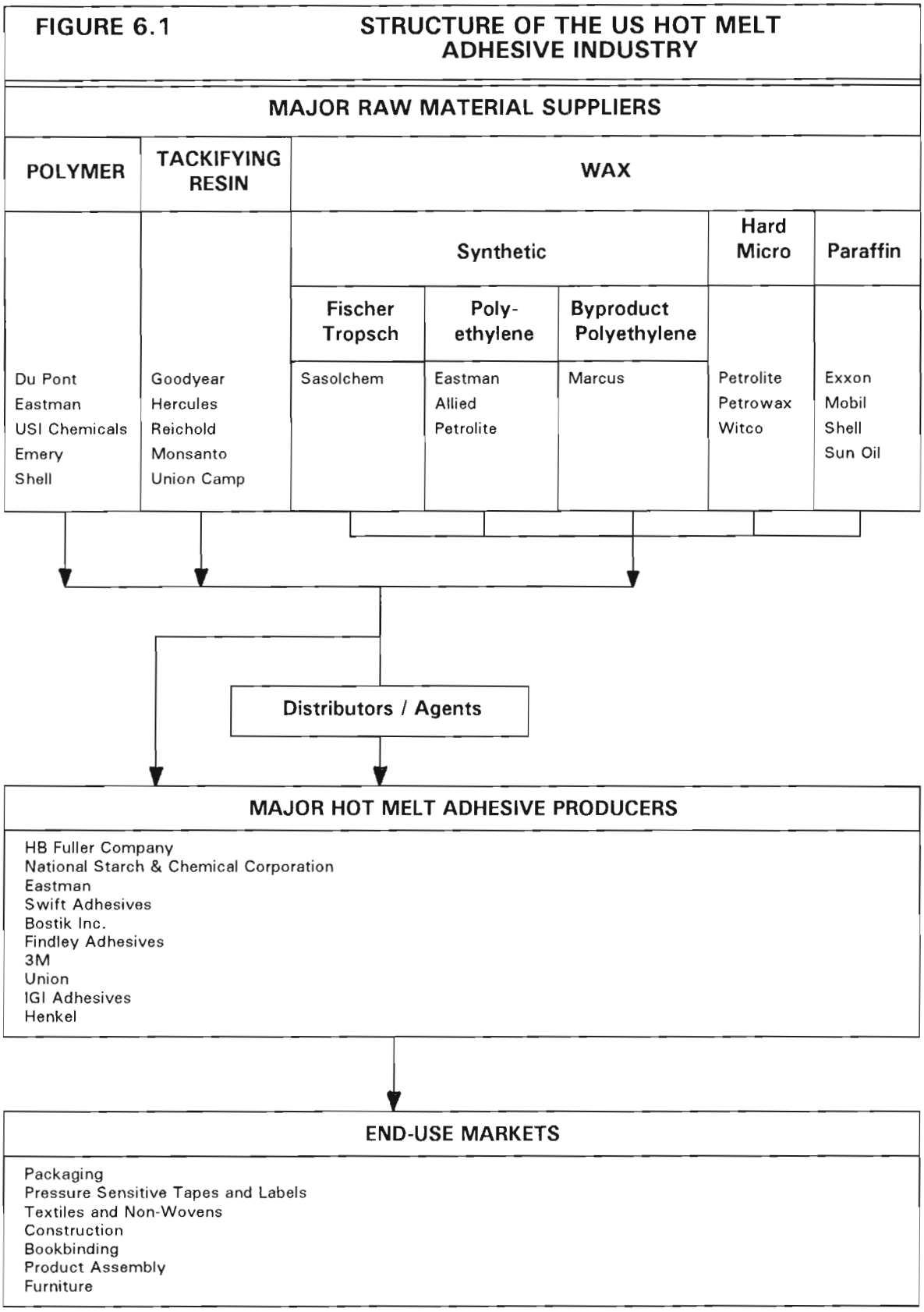
SOURCE: ***Frost & Sullivan (1987:2)***

6.2.5 Structure of the Hot Melt Adhesive Industry

Raw materials and formulated hot melt adhesives flow through various channels of distribution to several major end-use markets. Figure 6.1 (p.89) provides a basic overview of major participants in these distribution channels.

It was explained in section 6.2.2 (p.85) that wax is frequently used as the third component in several hot melt adhesive formulations. As the only manufacturer of synthetic Fischer-Tropsch hardwaxes worldwide (Mostert, 1991:10), Sasolchem is an important raw material supplier to US hot melt adhesive producers.

FIGURE 6.1 STRUCTURE OF THE US HOT MELT ADHESIVE INDUSTRY



SOURCE: Adapted from Frost & Sullivan (1987); Springborn Laboratories (1977); De Bell & Richardson (1972) and Sasolchem (1992a)

SASOLWAKS is marketed in the US by Moore & Munger, Inc, who have been exclusive distributors of the *SASOLWAKS* range of hardwaxes in North America for more than 30 years. Moore & Munger was formed as a partnership in 1888 to import English china clay to the US (Moore & Munger, 1981:2). Their initial market was ceramics, but as the use of clay for filling and coating grew, Moore & Munger became the largest supplier of clay to the paper industry. Because of Moore & Munger's knowledge and relationship within the paper industry, a natural expansion of marketing efforts occurred in the early 1900s when paper companies began coating paper with wax. Gradually their wax department broadened its expertise and worked with both the refiners and industry in developing applications for wax. During the 1920s Moore & Munger became the largest independent marketer of waxes in the US. Against this background, Moore & Munger was selected in the late 1950s to exclusively distribute *SASOLWAKS* in North America. Moore & Munger currently operate with a staff approaching 30, involved in the marketing of paraffin waxes and *SASOLWAKS* in the US. As an extension of the Wax Division marketing arm, they play a crucial role in the planning and execution of *SASOLWAKS* marketing strategy.

6.2.6 **Industry Trends**

Various industry trends that should have a positive effect on hot melt consumption are identified by Frost & Sullivan (1987:35). Application areas where the penetration of hot melt adhesives had been high now show a lower growth rate. Packaging, bookbinding, and some shoe manufacturing are examples. However, even in these areas, new opportunities arise from time to time. For example, hot melt pressure sensitive polypropylene film tapes are replacing gummed tapes in the packaging area. There are also many areas which have not been penetrated yet by hot melts. For example, hot melt road-marking paints are an area of opportunity for growth. The development of new thermoplastic block co-polymers has aided the formulation of improved adhesives for growth in product assembly areas. Post crosslinking by irradiation has been gaining interest as a method of improving temperature resistance.

Frost & Sullivan (1987:36) explain that hot melt adhesives are in competition with other non-adhesive methods of fastening. The growth of hot melt consumption exceeds that of gross national product and, for a mature industry, this is rather

unusual. The total fastening industry, which includes mechanical fastening, grows at about the same rate as the gross national product. Hot melts, a part of the fastening industry, grow by replacing other fastening methods: hot melt adhesives have replaced sewing, stitching, nailing, riveting, and other fastening operations. Whereas mechanical fastening and welding create stress points, heat marks and corrosion, adhesives distribute the weight load across the entire bond for added strength without marking surfaces (Webb, 1990:55).

6.3 CUSTOMER ANALYSIS

6.3.1 The Role of Hot Melts in Meeting Customer Needs

Fast solidification is the most important property of hot melts. This has made them attractive as adhesives for packaging and many product assembly applications. Hot melts differ from other liquid or hot applied systems in that they set by cooling rather than by chemical curing or by evaporation of the liquid vehicle. This produces very rapid bonding characteristics. In addition, hot melt adhesives can be reused simply by reheating. They can be formulated to bond a wide variety of substrates and perform a gap filling function. They have excellent moisture resistance and no pollution problems, and because they are 100% solid adhesives, transportation and storage problems are minimised and energy costs are low (USI, s.a.:15).

In spite of their many advantages, hot melts have limitations. Because they are thermoplastic materials, heat resistance can be poor, particularly with ethyl vinyl acetate formulations, and their strength does not match that of the thermosetting adhesives. Also, hot melts tend to give surface bonds with minimum penetration.

