

# ERIKS CASE

## Strategic planning in the globalization process



**“How to plan and implement strategic decision making within an international operating group in order to answer increasing competitive requirements on industrial global markets?”**

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## Industrial Marketing - IDM / M. Lucas WAMS



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***Amat Ros Hildebrand***

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***Clio Beraldin***

## FOREWORDS

### *Amat Ros Hildebrand*



A large piece of work, which challenged me a lot, has now become completed. For me it was a constant up and down. Every Sunday I was hoping it would already have been over; only looking for enhancement caused the one or other night shift. On the other hand all the hard work has mostly turned out to be worth it, which automatically brought back motivation for the next part.

From the learning perspective, I must say, it was a learning-by-doing process. The guideline helped a lot to cover every point and the research on both theory and practice was useful to get into the topic. Sometimes I would have liked more feedback on the specific points, to have a better and more constructive learning background. To achieve high grades a crucial statement that looks further then the expected is needed. We delivered those pretty much and this was not sufficiently discussed in class. However, it was a great experience and it was good to actually keep on track during the entire semester.

This project was very time consuming and very challenging but having such a great team made everything easier. Our analysis and conclusions regarding ERIKS are the reflection of the growth in knowledge we experienced when studying this firm and its industrial market. I believe that we have formulated a realistic strategy for ERIKS.

### *Karolina Deptula*



### *Clio Beraldin*



The IDM project achieved this semester has been above all a chance to apply to the knowledge and skills acquired during our studies in commercial economics and to concretely practise those through an integrated marketing project. The analysis of the industrial case that has been researched was a real challenge both in terms of team working and time managing as well as on a practical professional level. Thanks to a good coordination and to very qualified and reliable team members, the achievement of ERIKS' analysis can be regarded as a success in terms of personal and professional development. It obviously brought the whole team a concrete insight in how building and implementing strategic and management decision process within international organizations in today's global markets. Considering that we are currently preparing for the graduation placement that will take place in an international strategic and operational management context, the IDM project really enabled us to get a precise overview of the important aspects to consider. As a concrete practice, it allowed some real experience in strategic planning.

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## 1. INTRODUCTION

### 1.1. Brief description of the Company

#### 1.1.1. Business definition

In terms of global market, the company operates in the industrial equipment sector. The ERIKS group procures, stores, processes, sells and distributes a wide range of high-quality mechanical engineering components and provides a highly developed range of related technical and logistics services.

Its operations are based on a broad and deep knowhow of market developments, product properties, product applications, product processing, logistics and a corresponding modern infrastructure. Their ability to offer these six know-how domains means that the ERIKS group is ideally placed to make a positive contribution to its customers' and manufacturers' business operations.

The ERIKS group has become a leading, innovative supplier to defined segments of industry, fulfilling the twin roles of specialist and total supplier.<sup>1</sup> Because, it is operating in a differentiated oligopoly, the firm needs to both differentiate and compete on low cost basis which can only be achieved by reaching high economies of scales and competing on international markets.

#### 1.1.2. Business domain: needs, customer groups, technology

##### *Needs*

As a wide range supplier of industrial equipment, ERIKS meets the customers' need of quality procurement on a high level. ERIKS' know how in different procurement areas provides the customer the possibility to reduce demand chain costs by requesting several different procurement parts from one capable supplier. As European market leader, ERIKS provides high quality and low risk for its customers.

##### *Customers*

ERIKS 90,000 customers can be divided in 4 groups<sup>2</sup>.

(i)Maintenance market (MRO - Maintenance Repair Overhaul), ERIKS products and services are used directly in the servicing of systems and machines.

(ii)OEM (Original Equipment Manufacturers), ERIKS' products and services are used in the manufacture of finished products by the customer.

(iii)Projects, ERIKS' products and services are used for one-off, large-scale maintenance of existing process plants and infrastructure works or construction of new ones

(iv)Distribution, Dealers: if existing market areas are not covered by our own branches, we approach local dealers. Export: ERIKS' products are exported to market areas in which our group does not have its own branches, especially to obtain the required volume. In these areas we approach national distributors and OEMs

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<sup>1</sup> <http://eriks.com/en/about-eriks/profile>

<sup>2</sup> <http://eriks.com/en/products-and-services/customers>

### *Technology*

Regarding Technology, ERIKS provides an innovative basis, in which it develops new solutions for and with the customer. Innovation is next to Know-how the second main soil ERIKS' success is based on. Product innovation thru the customer supported development process is achieved, so is process innovation, due to the collaboration between the several different areas ERIKS operates in.

