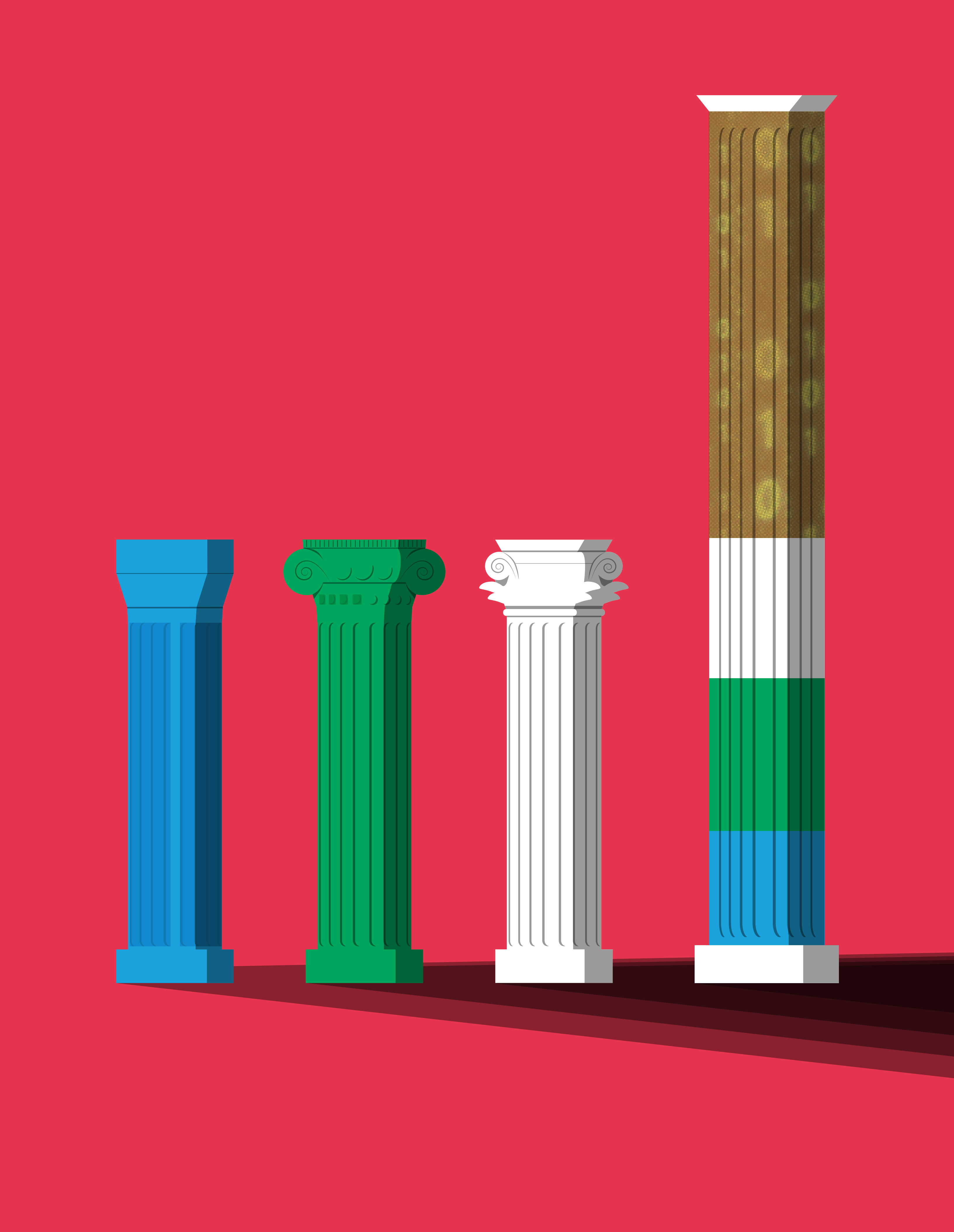

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Profitable Growth in Mature Markets

These days, start-ups, especially in the technology sector, are everybody's darling, while the big items of the past, large and medium-sized companies in the industrial sectors of B2B business, are standing on the sidelines. They mostly operate in mature markets with no positive dynamics and real growth potential, and with downward restructuring. But that does not necessarily have to be the case.