6.3.2 The Hot Melt Manufacturers

Frost & Sullivan (1987:36) estimate that hot melts are manufactured by some 150 companies, most of which are producers of other types of adhesives, coatings and sealants. Most of the larger adhesive manufacturers have hot melts in their line, but few specialise only in hot melts. The following companies are generally considered to be among the most important producers in the hot melt adhesive industry:

- HB Fuller Company;

- National Starch and Chemical Corporation;
- Eastman;
- Swift Adhesives;
- Bostik Inc.;
- Findley Adhesives;
- 3M;
- Union;
- IGI Adhesives; and
- Henkel (Frost & Sullivan, 1987:308-314; Naude, 1991:3-8; Begley, 1989:SR6-SR8; Noonan, 1990:56-57 and Einhorn & Strobel, 1991:40).

Earlier industry estimates indicated that the top 10 producers dominated 77% of the overall market, while the top three producers together accounted for more than 50% of the hot melt adhesive market share (Springborn, 1977:6). The trend towards consolidation brought about by considerable merger and acquisition over the years (Einhorn & Strobel, 1991:40) suggests that the current dominance of the top companies may be even stronger than before. Company profiles for two key *SASOLWAKS* customers are presented in table 6.4 (p.93). Their strong position in packaging adhesives and commitment to growth through continued research and development has important ramifications for the Wax Division strategy. These will be explored in chapter 7 (p.104).

Hot melt manufacturers may be sub-divided into several categories:

- The North American packaging adhesive industry has traditionally been a large market for adhesive (that is, synthetic latexes like polyvinyl acetate, starch, dextrine, animal glue, tapes) long before hot melt adhesives were commercialised. The packaging industry adhesive requirements supported a block of competitive packaging adhesive formulators that includes HB Fuller, National Starch, Swift and Findley. This group dominates "ethyl vinyl acetate-based commodity hot melt adhesives" for the packaging industry and is very market-orientated (De Bell & Richardson, 1972:14).

- Adhesive manufacturers which specialise in a line of hot melts geared to the raw materials they are producing. Eastman produces and sells attactic polypropylene and its very successful line of formulated polyethylene-base

commodity hot melt adhesives. Many high-performance hot melts based on polyamide and polyester polymers are sold by companies integrated into raw material production (Frost & Sullivan, 1987:37).

- Adhesive producers that have hot melts only to complete their line. The importance and volume of hot melts sold might vary.

- Hot melt manufacturers producing adhesives or coatings for their own captive use.

TABLE 6.4 COMPANY PROFILES OF KEY SASOLWAKS CUSTOMERS

HB FULLER COMPANY

Established in 1887 to supply adhesives to the growing food processing industry in Minnesota and Wisconsin. In 1941 the firm was sold to EL Anderson, and started to expand its sales nationally. From there HB Fuller developed into the largest independent adhesive manufacturer in the United States. The Adhesives, Sealants and Coatings Division accounts for 81% of the turnover, supplying products to various industries through 25 local manufacturing plants and six service centres. By subdividing manufacturing into many smaller units operating close to the point of use, HB Fuller ensures good customer service, an important factor to success in the adhesive and related products field.

During the 1960s, HB Fuller started expanding into the international adhesives market and currently has operations in 27 countries throughout the world. Annual net sales in 1985 amounted to $458 million, with a profit margin of 3,2%, which is excellent for a general adhesive producer. Higher profits are usually achieved by speciality adhesive manufacturers. Although the packaging industry is the largest adhesive market outlet, HB Fuller offers a reasonably complete line of hot melt adhesives. New hot melts are continually being added, because of the company's renewed commitment to research and development.

NATIONAL STARCH AND CHEMICAL CORPORATION

National Starch and Chemical Corporation is one of the largest adhesive manufacturers, employing 5 700 employees worldwide. Their annual sales were over $880-million in 1985. The company was founded in 1928, entered into the manufacture of Polyvinyl Acetate in 1963 and started producing hot melt adhesives in 1969. In 1978, the company merged with Unilever, NV, a British-Dutch firm. In 1985, National Starch acquired Pegamentos Garantizados of Mexico, producers of industrial adhesives. It also opened a corn starch plant in Missouri, and expanded its tapioca starch plant facilities in Thailand. Further plans include purchase of a corn wet milling plant in Germany and the construction of a research centre in Ontario.

Hot melt adhesives manufactured are aimed at several industries, especially packaging. National Starch is technically competent, aggressive and determined to continue growing.

SOURCE: Frost & Sullivan (1987:308-311)

6.4 COMPETITOR ANALYSIS

6.4.1 Wax as a Raw Material in the Formulation of Hot Melts

Wax is the third most important ingredient used in the compounding of hot melts. Since wax acts similarly to the solvent in solvent based adhesives and coatings (as do tackifying resins), its primary purpose is to decrease the viscosity of the hot melt. The cost of the wax is considerably lower than that of either the polymer or the resin. Frost & Sullivan (1987:262) explain that even though the cost factor makes it advantageous to use as much wax in the formulation as possible, wax tends to downgrade the physical properties of the hot melt. A delicate balance must, therefore, be struck between price and the desired application.

Waxes generally used in hot melts can be subdivided into the following categories:

- Paraffinic waxes are refined fractions of crude oil, and consist predominantly of straight chain and branched hydrocarbons with a minor amount of cyclic compounds. Paraffinic waxes have a tendency to crystallise and are, therefore, brittle, have poor adhesion, cohesion and low seal strength;

- Micro waxes are also (higher boiling) refined fractions of crude petroleum oil, but they have fewer straight chains, and more cyclic and branched compounds than do the paraffinic waxes. Therefore, micro waxes do not form large crystalline areas and so, remain softer and more flexible. They have better adhesive properties (USI, s.a.:16); and

- Synthetic waxes are used only for special formulation needs. Wax melting point affects heat resistance, open time and peel strength. Rauch & Verbanic (1986:4) indicate that high melting points (such as *SASOLWAKS*) are required for best peel strength adhesives. Synthetic low molecular weight polyethylene waxes have provided increasing competition to *SASOLWAKS* over the past 10 years.

Some adhesives might only have a small amount of wax, or none at all, while some coating formulations consist mainly of wax. While waxes are used extensively with ethyl vinyl acetate hot melt formulations, their use is very limited with block

co-polymers, as utilised for hot melt pressure sensitive adhesives. Waxes are not used at all with high performance hot melt adhesives based on polyamides and polyesters.

6.4.2 Hardwax Competitors in the US Hot Melt Adhesive Industry

A summary of the major players in the US hardwax market and their position in the hot melt adhesive industry is summarised in table 6.5 (p.95). Despite being a *follower* in the broad US hardwax market, it is clear that *SASOLWAKS* is the *leader* in the hot melt adhesive industry.

TABLE 6.5 HARDWAX COMPETITORS IN THE US HOT MELT ADHESIVE INDUSTRY - 1991

WAX SUPPLIER	PRODUCT	HARDWAX SALES			
		TOTAL		TO HOT MELT ADHESIVES	
		Estimated Sales (thousand tons per annum)	Market Sales %	Estimated Sales (thousand tons per annum)	Market Share %
Allied	Polyethylene wax	39,9	37	0,5	3
Eastman	Polyethylene wax	20,0	18	1,4	8
Petrolite	Polyethylene wax	5,0	17	4,5	24
	Micro	13,6			
Sasolchem	Fischer-Tropsch	12,0	11	7,7	42
Marcus	By-product	3,6	3	2,3	13
Other		14,1		2,0	
		108,2		18,4	

SOURCE: ***Adapted from Sasolchem (1992a:9) and Rauch & Verbanic (1992b:3)***

6.4.3 Competitor Strengths and Weaknesses

A relative strength common to all Sasolchem's hardwax competitors is the fact that

they are all *local* suppliers to the US hot melt adhesive producers. A broad overview of other competitor strengths and weakness is presented in table 6.6 (p.96) and is based on internal marketing information (Moore & Munger, 1982:34,38,39).