ERIKS' technologies focus on 8 core activities that are Sealing technology, Power transmission, Flow technology, Industrial plastics, Tools and Maintenance products, Electromechanical services and Condition monitoring, Tolerance rings and Tire technology, Technical and logistics services. (Annual report 2006 p.4)

For each of this technological division, the group is active and performing on 6 knows how domains which are Market, Product, Application, Customizing, Logistics processes and Infrastructure optimization know-how.<sup>3</sup> Know-how is increasingly becoming an ERIKS' product. Application engineers increasingly act as co-engineers in the development of new products and new applications among the customers. Know-how and innovation are the key words for further development of the ERIKS group.<sup>4</sup>

### **1.1.3. Business Mission (Goals and targets)**

On a global level, the group's main missions consist in achieving and keeping a leading, innovative and international position on its markets<sup>5</sup>. Therefore, ERIKS has adopted a cluster-oriented approach by building up a decentralized organizational structure on a geographical focus. This enables the company to perform a segmented approach of its customers as well as of its products which provides each individual company of the group with flexibility, innovation and high service quality to serve their customers and strengthen relationships with manufacturers<sup>6</sup>. ERIKS focuses on 6 know-how domains<sup>7</sup> (p.2/29), market (supply + demand), product, application, product-processing, logistics and knowledge to optimize the group's infrastructure, and they believe that those are the templates of the group's success. Each company of the group initiate actions in order to achieve the group's objectives and each individual project is part of the global strategy's fulfilment.

### *Mission*

From the previous statements, it is possible to formulate the following mission statement for ERIKS Company. The group wants to achieve a global presence and recognition in all its core activities. Therefore, ERIKS has to keep develop its markets, increase its cluster market share and follow market trends to continue competing.

### *Goals*

Strategically, the group aims to develop from a traditional distributor into an industrial service provider<sup>8</sup>. In the upcoming years, the group will continue its expansion both through organic growth and acquisition and will meet the objectives fixed for the years 2007 to 2009<sup>9</sup>. Taken

<sup>3</sup> <http://ERIKS.com/en/products-and-services/six-know-how-domains/>

<sup>4</sup> <http://ERIKS.com/en/press-releases/2007/ERIKS%20group%20nv%20-%20Financial%20results%202006.pdf>

<sup>5</sup> <http://eriks.com/en/about-eriks/mission>

<sup>6</sup> <http://eriks.com/en/about-eriks/eriks-group-nv>

<sup>7</sup> <http://eriks.com/en/presentations/ERIKS%20group%20nv%20-%20presentation%20extraordinary%20general%20meeting%20of%20shareholders%20november%2013%202006.pdf>

<sup>8</sup> <http://eriks.com/en/about-eriks/eriks-group-nv>

<sup>9</sup> <http://eriks.com/en/about-eriks/objectives/#tab-6529>

from ERIKS' website, those goals refer to commercial, organizational and financial objectives (following information all belong to the reference 7).

(i) *Commercial objectives*: ERIKS wants to be innovative, reliable and flexible to its customers. The group also wants be reliable and a cooperative partner to its manufacturer. Therefore it is necessary to achieve a strong market share and big volume.

- Build up leading market positions in Western and Central Europe
- Achieve a top 3 market share in all core activities
- Offer an extensive range of its products
- Possess an offer know how in order to be innovative
- Expand activity in the USA (buy-build strategy)
- Maintain South East Asia activity

(ii) *Organizational objectives*: ERIKS believe that modernity can be achieved by providing a cooperative, solidarity friendly and collegial work environment.

(iii) *Financial objectives*

- avg. Sales growth of 10 to 15%
- EBITA of at least 15% of net capital invested
- net debt/EBITA ratio of over 6
- earning rise of 5 to 10% per share
- 50% result dividend payout

### *Targets*

In the annual report for 2005<sup>10</sup> (p.3/10), Mr Van Der Zouw, chairman of the executive board and CEO of ERIKS pointed out the weakness and threat that have been identified in the 2005 SWOT analysis (p.2/10). The insufficient market coverage in Europe and the fact that the group is not yet engaged in all clusters on all core activities will be the basis for future decision-making.

