

Business & Management (SL) IA:

Sample 2

Commentary on:

**How can Tyrolit Schleifmittel GmbH increase sales
in a time of stagnation in the German market?**

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Written Commentary

How can Tyrolit Schleifmittel GmbH increase sales in a time of stagnation in the German market?

In 1895, Daniel Swarovski established a factory for the production of crystal jewellery, Swarovski. 34 years later, the nowadays biggest producer of diamond grinding tools was set up in Austria, which Swarovski named after a mineral found in Tyrol. “Tyrolit Schleifmittel GmbH” produces grinding and boring tools, saws and aggregates in 22 factories in 13 different countries and employs 4030 workers. Tyrolit calls itself the unchallenged technological leader¹. Yet, the market in which the company acts is facing a period of stagnation in Germany². In order to increase sales again, the market leader needs to employ thoroughly thought-out marketing techniques. The following investigation provides suggestions on how to utilise and put into operation new strategies to boost sales. An in-depth marketing plan using the “7Ps” will be considered, as well as primary and secondary sources from within and outside the company.

“Tyrolit Schleifmittel GmbH” is positioned at the top of the market, selling high quality products at a high price. The company offers complete systems and avoids additional purchases, which is appreciated by the customers. In order to get an overview of Tyrolit’s situation, a SWOT-Analysis has been set up. From this it was derived that, since Tyrolit is the top supplier, it offers a complete range of tools. Tyrolit’s main strength is its technological market leadership. Weaknesses are relative to Tyrolit’s strengths, since they depend on the flexibility and the actual strength, which is the expensive service. The high level of service cannot be tackled as it has been proven that this is a major advantage. Therefore there is no question about whether to keep the expensive store houses or not, since they form the backbone of the customer-friendly delivery system. The only weakness Tyrolit can possibly tackle is the domain of custom made tools. Tyrolit is in row with other suppliers here. In order to increase sales in Germany, Tyrolit must introduce a possibility to manufacture custom made tools in order to offer better solutions for special needs. It has to be checked what amount is required, to ensure a sensitive investment. The old manufacturing style takes as long as those of competitors. Effective use of the great opportunities is inevitable in order to increase sales in Germany. As many products as possible should be manufactured in low wage countries, since it has been proven that they are of an equal standard by now³. Additionally the storing system has to be used extremely effectively in order to increase sales. If the amounts of products are planned very thoughtfully, orders can take place in bigger amounts and discounts would lower the purchase costs enormously; same for products, which can in essence be produced on a “selling-storing” method. If a customer orders two saw blades for example, the company will produce 5, in order to store 3 to be faster and to be prepared for the next order. If Tyrolit can achieve this, its inauspicious cost structure due to high level of service would not decrease profit as much, because the company would work generally more efficiently. Exactly this efficiency is needed to maintain Tyrolit’s position not only in Germany but worldwide, to avoid the increase of market influence of cheap East Asian companies. The key to this is the development of new and technological superior products.

¹ <http://www.tyrolit.com/page.cfm?vpath=company/history> (07.09.2006)

² “*Der Spiegel*” (“*The mirror*”), Rudolf Augstein, Nr. 49/1.12.2006 pg. 89

³ See interview – Appendix – supporting document

A method of clarifying the possibilities, Tyrolit has to increase sales concerning product development, is using Ansoff's Matrix. Tyrolit already developed a USP⁴ and is therefore rather orientated on a mass marketing strategy. However Tyrolit stands for quality and service⁵. It is indeed the "Mercedes" in this sector and its pricing category is therefore strictly regulated. The tools are of the highest quality but also of the highest price, yet discounts often occur. The company is heavily focused on staying on top of technology as part of their philosophy to be the most advanced supplier. This also affects the customers who know what Tyrolit is about – quality. With this course Tyrolit strengthens its image. Due to the fact that Tyrolit is a global player, product development should never stop. It is an advantage compared to smaller, more locally dependent businesses. All advantages have to be used. As a result of this, it is advisable that Tyrolit uses market penetration, since the risk is low and Tyrolit is, since it is a global player strong and rich enough to pay a better promotion as part of the marketing mix.

A new, appropriate blending of the marketing mix is a promising way to boost purchases and to attract new customers. The company uses not only stationary selling points like a supermarket, but instead actively delivers products through salesmen to the customers. Hence, not only the "4Ps" that were originally developed for the marketing of products, but also those that were developed later for service sectors can be examined. For Tyrolit the outstanding Ps are those for Promotion, Pricing and People, as Product has been looked at earlier⁶.

A high rate of development outside Germany proves that the company is innovative and a global player who has excellent customer contacts. Yet, its global presence is not used efficiently enough, as Tyrolit's sister companies are not recognised as such. If they were marked as sister companies, the good image of Tyrolit could be utilised, which might also revive German interest in the company. Another aspect of Tyrolit's promotion is that the company uses direct mailing to inform the clients of the latest offers. In addition to this there are often campaigns where customers can get up to 10% discount over a whole month. Yet, the company should rather concentrate on informative advertisement, because customers just need to be convinced of the quality which would then justify the price. For a company which has an image like Tyrolit this should be very easy.