TABLE 6.6 HARDWAX COMPETITOR STRENGTHS AND WEAKNESSES

ALLIED	PETROLITE	EASTMAN	MARCUS
STRENGTHS			
Basic in feedstocks.	Wax is only business.	Basic in feedstocks.	Very cheap supply of feedstocks.
Excellent technical capabilities, service, support literature.	Excellent reputation for quality and service in the micro markets.	Excellent technical capabilities, service, support literature.	
Big company.	Excellent technical capabilities within major hardwax applications.	Big company.	
	Speciality approach towards marketing.	Professional attitude perceived (Kodak).	
WEAKNESSES			
Big company and hardwax a small part of overall business.	Not basic feedstocks.	Big company image and hardwax a small part of overall effort.	Inferior and inconsistent product quality.
Price of feedstock is high.	Single source for hard micros.	Price of feedstocks is high.	Distribution ethics questionable.
		Poor distribution system.	Limited technical service.
		Large sales force selling from catalogues.	

SOURCE: ***Moore & Munger (1982:34,38,39)***

6.5 ENVIRONMENTAL ANALYSIS

6.5.1 Governmental Regulations

In an effort to meet increasing demand and comply with stringent government restrictions on volatile organic compounds, adhesive manufacturers are including water-based, high-solid and hot melt adhesives in their product lines (Webb, 1990:55). These are replacing solvent-based adhesives in many applications.

However, Frost & Sullivan (1987:35) point out that lower oil prices cause a corresponding decrease in solvent prices, dampening the rate of replacing solvent adhesives. They are of the opinion that an equilibrium is being reached between solvent, aqueous and hot melts and that further decreases of solvent usage will proceed fairly slowly (despite numerous predictions that solvent usage will be largely eliminated within the next 5-10 years). Many manufacturers have decided to continue with solvent coatings and have invested in solvent recovery or incineration units. Recent developments in drying technology that allow the use of a high solvent vapour concentration in the drying oven and simplified solvent recovery have further reinforced the staying power of solvents.

Aqueous polymer emulsions and hot melts are the main candidates for those manufacturers who have decided to replace solvent solutions. Despite the longer drying time, conversion to aqueous systems is usually simpler, because most of the equipment used for the application of solvent solutions is adaptable to aqueous coatings. Frost & Sullivan (1987:29) explain that conversion to hot melts requires a considerable investment in new equipment, and once the conversion has been made to a hot melt system, the change to other formulations becomes more difficult.

6.5.2 Recyclability

The advent of the 1990s was accompanied by the phenomenon Kauffman (1991:13) refers to as "green consumerism". Indeed, consumers are becoming increasingly aware of the environmental consequences of their purchasing decisions. Major corporations have recognised this trend and are developing products, packages and processes which are more environmentally friendly.

The environmental consequences of packaging and products will most likely

continue to come under stringent scrutiny in the 1990s. One aspect of this trend will be an increase in the recycling of paper products. Hot melt adhesives based on conventional synthetic polymers represent a significant source of contamination in the paper repulping process, which would encourage adhesive manufacturers to reformulate with new raw materials. Kauffman (1991:14) reports that National Starch has found that hot melt adhesives based on a unique class of graft co-polymers of various vinyl monomers can alleviate the problem.

Weis (1991:9) claims that one of the most important factors in recycling is the capability to cost-effectively separate multiple materials into pure streams. He refers to the need for "recycle friendly" adhesives to help minimise reclamation and produce high quality recycled material.

6.5.3 Technological Advancements

Today, it is unusual to pick up an adhesive trade magazine or attend an adhesive seminar without learning about at least one innovative approach involving hot melt adhesives. Inspection of patent literature reveals areas of high technical activity Frost & Sullivan (1987:276). Quite often, commercial activity follows the technical one. An examination of the patent literature is a clue to the particular areas of interest to research and development. Table 6.7 (p.98) provides some insight into technological developments.

TABLE 6.7 PATENT ACTIVITY IN AREA OF HOT MELT ADHESIVES 1981 - 1986

COMPANY	No of Patents	POLYMERS MOST OFTEN USED	No of Patents	END USE	No of Patents
Eastman	41	Polyester	52	Paper Laminating & Bonding	42
Du Pont	26	Ethyl Vinyl Acetate	43	Plastic Bonding	39
National Starch	17	Polyamide	41	Pressure Sensitive Products	38
Phillips Petroleum	15	Other Olefinic Copolymers	39	Metal Bonding	34
VSM Corporation	14	Polyethylene	28	Textiles and Non-Wovens	29
Sun Oil Company	9	Polypropylene	24	Shoes and Leather	17
Goodyear Tire & Rubber	7	Block Copolymers	24		
		Acrylates	12		
		Polyvinyl Acetate	10		
		Polyurethane	8		

SOURCE: Frost & Sullivan (1987:277,285,289).

The data indicates that the number of patents issued on polyester and on polyamide-based hot melts is considerably higher than their current application would warrant. These polymer classes will become more important in the future, as will suitable adhesives to bond plastics. The main interest of raw material manufacturers is to make sure that their materials can be used by all hot melt manufacturers, and that their use is not restricted by end-use patents issued to firms engaged in hot melt manufacturing.

Research carried out by Tse *et al.* (1990:193) to understand the interactions of ethyl vinyl acetate, tackifier and wax at the adhesive/substrate interface, is a specific example of a disturbing development for wax suppliers. They claim: "We can formulate wax-free hot melt adhesives by using a low melt viscosity ethyl vinyl acetate copolymer modified solely with tackifier. This wax-free adhesive achieves suitable working hot melt viscosity and at the same time maintains desirably high peel strength with a number of substrate surfaces."

6.5.4 **Economic Climate**

The US economy was showing some signs of recovering from the slowdown and gross national product growth was expected to be flat or only slightly down in the first quarter of 1991. According to Rauch & Verbanic (1991:1) that compares to a 2,0% decline in the fourth quarter of 1990. Lower interest rates and increased home building should precipitate a return to positive growth. Stable prices for crude oil should help keep inflation under control although some upward pressure on food prices will lead to upward pressure on the consumer price index. This economic recovery should translate to an upswing in most of the hot melt purchasing segments.

6.5.5 **Political Climate**

Newspaper headlines were dominated by the lifting of sanctions against South Africa, but Perry (1991:4) remarks that the commentary and the effect seems concentrated on the political aspects. The effect on business, although much talked about, has yet to be felt in the South African economic environment. What is certain is that South Africa is moving from a siege economy brought about by sanctions, to something different. What this will be is not certain, but it is probable, given time, that there will be an open economy. Undoubtedly, an open economy will improve prospects for exports to the US, Europe and the Far East.

6.6 MAJOR THREATS AND OPPORTUNITIES IN THE EXTERNAL ENVIRONMENT

It is evident that there are many forces in the external environment that threaten to have a major effect on the US hot melt adhesive market and, consequently, *SASOLWAKS'* supply to this market.

The following are considered to be the major threats to *SASOLWAKS*:

- Intensifying competition from cheap polyethylene wax emanating from the by-product in polyethylene manufacture. The growth of the plastic industry may produce further abundant supplies of by-product that can exacerbate the situation;
- The possibility that hot melt adhesive formulators will cease to use *SASOLWAKS* in their packaging formulations because of the problems it causes in the paper-pulp recycling process;
- *SASOLWAKS* is generally used in hot melt adhesives for the paperboard industry. A gradual shift away towards plastic packaging may affect wax requirements in packaging adhesives; and
- Technological advancements in adhesive chemistry may cause a major shift towards speciality hot melts based on polymers that can withstand much higher temperatures, develop superior bond strength and do not use wax.

Despite these apparent threats, there remain various opportunities for *SASOLWAKS* to continue its growth in the US hot melt adhesive industry:

- The relaxation of sanctions against South Africa and improving political developments may stimulate additional *SASOLWAKS* sales;
- Economic recovery in the US should translate to an upswing in most of the hot melt purchasing segments; and
- Governmental regulations driving the move away from solvent-based adhesives provide further opportunities for hot melt adhesive growth.

6.7 INTERNAL ANALYSIS OF THE WAX DIVISION

A strategic conference was held by the Wax Division of Sasolchem in March 1990. The most important strengths and weaknesses emanating from these discussions

are documented in a report (Sasolchem, 1990:10-11) and can be summarised as follows:

6.7.1 Major Perceived Strengths of the Wax Division

- **Product Performance:** The performance of *SASOLWAKS* in a packaging hot melt adhesive formulation is unique. Its high degree of crystallinity, coupled with relatively high melting point, provides excellent viscosity reduction, quick setting and good high temperature performance.