The actual main European markets are Germany, France, UK, Benelux and Spain. The group needs to develop and expand its presence (and supporting infrastructure) and acquire a top3 market position to achieve a strong operating area.

To sum up, the missions of the group mainly focus on geographical segmentation, organic growth, expansion through acquisition, and customers' satisfaction through quality, wide and deep range of products, innovation and high service level. The goals ERIKS wants to achieve belong to its global strategy of development: expanding the activity in the core businesses, geographically, and in the market share. In order to achieve those goals the companies will focus on developing relationships with manufacturers and meeting customer's specific expectations as well as it will give emphasize on integrating new acquired companies.

### **1.1.4. History, legal form, status, standing, prestige**

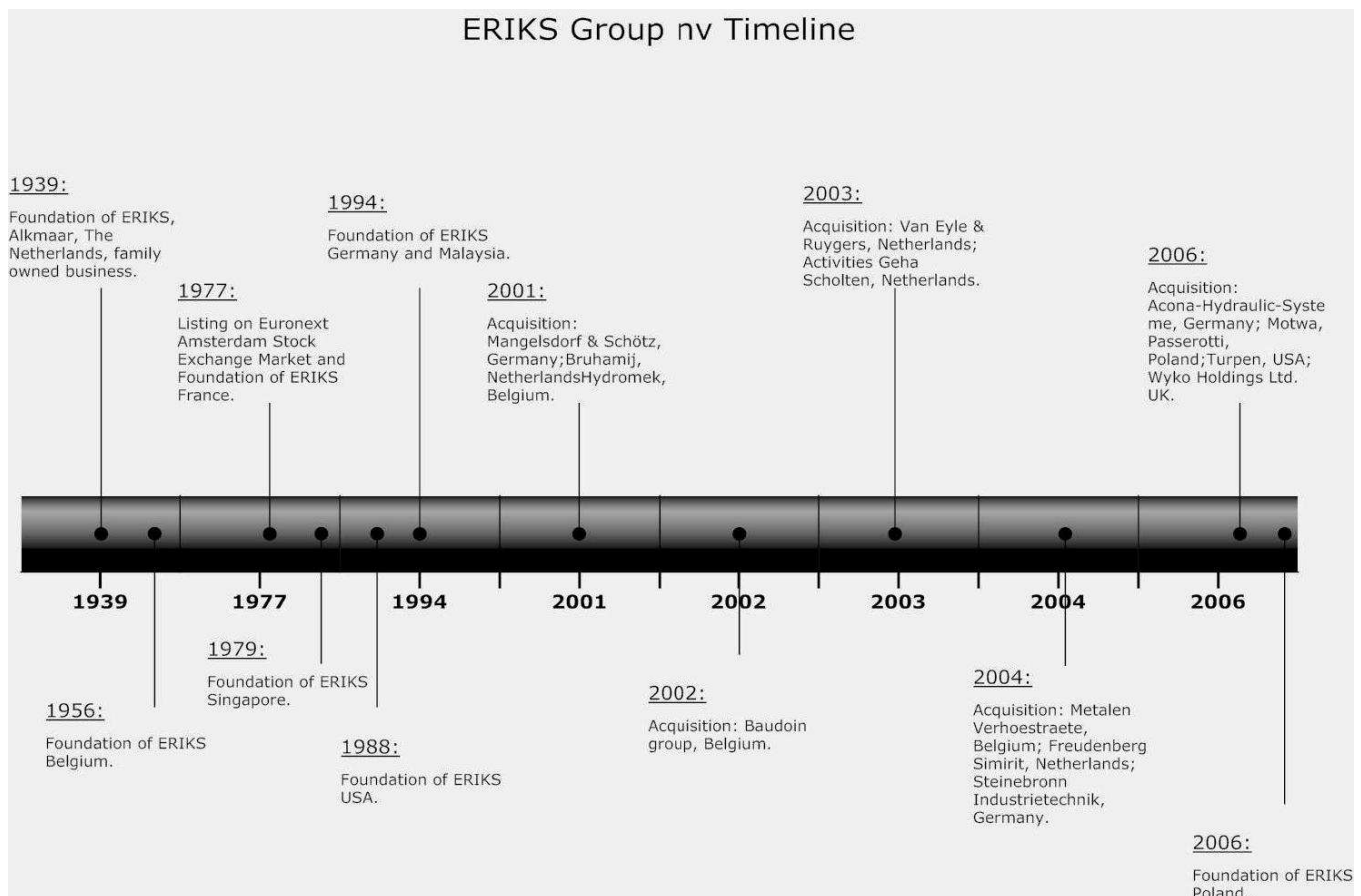
Eriks was founded in 1939 as a family company and started out in 1940. The company supplied the diary industry in the area of Alkmaar with valves and rubber seals. The growth of Eriks progressed step by step. In 1977 the company was quoted successfully at the Euronext