What are we talking about?

There are large companies in the steel manufacturing, coal mining, engineering and plant engineering, and petrochemical production sectors, and so on, where the overall supply has been exceeding the overall demand for quite some time now. Manufacturing was outsourced and off-shored some time ago, and the next wave of restructuring is now affecting the outsourcing and the off-shore facilities. Manufacturing is almost always asset heavy. And demand, if not on a long-term downward trend, is volatile, making it difficult to earn the cost of capital plus returns through the cycle. Now digitalization is the new wave, disrupting classical business models in an even faster way. This wave is offering more options for IT platforms and big data companies like Alphabet and Facebook, for technology companies like Apple, and for 3-D printing companies, which offer the combination of big data, logistics, and customer service, like Amazon. Overall, the wave is posing more of a threat to established companies in the heritage business sectors. Is this unsurmountable?

1

DIGITALIZATION IS NOT NECESSARILY THE DEATHBLOW FOR THE OLD HEAVY METAL B2B COMPANIES

When looking at the most powerful and valuable companies of the world and even when looking at the valuation of small-sized start-ups on the stock exchange, the perception is that the experienced companies of the past don't have a real chance of winning the race. They are moving too slowly, are thinking about protecting their business models, while the fast-paced disruption of business models is the new norm. These companies can never create the same dynamic environment of the fast movers of today. A look at many companies shows this to be true. But there are options.

If we take engineering and plant engineering businesses as an example, it is by no means a given that manufacturing and selling manufactured products is the only or even the main form of business. Apart from the added spare parts business, there are almost always additional service options. What about making all data available for smart predictive maintenance, offering drone inspection to customers in areas of their facility which are difficult to access for inspectors while the facility is in operation, or servicing customers with faster delivery of tailored spare parts by 3D-printing close to the customer in the near term. This is not only about customer retention, but also about the combination of long-standing technical expertise and a new digital approach which will attract new customers to the organization.

2

COMMODITIZATION OF PRODUCTS IN MATURE INDUSTRIES IS A REAL THREAT, BUT OFTEN THERE ARE WAYS OUT

The usual trend is at work here. What was an innovation years ago and came with a substantial premium has become more common over time and is finally becoming a commodity with strong competition for the lowest price. But in many cases, there are other options, even in B2B businesses. The main question is how to generate additional customer benefit in several different ways. The commoditized product function has to be a given in every product of that sector, but:

- Is it possible to achieve a longer product life with longer maintenance cycles?
- What about higher efficiency of the customer's product or plant facility with a better engineered product of one's own ?
- Are there options for other benefits to the customer from the product that is currently fully commoditized?

Even in an industrial sector like the supply of components for power plants, successful R&D activities are possible, and product development is delivering benefits to the customer which include overall higher efficiency of the power plant, higher environmental friendliness, and a longer product life for the supplied component. As a result, there are not only pricing options, but there is also and especially the ability to increase the market share and to organize growth in a non-growth environment.

3

LEVERAGE OF TECHNICAL EXPERTISE AND TECHNOLOGY FOR OTHER PRODUCTS

This is, of course, the silver bullet – if it is possible. In some cases, there are ways to use the technology or the technical expertise for one product or technical process in one industrial sector for another product or in another industrial sector. This is not easy. The few prosperous examples started their success mainly with workshops and intense thinking and discussions outside the box together with internal and external experts. Sometimes, acquiring a company in the target product sector or market provides the necessary drive or dynamic to enter into the new market.

There are obvious limits to transferring technology to other sectors. Sometimes, the additional investment for facilitating that technology transfer is just too high, doesn't pay off or cannot be paid off, and sometimes the accepted cost level of a technology or technical process in one sector would be completely unacceptable in another one which would mean that the transfer would possibly, in principle, never generate appropriate returns.

But it is worth the effort. There are examples from several sectors where substantial market volumes could be added to the usual one.