- **Product Quality:** Fischer-Tropsch waxes are manufactured by the synthesis of carbon monoxide and hydrogen gas. The varying product quality usually associated with waxes derived from different crude oil stocks is not an issue. *SASOLWAKS* has developed a reputation for being an extremely pure, high quality hardwax.

- **Cost Advantage:** Sasol has traditionally been able to maintain the price of *SASOLWAKS* slightly lower than competitive polyethylene and micro waxes. Sasol's cost structure is generally low due to a relatively cheap raw material (coal) and no outstanding debt on its wax processing equipment, constructed in Sasolburg more than 30 years ago. Most competitive polyethylene hardwaxes are manufactured from ethylene, an expensive raw material. Hard micro waxes are produced from a very specific narrow petroleum cut in the manufacture of lubricating oils.

- **Service:** Moore & Munger have been exclusive distributors of *SASOLWAKS* in the US for more than 30 years. They have a good distribution system and are known to provide their customers with excellent service.

6.7.2 Major Perceived Weaknesses of the Wax Division

- **Distance from the Marketplace:** Notwithstanding the presence of Moore & Munger in the US, the Wax Division has little direct contact with its customers. In the earlier discussion of the marketing concept, it was argued in section 3.2 (p.18) that "an obsession with customers is a key sustainable strategic advantage". Not only is it extremely difficult to implement the marketing concept, but limited communication between the Wax Division and major hot

melt adhesive customers will result in the following shortcomings:

- Poor response to market needs;
- Lack of information regarding customer product applications and *SASOLWAKS* performance;
- Poor feedback regarding the effects of rapidly changing technology;
- Little direction in focusing Sasol's research and development efforts;
- Limited basis for differentiation, especially in speciality markets;
- Moore & Munger considered to be a broker, competing with manufacturers;
- Product from South Africa, not a domestic product. (Some executives are known not to purchase from South Africa for political reasons); and
- Moore & Munger are technology orientated towards paper-type applications and employ something of a commodity approach towards marketing.

6.8 SUMMARY - THE STRATEGIC SITUATION FACING THE WAX DIVISION

SASOLWAKS, a major raw material component in hot melt adhesives used mainly in the packaging industry, was generally in a sold-out position for 25 years up until the mid 1980s. Sasol was the only producer of synthetic hardwaxes worldwide and hardwax demand exceeded supply. It was therefore not seen necessary to thoroughly analyse the international wax markets, the many diverse applications for waxes and the competitive advantage of *SASOLWAKS* in key market segments.

The early 1980s saw the introduction of synthetic low molecular weight polyethylene waxes, which - despite high prices - served to provide increasing competition to *SASOLWAKS*. The resulting hardwax overcapacity led directly to inventory build-up and cuts in hardwax prices. The Wax Division, being the low cost producer, was able to maintain market share and generate adequate profits at the lower price levels.

The hot melt market in the US is now beginning to consolidate after many years of spectacular growth. Slower growth rates are evident in mature segments such as packaging, resulting in intense competition both amongst hot melt manufacturers and raw material suppliers.

The late 1980s saw the introduction of very cheap by-product polyethylene waxes

that are finding their niche in commodity packaging hot melt segments where cost, not performance is the dominant buying criterion. Environmental regulations governing toxicity/recyclabililty and technological advancements in adhesive chemistry are placing even further demands on the Wax Division and other raw material suppliers to this market.

It would appear that the Wax Division is losing its traditional cost leadership status to wax from by-product polyethylene (Marcus), yet is not sufficiently differentiated to effectively compete in some of the hardwax segments controlled by Eastman and Allied. An effective strategy needs to be devised to prevent getting "stuck in the middle" (Porter, 1980:41) and this will be further explored in chapters 7 (p.104) and 8 (p.113).

CHAPTER 7.

TARGET MARKET STRATEGIES FOR SASOLWAKS

7.1 INTRODUCTION

In order to devise effective growth strategies for *SASOLWAKS* in the US hot melt adhesive industry, it is imperative to establish which segments *SASOLWAKS* is currently serving, its market position in those segments and its growth potential.

The purpose of this chapter is to:

- Summarise the various industries currently purchasing *SASOLWAKS*;
- To identify current target markets and segment these further;
- To evaluate the changing market position of *SASOLWAKS* in the target market and its growth potential;
- To suggest alternative target markets that could be considered for penetration; and
- To evaluate the current *SASOLWAKS* strategy and provide broad guidelines on future target market strategies.

7.2 SASOLWAKS IN THE US HARDWAX MARKETS

An examination of table 7.1 (p.105) indicates that the leading application of *SASOLWAKS* in the US is in the hot melt adhesive industry.

On a macro basis, targeting of the hot melt adhesive market is not so much a result of conscious nurturing by the Wax Division or Moore & Munger, as the external demand that has evolved from hot melt adhesive formulators, who discovered unique properties that *SASOLWAKS* provides in various hot melt adhesive blends.

TABLE 7.1 SASOLWAKS SALES TO VARIOUS INDUSTRIES 1991

APPLICATION	SASOLWAKS SALES (thousand tons per annum)
Hot Melts Adhesives	7,7
Inks / Paints / Coatings	2,7
Wax Blends / Paper Converting	0,3
Plastics / Rubber Compounding	0,3
Textiles / Emulsions	0,3
Other	0,7
TOTAL	**12,0**

SOURCE: ***Moore & Munger (1981-1992)***

7.3 HOT MELT ADHESIVES IN THE PACKAGING INDUSTRY

Although hot melts have extremely broad penetration into various and diverse end-uses, most of the hot melt consumption volume is concentrated in a single industry. According to Frost & Sullivan (1987:104), packaging is the single most important area of hot melt use and, together with pressure sensitive tapes, accounts for 75% of all hot melt consumption. (See table 6.3, p.88).

Keck (1992:37) confirms that paper dominates the industry in terms of value of all domestic packaging sales. Corrugated boxes, used largely to manufacture shipping containers, represent more than 60% of all US paperboard packaging sales. The remaining 40% of paper packaging is in the area of folding paperboard boxes and cartons, of which almost two-thirds is used in the food and beverage industries.

Hot melts are especially suitable for packaging applications. Fast speed operations, such as box closure, require adhesives that form rapidly setting bonds. According to Frost & Sullivan (1987:106), the use of hot melts allows case sealing rates of 45 units per minute. Using a cold glue as the adhesive, only a 25 unit per minute rate is possible. Hot melts have penetrated such areas at the expense of other adhesives.

Hot melt packaging applications are subdivided into two main groups: adhesives

and coatings. Estimated hot melt consumption for packaging is presented in table 7.2 (p.106).

TABLE 7.2 HOT MELT CONSUMPTION FOR PACKAGING - 1986

APPLICATION	CONSUMPTION (thousand tons per annum)	
Coatings		223,6
Adhesives		127,0
Corrugated Case Sealing	49,0	
Bags	22,2	
Trays	18,6	
Folding Cartons and Set-up Boxes	17,4	
Labels (Non-Pressure Sensitive)	9,3	
Flexible Packaging Laminations	2,9	
Composite Cans and Tubes	2,9	
Other Applications	4,7	
		350,6

SOURCE: ***Frost & Sullivan (1987:107,108)***

7.4 SASOLWAKS TARGET MARKETS

Being a highly competitive high technology market, hot melt adhesive producers are understandably reluctant to pass on any information regarding their proprietary hot melt formulations for specific applications. It is thus not always clear in which final product application a specific raw material, such as wax, is being used. However, with an understanding of the specific role of wax in a hot melt adhesive, and its inherent strength and high temperature limitations, certain deductions regarding target applications can be drawn. Further information can be obtained by examining the raw material components of "typical" hot melt formulations (Frost & Sullivan, 1987:111,141,152,159).

On this basis, it is generally accepted that *packaging* applications account for the majority of wax consumed in hot melts. Bookbinding is a smaller market for wax based adhesives. Refined paraffin waxes are generally preferred for hot melt

coatings (Rauch & Verbanic, 1986:5), and *SASOLWAKS* is not used for both technical and economic reasons.