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<sup>10</sup> <http://eriks.com/en/ava/ERIKS%20group%20nv%20-%20Minutes%20General%20Meeting%20of%20Shareholders%2013%20November%202006.pdf>

Amsterdam Share Exchange. The Eriks group nv started out. The Eriks group nv expanded into three continents USA, Europe and South-East Asia. A network was built up. In 1994 ERIKS began with the acquisition of companies in Germany, Belgium, Netherlands, Poland and the UK.

The Eriks group nv is (a Naamloze Vennodschap) a Dutch public limited-liability company. Today the ERIKS group has become a leading, innovative supplier to defined segments of industry, fulfilling the twin roles of specialist and total supplier.



Currently the Company consists of over 50 group companies with branches in 13 countries. The Eriks group supplies over 90,000 industrial customers (business-to-business) and has around 600,000 products in stock, purchases those worldwide from over 1,000 qualified suppliers and manufacturers and sends out approximately 3 million shipments every year. The geographical focus of the group's activities is in the Western and Central Europe, where 94 percent of its sales are achieved.

### 1.1.5. Organisation / culture

ERIKS group nv is the Dutch holding company of a group of technical distribution companies and is listed on the Official Market of the Euronext Amsterdam Share Exchange ('Euronext N.V.'). The ERIKS group wants to be a modern, innovative and performance-oriented employer, creating a work environment that will continue to be characterized by cooperation, solidarity and collegiality.

The Executive Board starts from the assumption that the company is a long-term collaborative partnership of various parties involved. For that reason, the Executive Board of ERIKS group

nv has a duty to weigh up the interests of all parties involved (the stakeholders). But our number one consideration will always be the continuity of the enterprise and the creation of stockholder value. This must obviously be done within the confines of the rules of society (legislation, norms and values, and ethical standards). Eriks' code of conduct requires the ERIKS group to carry out its activities honestly and openly, with respect for human rights and the interests of the group's employees.

The ERIKS group has a corporate culture aimed at realizing attainable goals announced clearly beforehand to those directly involved. Transparency in verbal and written communication characterizes the ERIKS organization. Change in its widest sense is a fact of life in modern business. The management of Eriks' companies must succeed in controlling those changes. The informal organization of the ERIKS group and the short lines of communication between management and employees guarantee uniform values that the employees of the ERIKS group seek to apply.

Eriks code of conduct, agreed with the works councils, sets out the basic principles of the norms and values of the ERIKS group. Eriks requires all employees to comply with the code and encourage them to report to management immediately (through a whistle-blowing procedure) any breach or suspected breach of the code or other rules in force at the ERIKS group.

Employees are not blamed if the ERIKS group fails to win contracts because of adherence to the code of conduct. Similarly, information provided to management about suspected or actual violations of the code of conduct will not have any adverse consequences for the employee who supplied the information. Failure to observe the code of conduct is regarded as a violation of business integrity.

Neither group management nor local management received any notifications of violations in the year under review.