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4 IDENTIFICATION AND MANAGEMENT OF "WHITE SPOTS"

Identifying white spots means identifying not just which geographical regions are not covered by the company. It also and more importantly involves understanding which geographical parts of the markets and which niche market sectors are undermanaged. Some industrial markets are extremely transparent, most of the markets are very non-transparent. Assumptions about market sizes, especially about several niches, are very usual. The distribution of market shares are rough estimates, drivers for the purchase decision of customers are guided assumptions. In this environment, it is not always easy to assess whether different parts of the markets are exploited to the extent possible for one's own company.

In all of the respective projects about the exploitation of the relevant markets, the outcome was clearly that there are still market segments where we can do more if we adapt better to the needs of this particular market and its customers, accept the specific marketing and service requirements, follow up on adverse project decisions by customers, and make more of an effort with very capable local sales teams. This does not generate the necessary level of return in every case, but in many cases it is an option to generate profitable growth for one's company in an overall market which is not growing.

5 M&A CAN SUPPORT

Acquiring a business obviously generates growth for one's own company. But in most cases, there is a heavy price to pay for the acquired asset. The acquisition can only pay off if market, engineering, manufacturing, and administrative synergies can be generated, or if the acquired asset was undermanaged before and can now be managed better with one's own resources. This way the acquisition can support the growth strategy in different ways. Buying and integrating a technology company can substantially increase the pace of the technological development of one's own company and be an important trigger for growth. Buying and integrating a bold on-target company can increase the importance of the business for the customer even if the acquired business stands for a different product offering or it is able to extend the geographical reach and can provide customers with seamless service worldwide.

In many cases it might also be possible to establish these options from scratch with one's own resources. But, often the acquisition of a well-placed target company is the only way to substantially increase the pace, be the first mover, and exclude competitors from keeping up.

This generates additional growth opportunities over and above the mere adding of revenues and profits of the target company. Needless to say, business combinations can generate important economies of scale with substantial cost advantages, especially if they come together with a clear footprint optimization.

6

COST CONTROL IS A MUST

Cost control is another extremely obvious and important point. But there are important differences. In start-ups and very fast-moving sectors, speed, innovation, and coping with growth are real crucial factors, and cost control is of lesser importance. In mature market sectors, cost control is of utmost importance. These are the reasons why:

- Despite all the differentiation in product and services, making digitalization opportunities a driver and so on, there is still going to be a certain element of commoditization in mature markets – loss of cost control will not be forgiven.
- In fast-growing sectors, there is some possibility to grow out of the cost trap. Not having very capable people on board is the real threat to fast-growing companies, that capable people may be more expensive is less of an issue. The exact opposite applies in mature sectors where companies don't have the same option to respond to cost issues with fast growth.

7

MATURE MARKETS DEMAND AN EXCELLENT, MATURE MANAGEMENT

Start-up businesses, new technology companies, and the like are sometimes in the comfortable situation where one single and very compelling product or service concept drives all growth and is the one and only real success factor and pays ultimately all the dues.

These businesses have to defend their model against fast followers, and they have to tackle the huge growth requirements and adapt to changing demand items.

But generating growth in a mature environment, maintaining a consistent level of cost control, generating competitive advantages at all times but with a limited budget demands a very disciplined, skilled, and mature management which still allows and supports an appropriate level of creativity and innovation.

Conclusion

Even in markets which are not growing or only growing very slowly, there are options to generate growth for an entrepreneur:

- Digitalization can ignite additional competition, but at the same time it offers additional growth opportunities for one's own company, especially in the service part of the industrial sector.
- Product and service differentiation which are not a target themselves, but which are directly linked to the benefits of the customer are probably the most serious drivers for additional growth in mature markets.
- The leverage of one's own technology and technical expertise is the most difficult, but sometimes the most rewarding option to generate growth opportunities.
- In almost every company there are "white spots" or areas which are not well known and are undermanaged. By focusing on these areas and providing the right resources this will add growth, even in non-growing markets.
- M&A is not always the best option to generate growth, but it can support growth in mature market-sector companies, especially if the targeted assets are not just adding their revenues and profits. M&A can trigger additional benefits like increased importance to the customers, extended geographical reach, and completeness of the products and services on offer, etc.

Disciplined cost controls and mature management are not a growth driver per se. These are much more the pre-conditions for a successful company in a mature market – and for picking the limited but existent growth opportunities.