SASOLWAKS is mainly used in packaging adhesives where it contributes to heat resistance and fast set time. *SASOLWAKS* sales could therefore be expected to follow the growth of packaging hot melt adhesives. On a micro segmentation basis the majority of wax used is in the following packaging adhesives:

- Sealing corrugated board shipping containers;
- Construction of multi-wall bags;
- Manufacture of packaging trays; and
- Folding cartons and set-up boxes.

Discussions with hot melt adhesive customers has confirmed that these are the specific target markets that *SASOLWAKS* serves (Dee, 1991:71).

Table 7.3 (p.108) focuses on hardwax sales into packaging hot melt adhesives. It is clear that the 3% average growth in hardwax falls far short of the 15% growth rate in packaging hot melt adhesive sales. A likely explanation is that adhesive formulators have succeeded in minimising expensive speciality hardwaxes by using cheaper paraffin waxes and resins. Sales figures suggest that *SASOLWAKS* sales growth of 2,5% is lagging slightly behind hardwax sales growth and this is reflected by a marginal loss in market share from 45% to 42%.

7.5 CURRENT SASOLWAKS STRATEGY

During the 1960s and 1970s *SASOLWAKS* inherited its market leadership position in the US hot melt adhesive market based on its *uniqueness*. Sasol is the only commercial manufacturer of hardwax using the Fischer-Tropsch process. This produces a hard wax with unique physical properties that out-performed the soft paraffin waxes in many applications, especially hot melt adhesives. Since demand for *SASOLWAKS* exceeded supply during this period *SASOLWAKS* generally sold itself. Targeting any specific market and providing comprehensive technical support in end-use applications was deemed unnecessary. The 1980s saw the emergence of polyethylene waxes which, although slightly inferior in performance, did successfully compete with *SASOLWAKS*. However, these waxes are traditionally

TABLE 7.3 PACKAGING HOT MELT ADHESIVES AND HARDWAX GROWTH

CONSUMPTION (thousand tons per annum)	1981	1991	Average Growth 1981 - 1991
Packaging Hot Melt Adhesive Sales	44,0	172,0	15%
Hardwax Sales	13,3	18,4	3%
SASOLWAKS Sales	6,0	7,7	2,5%
SASOLWAKS Market Share	45%	42%	

SOURCE: ***Adapted from Moore & Munger (1981-1992); Frost & Sullivan (1987:2) and De Bell & Richardson (1972:34)***

manufactured from ethylene, and thus sell at a high price. *SASOLWAKS* has a *lower cost structure* and has maintained market share essentially with lower prices.

It is important to understand that the strong market position of *SASOLWAKS* in the US hot melt adhesive industry is not a result of any specific targeting of this industry by the Wax Division. *SASOLWAKS* was made available to the broad US market where the wax was used with success in many applications. *SASOLWAKS* appealed mostly to the hot melt adhesive formulators initially because of its uniqueness and later because of its price. This is a typical example of what Kotler (1984:270) refers to as undifferentiated marketing. However, the latter part of the 1980s saw the emergence of a new breed of very cheap by-product polyethylene wax that shattered the cost leadership advantage of *SASOLWAKS*.

Section 4.3 (p.31) explained that market segmentation reveals the market segment opportunities facing the firm. Based on the long run profit potential of each segment and various other factors, the Wax Division needs to make a decision regarding whether it will continue to offer an undifferentiated product to the broad spectrum of industries, or whether it makes more sense to target one or more market niches.

7.6 RECOMMENDED TARGET MARKET STRATEGIES

7.6.1 Generic Strategy Recommendations

The situation audit carried out in chapter 6 (p.84) and the target market analysis in section 7.4 (p.106) confirmed the following:

- The packaging hot melt adhesive market is moving towards maturity;
- The variety of raw materials, increasing environmental demands and rapid proliferation of new technology contribute to the complexity of this market;
- Competition is becoming extremely intense; and
- The Wax Division has limited resources.

On this basis, the proposal in line with Cravens' (1987:308-310) recommendations, is that the Wax Division preferably segments the US hardwax market and differentiates the *SASOLWAKS* product range to concentrate on selected target markets. The obvious niche to firstly focus on is the packaging hot melt adhesive market where *SASOLWAKS* already enjoys a dominant position. Porter's (1985:12) caution that to "be all things to all people is a route to strategic mediocrity and no competitive advantage at all" would tend to support the recommendation to switch from a *cost leadership* strategy to a *focus* strategy.

Should the objectives of the Wax Division be to increase wax sales into hot melt adhesives at a faster rate than the predicted 6% growth, options are either to take market share from the polyethylene wax (packaging), or to replace the hard micro (packaging and bookbinding). Alternatives include penetration into other market segments (for example, inks, textiles). Strategies to pursue these will be examined in chapter 8 (p.113).

7.6.2 SASOLWAKS Strategy in a Maturing Hot Melt Adhesive Industry

Begley (1989:SR6) observes that players in the hot melt adhesive industry acknowledge that the tide of strong growth has receded, and for the immediate future they look forward to respectable but unspectacular market expansion. The major markets they serve are all approaching maturity, leaving an array of niche areas to carry on a higher-than-average growth. Packaging is the largest outlet for hot melts, and it is also one of the more mature markets.

Appropriate strategies under these circumstances were suggested in sections 4.4 (p.34) and 4.5.1 (p.37). Specific recommendations for *SASOLWAKS* are to:

- Diversify the *SASOLWAKS* product range to cater more closely to specific segment wants;
- Carry out a thorough investigation of *SASOLWAKS'* cost structure and take steps to drive down costs further;
- Price specific *SASOLWAKS* grades aggressively in an attempt to improve long term market share by further penetration of the hot melt adhesive market;
- Provide the necessary research and development and marketing resources to support the focus strategy; and
- Delight present customers by providing outstanding service.

7.6.3 SASOLWAKS Strategy during Recession

Not only is the hot melt adhesive industry approaching maturity, but as pointed out in section 6.5.4 (p.99), the economy is still feeling the effects of a deep recession. Purchasing agents at the Wax Division's major hot melt adhesive accounts have understandably been trying to wrest lower prices and have threatened to switch to other suppliers. Management should therefore think hard about price and value. Appropriate strategies suggested in section 4.5.3 (p.39) are to:

- Carry out adhesive performance testing at wax research and confirm the superior performance of *SASOLWAKS*;
- Emphasise the value of *SASOLWAKS* by supplying Moore & Munger with competitive performance results as a defence against price reductions; and
- Consider introducing a new low priced grade for customers who do not require superior performance.

7.6.4 SASOLWAKS Strategy to Maintain Market Leadership

It was indicted in section 6.4.2 (p.95), that with 42% market share, *SASOLWAKS* is the market leader in supplying hardwax to the hot melt adhesive industry. Appropriate strategies were suggested in section 4.5.2 (p.38) to maintain this dominance. Specific recommendations are to:

- Improve existing *SASOLWAKS'* grades to provide even better performance in

packaging hot melt adhesives. Develop new products to attack other segments. These will be pursued in section 8.3.1 (p.114);

- Investigate the merits of supplying key customers *SASOLWAKS* in solid bulk form to optimise their handling costs; and
- "Advertise" the inferior performance of the by-product polyethylene waxes by providing Moore & Munger sales representatives with the necessary comparative performance data.

7.7 SUPPORTING STRATEGIES

This dissertation commenced with a discussion of the marketing concept. Starting with the customer's needs and wants, it was argued that strategic market planning is the process of deciding which wants to satisfy and how, and that without appropriate market intelligence it is impossible to retain strategic initiative. The recommended switch from a *cost leadership* to a *focus* strategy will place new demands on the Wax Division in the following broad areas:

- **Strategic Planning** must become an integral part of the day to day business operation of the Wax Division. The hot melt adhesive application champion (to be recommended in section 8.3.1 (p.114)) has an important role to play in understanding customer needs and guiding management to successful strategies to compete in the US adhesive industry.
- **Information Requirements** will increase dramatically. Although Moore & Munger's sales force has a crucial role to play in this regard, it is recommended that the Wax Division commission a professional marketing research company to carry out a thorough study on the role of hardwax in the US hot melt adhesive industry.