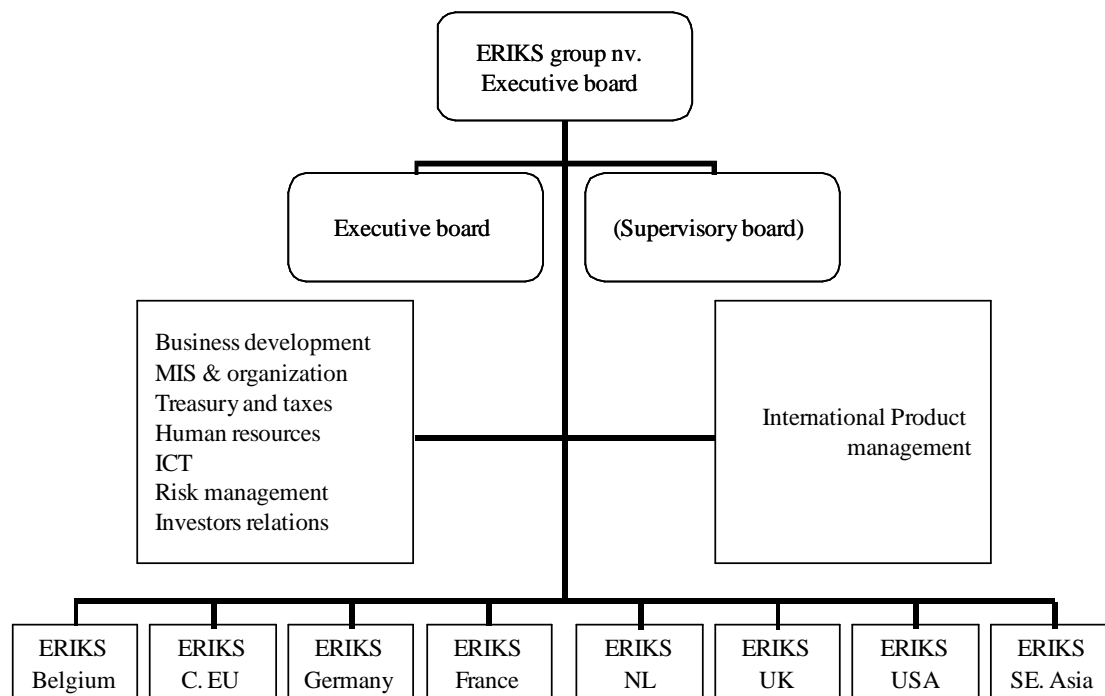
As a supplier of a high-quality range of technical components, the ERIKS group is obliged to conduct a sound environmental policy. Both in its own operational management and in product development, the ERIKS group remains constantly aware of environmental aspects and their influence on the environment. New insights, changing social standards and environmental laws are monitored closely. Eriks' group companies collect and dispose of various waste streams, like paper, oil and residual materials, in a responsible manner. As a group Eriks responds actively to existing and future regulations in its relationships with manufacturers and customers with regard to the development of products.

For almost all Eriks' product groups, Eriks develops new products, under its own brand name and in consultation with the manufacturers, with a view to avoiding emissions and leaks in the process industry. Eriks' employees are able to draw customers' attention to alternative solutions.

The management of the companies of the ERIKS group is encouraged to sit on technical interest organizations and to contribute to local, social and cultural events. Our human resources policy includes maintaining contacts with schools and training institutions. The purpose of these contacts is for ERIKS to contribute to the technical content of educational courses. As part of our human resources policy we maintain contact with schools and training institutions. The purpose of this contact is for ERIKS to contribute to the technical content of educational courses.

Its operations are based on a broad. The holding company acts as a strategic parent company. It performs the role of capital provider, initiator, motivator, implementer, monitor and coordinator of the strategy developed for the ERIKS group. The holding company ensures that added value is created for the group in relation to its individual companies. This means that the management of ERIKS' group nv is intensively involved in defining and detailing the strategy of the various clusters and companies.

A decentralized organizational structure gives the companies the flexibility, inventiveness and quality they need to serve their customers properly and act as a partner to manufacturers. The ERIKS group has been divided into clusters in order to control the envisaged organic growth and growth through acquisitions, below is a chart<sup>11</sup> shows us Eriks organization structure.



To sum up, ERIKS' culture can be found also in its organizational culture and represents one of the company's key factors of success. It is necessary to consider that aspect when expanding the activity.