Tyrolit is due to its image not willing to take price leadership and due to its production and service costs not able to do destroyer pricing. That is the compromise which brings the quality with it, however "Tyrolit has got, because it is part of the world wide company group Swarovski the independence to achieve long term objectives"⁷. Tyrolit uses psychological pricing as pricing tactic. A unique selling proposition allows the company to charge a premium price. Furthermore they follow the price skimming strategy. They face competitive pricing competitors which often sell "me-too" products or simply copies of Tyrolit products. The competitors do not however seem to be more successful in selling products in Germany. Tyrolit does not have to be concerned about their prices and must, because of its image remain with their pricing. If the company lowers the prices its image will be damaged and since the quality is crucial for the image and the price Tyrolit has to do so.

⁴ Toy, Jo, (1999), *"IB Business & Management"*, Oxford, OSC IB Revision Guides (30)
(unique selling proposition – due to its image)

⁵ SWOT – Analysis

⁶ see Ansoff's Matrix

⁷ <http://www.tyrolit.com/page.cfm?vpath=company/history> (07.09.2006)

Tyrolit field workers have to attend several advanced training courses to be up-to-date with technology. They do not only sell the machines and tools, they also demonstrate them. Therefore, the salesmen of Tyrolit are highly competent on their domains. Furthermore Tyrolit tries to stay in contact with old employers to keep the spirit, experience and tradition of more generations. What the company has lacked to do over the years however was to cement its relations to its loyal as well as to normal customers. To involve them in the development of new products is an essential part increasing sales. If customers feel involved, this might also provide helpful word of mouth promotion. It is not necessary to set up focus groups but the salesmen have to stay in regular contact to any customer to assure their satisfaction and to get new and independent ideas and recommendations.

If Tyrolit can employ these marketing mix tactics, it might well see a change in the interest of customers in the business. More involvement of the customers in the process of developing can lead to increased word of mouth promotion, which can be supported by informative advertisement. Without lowering the prices, these adaptations may lead to increased sales, which automatically become profit for the company in Germany.

Conclusion

In conclusion it can be said that Tyrolit does its job extremely well. No obvious and easy wrong methods are visible. Yet, in order to increase sales, Tyrolit must utilise its delivery system efficiently in using a “selling – storing” method for example. Additionally the company has to address customers with special needs more often and should introduce facilities which can assure this; so the service is broadened. Furthermore, Tyrolit has to use its advantages as a global acting company, regarding financial aspects as well as image strengthening campaigns such as advertisements. Good products are, however, often enough evidence of the quality the company performs. Exactly this image can help Tyrolit to go the inevitable step towards the loyal customers and to set up relations with them and to involve them in product development. Daniel Swarovski had exactly this in mind, a close relationship between supplier and customer lasting as long as a diamond.

Appendices

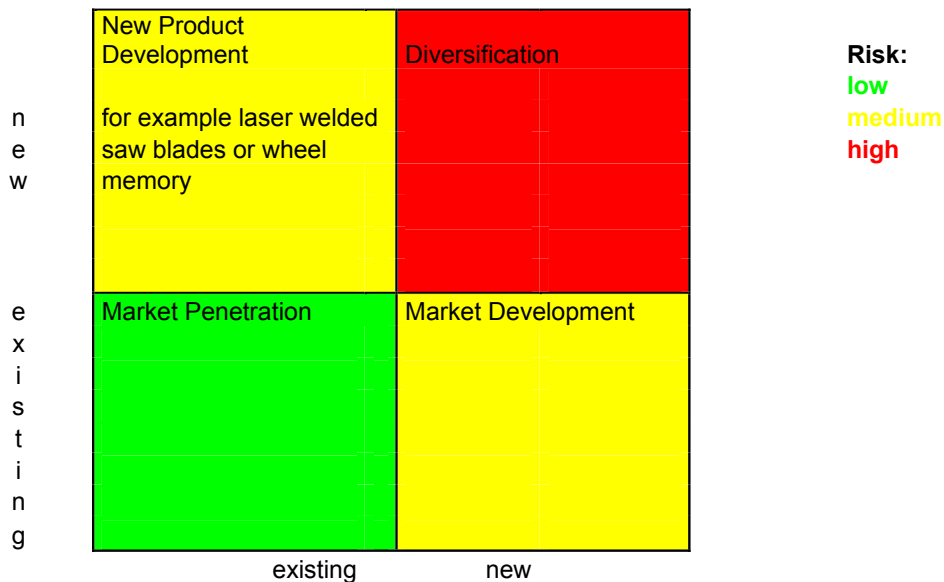
<p><u>Strengths</u></p> <ul style="list-style-type: none"> - offers complete range of tools (no further purchases are needed) - high development speed - technological/ market leader - innovative - good image - connected (computer, depots) - good customer contacts - global player 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> - custom made tools take a long time to produce (like elsewhere too) - expensive storehouse system - inauspicious cost structure due to high level of Service
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> - low-wage countries can be used due to be a global player - big company - purchases are cheaper if they are done in bigger quantities - better machines can produce better tools and improve old ones (laser welding) - better availability due to central store houses - products can be produced in bigger quantities (if there is an order of 2 saw blades, 10 are produced to store them for further orders) 	<p><u>Threats</u></p> <ul style="list-style-type: none"> - Chinese and Korean are cheap producers, but offer nearly identical quality - these companies do often even have better production facilities than in Europe - low-wage worker - products are easy to copy