7.8 SUMMARY

The hot melt adhesive industry is a vitally important market, accounting for over 60% of *SASOLWAKS'* sales in the US. Most of the hot melt consumption is concentrated in the packaging industry, where *SASOLWAKS* is the market leader hardwax used by hot melt adhesive manufacturers. As the market for commodity packaging hot melt adhesives is reaching maturity, *SASOLWAKS'* growth potential is limited. As Sasolchem is no longer the low cost producer, it was recommended to switch from a cost leadership strategy to a focus strategy. Increased sales volumes

may be possible in the hot melt adhesive segment by taking market share from polyethylene and micro waxes. Alternatively, penetration into other market segments such as inks and textiles may be considered.

Other broad strategies recommended are the protection of market share through defensive actions, such as driving down costs and providing optimum levels of customer service.

In order to be successful, the focus strategy must be supported by formal strategic marketing planning and effective marketing research.

CHAPTER 8.

POSITIONING STRATEGIES FOR SASOLWAKS

8.1 INTRODUCTION

In the context of Sasolchem's current market leadership position, the changing face of the US hot melt adhesive markets and the 1993 wax expansion project at Sasolburg, the Wax Division held a wax exports strategic planning session in May 1992. The purpose was to decide on various broad strategies to grow the *SASOLWAKS* business in export markets.

This chapter will briefly identify objectives for *SASOLWAKS* in the US hot melt adhesive market. Specific product, distribution, price and communication strategy guidelines are proposed to provide direction to Sasolchem management. It is recommended that these strategies are translated into a detailed marketing plan which, successfully implemented, will ensure continued growth of *SASOLWAKS* in the broad US hardwax market.

8.2 OBJECTIVES

On the basis of the current marketing situation and apparent threats and opportunities in the marketplace, the Wax Division has set the following demanding, yet realistic marketing objectives, for the US hot melt adhesive market target:

- Sasolchem / Moore & Munger must firstly maintain market leadership by taking part in the expected growth in the packaging hot melt adhesive market;
- Foster the image of being a supplier of quality hardwax that offers the best price: benefit ratio in target adhesive applications;
- Refrain from increasing hardwax price. Maintain current profit contribution levels by optimising production and marketing costs; and
- Start penetrating into other hot melt adhesive segments (for example, bookbinding) by taking market share from micro waxes.

The combination of growing together with the packaging hot melt adhesive market and taking market share from competitive waxes translates into the marketing objectives summarised in table 8.1 (p.114).

TABLE 8.1 SASOLWAKS MARKETING OBJECTIVES IN THE US HOT MELT ADHESIVE MARKET					
	1992/93	93/94	94/95	95/96	96/97
SASOLWAKS' SALES (thousand tons per annum)	8,9	9,8	10,8	11,7	12,7
SASOLWAKS MARKET SHARE	47%	50%	54%	57%	60%

8.3 MARKETING MIX STRATEGIES

8.3.1 SASOLWAKS Product Strategy

Section 5.2.1 (p.43) introduced product portfolio analysis as a creative analytical approach for assessing alternative product market opportunities. The commonly used Boston Consulting Group approach has been applied to evaluate the current portfolio of *SASOLWAKS* applications in various key industries in the US.

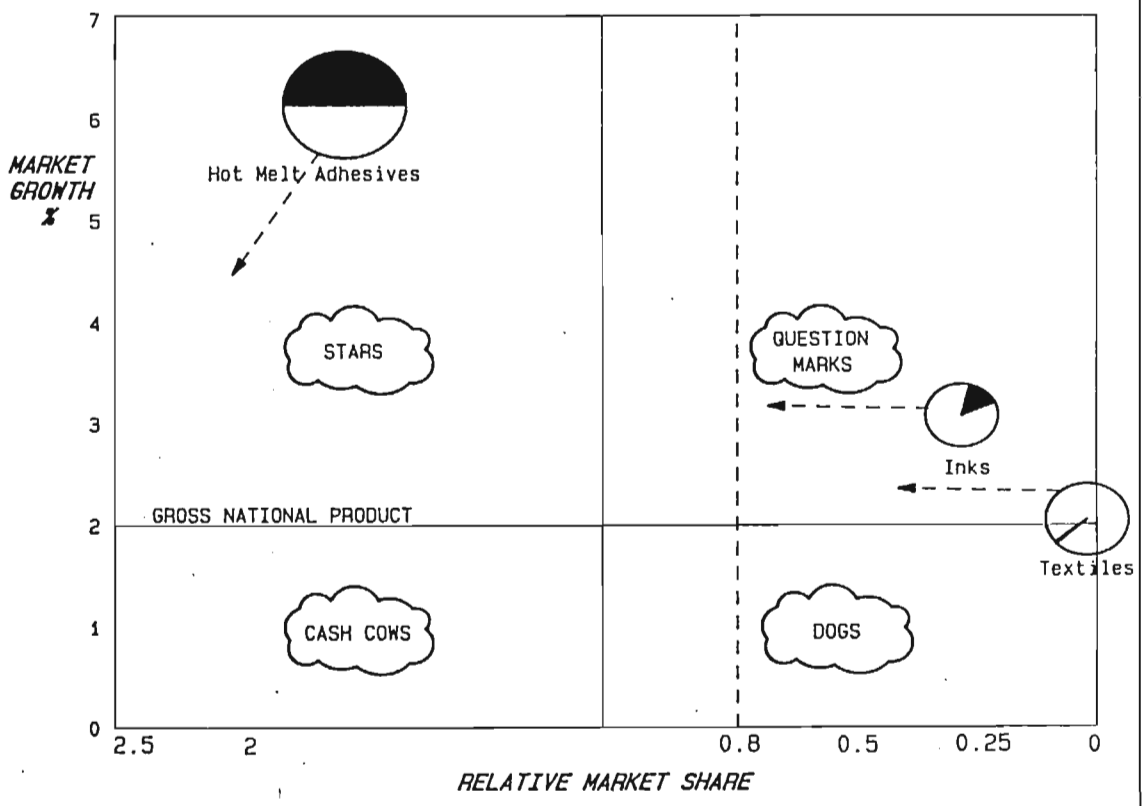
- **Protect Market Share**

  It is clear from figure 8.1 (p.115) that *SASOLWAKS* enjoys "star" status in the US hot melt adhesive industry. Robinson (1986:244) points out that "star" businesses represent the best growth and investment opportunities available to the company and every effort should be made to maintain and consolidate their competitive position. Low margins may be necessary to deter competition. This is worthwhile in the longer term, for as market growth slows large cash returns should be generated due to the market dominance. "Stars" can become "dogs" if there is inadequate funding to maintain market dominance.

  It was indicated in section 7.6 (p.109) that it is imperative to protect this market share by catering more closely to the specific wants of the packaging hot melt adhesive industry. HB Fuller's chief executive officer, Walter Kissling, agrees that despite the relatively mature nature of the paper/packaging

business, there is plenty of growth even in these markets by staying close to customers (Plishner, 1992:48). Broxterman of Chemquest goes even further, suggesting that strategic alliances will be the magic phrase for the 1990s. Fallender of Dow Corning believes that a strong commitment to research and development is a key requirement to operate a global business (Naude, 1991:5). The Wax Division needs to consolidate its market position and erect entry barriers to new competitors, such as Shell. It is recommended that wax research focus on developing hot melt adhesives that meet changing packaging needs such as recyclability and better adhesion to plastic substrates.

FIGURE 8.1 **SASOLWAKS PORTFOLIO IN VARIOUS INDUSTRY SEGMENTS**



SOURCE: ***Adapted from Sasolchem (1992a:7)***

Despite the dominance of *SASOLWAKS* in packaging hot melt adhesives, this "star" position is likely to deteriorate into a "cash cow" as the hot melt adhesive industry reaches maturity. It is thus necessary to further grow the business by improving market share in other high growth industry segments. The Sasol One expansion outlined in section 2.3.1 (p.15) further supports this growth requirement. Growth options were summarised in figure 5.1 (p.45).