### 1.1.6. Main financial performances<sup>12</sup>

ERIKS recorded revenues of €941.1 million during the fiscal year ended December 2007, an increase of 74.7% over 2006. ERIKS achieved its highest results ever and realised all its financial and commercial objectives. Further specifications follow:

- Increase of € 350.8 million due to acquisitions realised in 2006 and 2007
- Decrease of € 1.8 million due to the disposal of activities
- Decrease of € 2.9 million due to lower currency exchange rates
- Organic growth of € 59.7 million or 11.1 percent.

The ERIKS group realized a gross profit of €82.2 million in 2007 compared to the year 2006 it increased by 70.7%. The net profit of ERIKS increased between 2006 and 2007 from €27.8

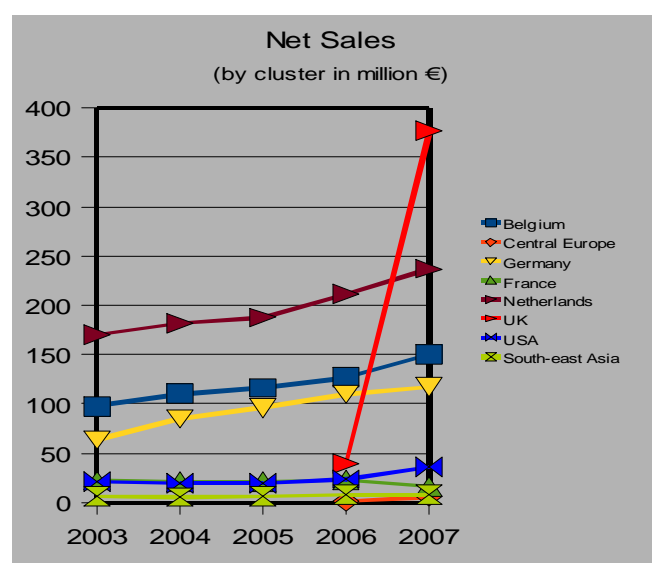
<sup>11</sup> <http://eriks.com/en/about-eriks/eriks-group-nv>

<sup>12</sup> all figures are come from or calculated from annual report 2006

million up to €43.7 million. This was an increase of 57.4%. Expenses reduced the gross profit by almost 50%. This is due to depreciation, like software with €9.9 million, amortization of intangible assets of €5.2 million, tax which accounted for the biggest proportion of the reduction of the profit by €16.9 million and also because of financial movement of financial instruments which accounted for €10 million.

In the past five years ERIKS has experienced a continuous growth in Sales. This is visible in the graph. There are two reasons for the increase. First of all, the ERIKS group benefited from increased industrial activities in all countries where the company is present. And secondly the strategy of ERIKS convinced its customers. The key driver of this enormous growth was the acquisition in 2006 of the British company Wyko Holdings Ltd. Mainly due to this acquisition major changes have taken place in the breakdown of sales by core activity and by customer group.

It is only possible to give information about the ratio for the whole ERIKS group because there is no detailed information of the clusters given. As calculated from ERIKS' press release from February 2008, about ERIKS financial results 2007, the key financial ratios using the simple Dupont are the following:



(i)ROS (Return on Sales), is the net profit of €43,7 million divided by the turnover of €949,1 million, which makes it 4.6% for the entire ERIKS group. Compared with the 5.2% of 2006 it is a decrease of 0.6% points.

(ii)ROT (Rate of Turnover), turnover €949 million divided by total investment €635 million is 1.5. This is an increase of about 67% compared to 2006, when the rate of return was just 0.91. (This shows that ERIKS' increasing ROT implies less expense for a higher net profit.)

(iii)ROI (Return on Investment), multiplication of ROS (4.6%) with ROT (1.5) 6.9%. Although the return on sales has declined by approximately 12% last year the return on investment has increased by 47% due to a huge increase of the rate of turnover (+67%). The higher return on investment in 2007 shows that ERIKS is more profitable than in the year before. The reason for the change of these financial ratios is that total asset increased by 6.5%, while turnover increased by 74.7%

ERIKS has a very good and strong financial performance. 2007 turn out to be a very successful year for the company. According to ERIKS press release "was it a fantastic year for the ERIKS group". The ERIKS group achieved its highest results ever and realised all its financial and commercial objectives that it had.