Ansoff's Matrix

Both Matrices are recommended.

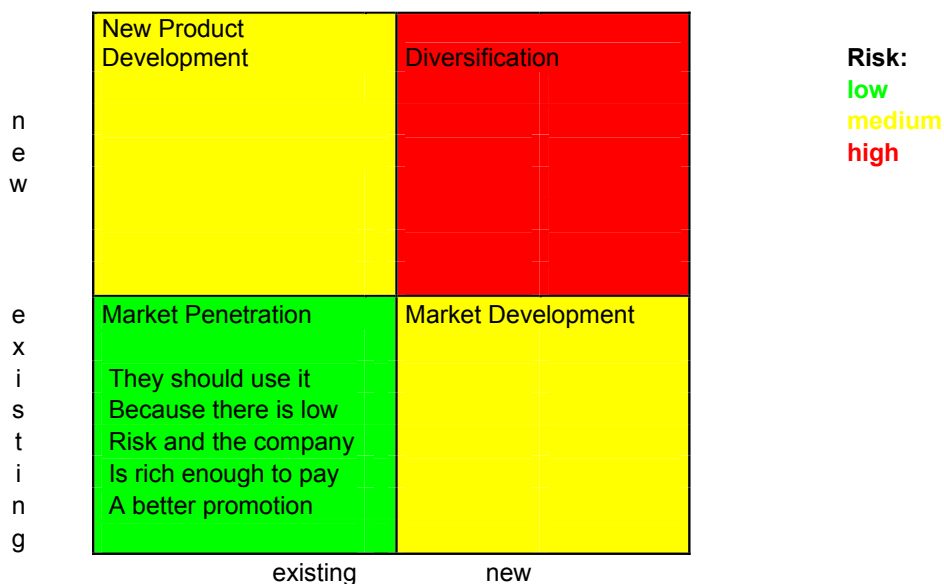
Actual:

Ansoff's Matrix



Additionally recommended:

Ansoff's Matrix



Supporting documents

1. Article from the Spiegel newspaper



* **Baugewerbe (german) means building trade, this did not change** from: *“Der Spiegel” (“The mirror”)*, Rudolf Augstein, Nr. 49/1.12.2006

2. Interview:

Would you please describe what you are doing?

Yes, I'm a field worker or a salesman of Tyrolit in East Germany. Tyrolit is a worldwide operating grinding and boring tools producer and is owned and founded by Swarovski. And I basically drive through East Germany and sell these tools.

What can you tell me about the background situation on the East German market, which influences the whole German market a lot?

It is firstly important to look at it on a long term basis. In the middle of the 90's there were about 1,4 million employees in the building sector due to the necessary building process which took place in the East after the reunification. Ten years later, in 2005 only 700,000 people were still working in the East German market. And experts expect a further decrease of about 60,000 people in the coming years. Parallel to this decrease of 50% of employees the profit decreased by 50% as well. Tyrolit were able to manage a decrease by just 20% which is in contrast to other companies a success.

The recession on this particular market is visible, how do you notice it?

First of all I do have to fulfil a Budget which tells me how much profit I do have to make. And as I said in 1995 there were a lot of workers and therefore projects which needed to be

supplied with tools. My Budget in 1995 was about 1,5 million €, in 2005 it was 1,2 million € and as I said before this represents a decrease of 20% exactly.

What can you tell us about Tyrolit's investments in low wage countries?

Tyrolit invested a lot of money in factories especially in China and Thailand. They had to do a lot of catch up training and recruiting of staff. By now the company has to admit that the products which are produced there are of the same quality as the products produced in Austria.

3. Tyrolit - company history

<http://www.tyrolit.com/page.cfm?vpath=company/history>

4. Tyrolit – corporate information

<http://www.tyrolit.com/page.cfm?vpath=company/tyrolitgroup>

5. Tyrolit – ambitions and visions

<http://www.tyrolit.com/page.cfm?vpath=ceostate>

Bibliography

World wide web

Literature

Toy, Jo, (1999), *“IB Business & Management”*, Oxford, OSC IB Revision Guides

“Der Spiegel” (*“The Mirror”*), Rudolf Augstein, Nr. 49/1.12.2006