- **Market Growth**

The technique of perceptual mapping, introduced in section 5.2.2 (p.44), is especially useful for evaluating the threat of substitute-products and in developing strategies for successful competition. Hot melt adhesive formulators regard both price and performance to be the most important dimensions in selecting raw materials. The unique performance of *SASOLWAKS* is the key to its competitive advantage, hence it is necessary that wax research continuously evaluate the technical performance of *SASOLWAKS* vis-à-vis competitive waxes.

Webster (1979:90) emphasises that new products are a necessary response if the firm is to retain its marketing effectiveness and meet changing customer preferences and dynamic competition in the marketplace. Figure 8.2 (p.118) portrays perceptual maps of *SASOLWAKS* and its competitive hardwax grades in various market segments. Potential growth strategies through new product development are suggested as follows:

- **Packaging Hot Melt Adhesives.** In addition to the very successful *SASOLWAKS* H grade, introduce two new *SASOLWAKS* grades to effectively counter the challenge posed by improved polyethylene by-product. Develop *SASOLWAKS* grade A with further performance improvements that effectively cancel the gains made by polyethylene by-product. Commercialise a low price grade B that is sufficiently differentiated from grade A to attack the low performance / low price niche. These are examples of growth by *segment factoring* identified in figure 5.1 (p.45).

- **Bookbinding Hot Melt Adhesives.** Very little *SASOLWAKS* is currently used in bookbinding because of its brittleness. Therefore, develop a new hardwax grade C that provides enough flexibility to the adhesive to effectively compete

with the micro waxes. Figure 5.1 (p.45) identifies this as a *market expansion* option.

- **Textile Finishing.** This industry, currently dominated by polyethylene waxes, is not an end-user of hot melt adhesives. In view of the importance of the hot melt industry to *SASOLWAKS* and the mature phase that this market is entering, it is recommended that the Wax Division begins to *diversify* its wax product range to enable it to compete in such new market segments as textile finishing. Consideration should be given to the introduction of two new wax grades D and E that meet textile customer needs for improved performance and lower cost.

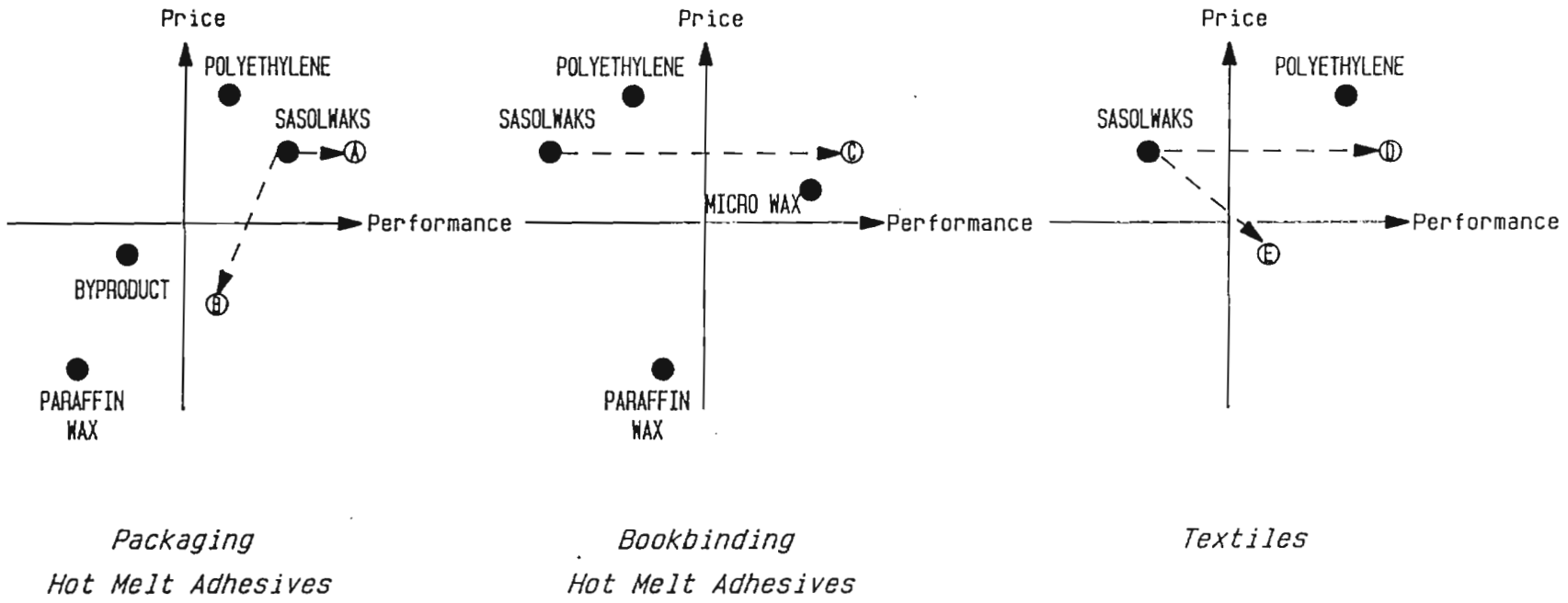
- **Successful New Product Development**

  Moore (1987:7) concludes that the primary path to successful new products is through the satisfaction of customer needs. The recommendations for the successful introduction of the new wax grades to the hot melt adhesive market include:

- Purchase the most recent marketing research on the US hot melt adhesives market. Commission a market research organisation to carry out a detailed market analysis on the role of wax in hot melt adhesives;
- Establish the key buying criteria or specifications used by formulators of packaging and bookbinding hot melt adhesives;
- Maintain continual, informal in-depth contact with leading customers, such as National Starch, throughout the development process;
- Ensure that sufficient resources are employed in product / market development; and
- To counter environmental uncertainty, provide adequate research and development - marketing integration in the new product innovation process.

The importance of the product manager was explained in section 5.2.4 (p.48). This concept can be applied to the Wax Division where it is recommended that a hot melt adhesive "applications champion" be appointed, with responsibility to plan and co-ordinate various strategies to optimise long-term *SASOLWAKS* profits in the hot melt adhesive industry. Table 8.2 (p.119) provides a broader overview of the role of the "applications champion".

FIGURE 8.2 **PERCEPTUAL MAPS OF COMPETITIVE WAXES**



NOTE: The dotted lines demarcate recommended growth strategies

8.3.2 SASOLWAKS Distribution Strategy

Section 5.3.1 (p.51) summarised the role of physical distribution as a tool of competitive marketing strategy. Since *SASOLWAKS'* production is geographically so far removed from the final hot melt adhesive manufacturer, it is clear that transportation and warehousing costs would represent a significant portion of total costs. This area presents an opportunity for cost reduction through increased productivity, in line with the experience curve theory mentioned in section 4.4 (p.34). Specific recommendations include:

- Automate the packaging of wax at Sasol One to reduce the high cost of labour and improve product appearance; and
- Introduce a computerised *SASOLWAKS* production planning and control system. This will not only provide an opportunity to optimise stock levels, but further reduce the cost of administering the logistics function.

TABLE 8.2 FUNCTIONS OF THE ADHESIVES CHAMPION

- **UNDERSTAND TECHNOLOGIES**
  - Formulations
  - Equipment
- **MONITOR TECHNOLOGICAL TRENDS**
  - Recyclability
  - Solvent / Water-based
- **COMPILE DATABASE ON**
  - Competitors
  - Competitor Products / Performance
  - Market Share
- **DETERMINE RESEARCH PROGRAMMES**
- **DISSEMINATE INFORMATION TO CUSTOMERS AND COLLEAGUES**
- **IDENTIFY CRITICAL SUCCESS FACTORS / COMPETITIVE ADVANTAGE**
- **IDENTIFY ALLIANCE POSSIBILITIES**

SOURCE: ***Sasolchem (1992b:30)***

It was suggested in section 5.3.1 (p.51) that industrial purchasing managers may rate distribution service second only to product quality in influencing their purchasing decisions. Hence any efforts to reduce the cost of holding *SASOLWAKS'* inventory and transportation should be viewed with respect to its effect on customer service. The change in physical distribution must be agreeable to the hot melt adhesive customer, preferably also providing some advantage to him.