## 1.2. Brief description of the actual situation

### 1.2.1. Problem definition

(i) In accordance to the group's strategy of development, ERIKS reached its goals for 2006 and has now become European market leader in its sector. The 6 acquisitions made during this year enables the company both to expand on existing clusters (Germany, Belgium, Netherlands) and to enter the UK market. In the press release from 1<sup>st</sup> March 2007<sup>13</sup> (p3/11), the amount of sales by cluster clearly shows the repartition of the activity in the different geographical areas. The relative weakness of the British, the French and the Eastern Europe position (each below respectively 8%, 5% and 1%) should be considered very seriously.

(ii) At this point, the group has to focus on maintaining, strengthening and developing its market position on each cluster, especially new acquired and weak ones (UK, France, Eastern Europe, USA and South East Asia). The challenge will be to keep a regular development and expansion rate and to be able to maintain high quality and strong relationships on the same time. Therefore, it will be necessary to set up a clear strategy adapted to new market conditions.

(iii) The core business of ERIKS takes place in Western and Central Europe where Eriks achieves 94% of its sales. More and more companies are migrating from Europe to low wage countries. So that is why the market is shrinking in Europe. ERIKS needs to consider further East market entry in order to keep its competitiveness.

(iv) ERIKS uses a modern ICT (information and communications technology) system. But not all of the companies that belong to ERIKS use the same kind of system.

(v) ERIKS' main competence is the full support for different industries out of one hand. By buying market share rapidly, ERIKS runs the risk of image loss. This could be caused by capacity bottle necks, which do not reflect ERIKS' standards in domestic areas.

(vi) To become even more successful on world basis, ERIKS has to enhance their stand up speed. Once a region is entered, the full ERIKS portfolio should be available. This would provide positive image transfer and thus a easier market entry.

(vii) According to ERIKS' organization structure, the company is being operated vertically by the parent company, thus the subsidiary in each country could not make its decision independently, and this will result in an inflexible working condition regards to the local situation for the local managers. Due to the higher difference in needs of customers the further you move from your domestic markets, a certain level of self-determination could help developing.

(viii) In the 2006 annual report, the ratio for the Net debt/EBITDA is 3.1 percent, compare to the year before, it was only 0.8 percent, ERIKS performance on generate income by loan is not as good as before, from the finance prospect, it is a problem that has to be solved.

### **1.2.2. Plans and expectations**

According to the statements made from the 2006 annual report<sup>14</sup> (p5/11), key points for the year 2007 will continue to follow ERIKS' global strategy.

(i) In a first step the integration of 2006 acquired companies and their organic development will provide the group with new products, services and widened know-how, as well as it will

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<sup>13</sup> <http://eriks.com/en/press-releases/2007/ERIKS%20group%20nv%20-%20Financial%20results%202006.pdf>

<sup>14</sup> <http://eriks.com/en/press-releases/2007/ERIKS%20group%20nv%20-%20Financial%20results%202006.pdf>



enable procurement coordination and reduce inventory and stock in the European clusters. This represents the main matter for the upcoming year but still further acquisition should be considered.

(ii) From an internal point of view, enhancement of productivity should be achieved through logistics services expansion and emphasized group's policy (toward communication, employees, share/stakeholders ...)

(iii) The other aspect that should rapidly be addressed is related to ERIKS' global competitive level. Further investigations should be led to achieve an overview of global markets but ERIKS should seriously consider further strategic move in Asia. This represents the main aspect on a long term basis.