It was argued in section 3.2 (p.18) that the customer and customer service is central to the marketing concept. Yet it is understandable that the technological innovations in the history of Sasol would, over the years, instill a "production" culture throughout the organisation. It is recommended that top management institute an organisational development project to establish a culture that supports the central value of customer satisfaction. Important actions for the Wax Division include:

- Provide industrial marketing training at all levels in the Wax Division, production and wax research;
- Measure customer satisfaction levels by carrying out frequent audits and monitoring customer complaints;
- Take the necessary measures to obtain South African Bureau of Standards ISO 9000 quality listing; and
- Appoint a hot melt adhesive "applications champion", thus representing a commitment to service.

Section 5.3.3 (p.55) pointed out that industrial distributors are a vital part of the industrial distribution channel. Despite the excellent Sasolchem - Moore & Munger relationship that has been built up over the years, it is important to continually reinforce the understanding of a "partnership" relationship. Elements to foster this relationship include:

- Joint strategic planning and agreement on objectives;
- Frequent objective evaluation of both Moore & Munger performance and the level of Wax Division support;
- Increase the level of technical training of Moore & Munger sales representatives, especially in hot melt adhesive applications;
- Agreement on equitable price-support policies;
- Institute a reasonable new product inventory policy that minimises the Moore

& Munger risk of stocking up with waxes that may become obsolete;
- Increase the level of shared market information, based on mutual trust; and
- Review Moore & Munger commission levels to reflect the additional efforts that will be required to introduce new *SASOLWAKS* products to the hot melt adhesive market.

8.3.3 SASOLWAKS Pricing Strategy

Section 5.4.2 (p.62) provided an overview of the various factors which generally influence pricing strategy. The following recommendations are presented as a guide to effective pricing strategy of *SASOLWAKS* to the hot melt adhesive industry:

- Obtain a clearer understanding of raw material price trends as the hot melt adhesive market matures and consider sacrificing short term profits for longer term market share;
- *SASOLWAKS* price should reflect the value perceived by the hot melt adhesive manufacturer at a specific point in time. Accordingly set the price of new *SASOLWAKS* grade B at a relatively low level to penetrate the bottom end of the packaging hot melt adhesive market. Effectively differentiate *SASOLWAKS* grade A, emphasising superior performance relative to cheaper competitive offerings;
- Refrain from attempting to pass on *SASOLWAKS* price increases to a hot melt adhesive industry that is currently hard pressed. Even when economic conditions improve, resist following competitor price increases. Webb (1990:55) reports that hot melt adhesive price is rising rapidly - an average of 4% per year due to higher raw material costs and an upgrading to higher performance polymers. The recommendation is to maintain relatively stable prices that build *SASOLWAKS* loyalty;
- Take steps to understand how the cost structure of *SASOLWAKS* compares with competitive hardwaxes and how this affects the *SASOLWAKS* position in a price war;
- Due to the volume-sensitive nature of the *SASOLWAKS* business, take advantage of the opportunities presented by economies of scale;
- Actively attempt to add a variety of small to mid-size hot melt adhesive customers to the existing Moore & Munger portfolio to partially counter the pricing pressure applied by the large, powerful customers; and
- Provide Moore & Munger with sufficient scope to operate a flexible pricing

policy. An equitable basis for handling *SASOLWAKS* margin erosion should be instituted.

8.3.4 SASOLWAKS Communication Strategy

Section 5.5 (p.69) explained that the purpose of a marketing communications program is to move potential buyers from unawareness to buying action. It is recommended that the Wax Division formally develop an industrial marketing communication program aimed firstly at the US hot melt adhesive industry. Important elements of this program would be:

- The need to emphasise the superior price performance of *SASOLWAKS* vis-à-vis competitive offerings;
- More frequent technical contacts between the Wax Division / Moore & Munger and influential technical people responsible for formulating hot melt adhesives; and
- The allocation of a reasonable budget to place specific messages in various media.

It was explained in section 5.5.2 (p.72) that personal selling is the most effective means of promotional media. The salesperson identifies the major influences in the customer buying centre and builds ongoing relationships by matching the seller firm's product/service need-satisfying ability with the requirements of the customer. On this basis Moore & Munger must identify specific needs of hot melt adhesive formulators and provide focused guidance to wax research. *SASOLWAKS* performance advantages, in turn, must be effectively communicated by the Wax Division, via Moore & Munger, to targets in the buying centre. The hot melt adhesive applications champion has a primary role to play in co-ordinating this flow of information.

Specific areas of improvement for the Moore & Munger sales force include improving their applications knowledge and the feedback of market intelligence to support strategic planning within the Wax Division. A creative sales compensation plan should be considered as a further tool to stimulate the commercialisation of new *SASOLWAKS* products.

Sasolchem Wax Division should make a major contribution by way of advertising,

publicity and sales promotion which effectively pave the way for the sales call. Specific recommendations include:

- Advertise the performance benefits of *SASOLWAKS* in trade magazines such as *Adhesives Age* and *Packaging Week*;
- Supplement this with a direct mail campaign specifically to create awareness of new *SASOLWAKS* grades;
- Improve the quality of wax technical information, such as data sheets and applications literature;
- Make use of industry publications such as *Chemical Marketing Reporter* and *Wax Data* to make announcements on wax expansion projects and the commercialisation of new wax products; and
- Start attending conferences / seminars presented by the Adhesive and Sealant Council and the Technical Association of the Pulp and Paper Industry and present technical papers. Consider promoting *SASOLWAKS* at adhesive trade shows.

8.4 SUMMARY

The Wax Division has set itself demanding, yet realistic objectives for *SASOLWAKS* sales into the US hot melt adhesive market. Broad positioning strategies were recommended to attain these objectives.

It is imperative that *SASOLWAKS* firstly retain its market leadership position by catering more closely to the specific wants of the packaging hot melt adhesive industry. Growth opportunities in this segment should be pursued by commercialising two new wax grades - one to aggressively attack polyethylene by-product waxes on a cost focus basis and the other to further differentiate itself on performance. Another alternative is to develop a new wax with flexibility characteristics to compete with micro waxes in bookbinding. Key buying criteria of hot melt adhesive purchasers must be established and close contact with major customers is essential during the product development process. Sufficient resources, market research and adequate research and development-marketing integration are key determinants of success, as is the role of the hot melt adhesive "applications champion" in co-ordinating the marketing effort. Due to the mature nature of the hot melt adhesive industry, it is recommended that the Wax Division diversify its wax range to successfully compete in other industry segments, such as textiles.

SASOLWAKS' distribution is a vital tool of competitive marketing strategy. Specific improvements suggested include; computerised production planning and control and automation of the wax packaging plant. The objective is cost reduction through increased productivity. However, costs should not be indiscriminately cut at the expense of customer service.

It is recommended that top management institute an organisational development project to establish a culture supporting customer satisfaction. Training, customer satisfaction audits and the formal introduction of international quality standards into operations and marketing are important elements of this culture change. Moore & Munger play a vital role as Sasolchem's partners in the industrial distribution channel. Joint strategic planning and sharing of marketing information are key aspects to reinforcing this relationship. Sasolchem has an important role to play by providing technical training and equitable price support policies.

Pricing strategies for the new *SASOLWAKS* grades were recommended. The importance of understanding product value perceived by the hot melt adhesive manufacturer was emphasised. Price stability was recommended as an important influence on customer loyalty. Information on the cost structure of *SASOLWAKS* and competitive hardwaxes can provide valuable insight into potential pricing strategies. It is recommended that Moore & Munger are given latitude to operate a flexible pricing policy in order to effectively respond to their large, powerful adhesive customers.

Marketing communications are essential in moving potential buyers from unawareness to buying action. The Wax Division needs to formally develop such a marketing communications program to emphasise the superior price: performance of *SASOLWAKS* vis-à-vis competitive offerings. Personal selling by the Moore & Munger sales force is the most effective means of identifying target customer requirements and selling Sasolchem's need-satisfying ability. Salesforce improvements are recommended in applications knowledge and providing market intelligence. The Wax Division can make a major contribution by way of advertising in trade magazines, issuing direct mail and improving technical literature. Public announcements in chemical publications and promoting *SASOLWAKS* at conferences and trade shows should also be considered.

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