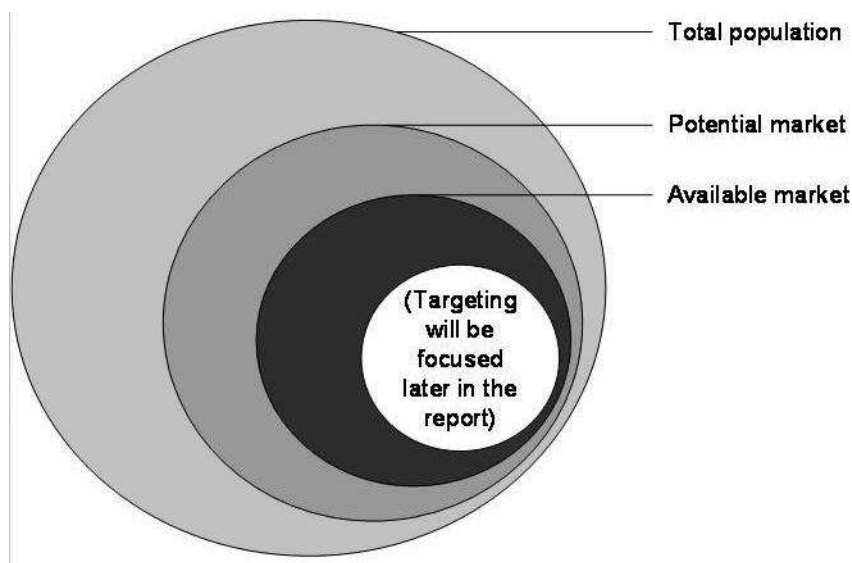
## 2. EXTERNAL ANALYSIS

### 2.1 Market analysis

#### 2.1.1. Market definition

To define the enormous scope of the market for hydraulic seals, it is worth a brief look on the market for hydraulics in general. A certain definition of hydraulics quotes: “engineering science pertaining to liquid pressure and flow”<sup>15</sup>. In industrial usage this means, that hydraulic s are used to pressure liquid to transfer mechanical power. This sort of engineering is wide spread and we see it used diverse on in the market. Bulldozer, cranes, forklifts, shovels, electrical tools, etc. are mainly supported by hydraulic power. The majority of airplane control surfaces work on hydraulic basis, and, not to mention, the entire scope of producing machinery. After that quick overview at the use of hydraulics we can estimate the scope of demanders for hydraulic seals.

The market for hydraulic seals covers a wide range of worldwide industry. Due to the fact, that hydraulic seals are used in almost any mechanical machine to seal high pressures, the market faces a world-wide scope, no matter in which development phase the potential customer’s country is. Even though such a seal is a rather small component in a mechanical module, it is highly substantial and is difficult to exchange. A common used concentric approach<sup>16</sup> for defining the market will clarify the different perspectives to look at:



This model helps to understand the narrowing up on the specific levels of demanders. In the case of hydraulic seals it is obvious that the first tier will be narrowed down extremely after the first restriction. That is the restriction of interest in the product. Thus, coming from the 1<sup>st</sup> tier TOTAL POPULATION, we can reduce our market to POTENTIAL CUSTOMERS, which are all possible manufacturers of products, which have hydraulic modules, integrated. Even if the amount of potential customers has dropped rapidly after step one, we see only little reduction of possible customers, after narrowing down to tier 2, AVAILABLE MARKET. This tier is defined by the potential customers who can actually afford this

<sup>15</sup> [www.noria.com/dictionary/default.asp](http://www.noria.com/dictionary/default.asp)

<sup>16</sup> <http://www.netmba.com/marketing/market/definition>

product. Because of the significant importance and the compared little unit costs, most certainly each manufacturer of hydraulic components takes seals in account when calculating the price of his end product. Thus, the difference between potential customers and available market is rather little. After this reduction of the market the criteria of the market are based on strategic targeting of the company. Consequently, we will focus on this later.

### 2.1.2. Market form

The market of hydraulic seals has several characteristics, which lead to the conclusion of facing a differentiated oligopoly. Despite of some irregularities, the aspects are quite clear as shown in spreadsheet about market structure types<sup>17</sup>:

	MONOPOLY	PURE OLIGOPOLY	DIFFERENTIATED OLIGOPOLY	MONOPOLIST. COMPETITION	PURE COMPETITION
No. of suppliers	one	few	few	many	infinite
Entry Barriers	high	restricted	restricted	low	none
Product Variety	unique	homogeneous	heterogeneous	differentiation and substitutes	homogeneous
Promotion	not important	minor	essential	essential	not important
Channel Control	mighty	strong	strong	weak	little to none
Price Competition	none	avoided	avoided	important	unimportant
Price-Elasticity o. Demand	depends on need	kinked demand	kinked demand	depending on substitutes	very elastic
Competitive Advantage	sole supplier	lower costs, better services	leadership in major attributes	focus	none
Major Marketing Objectives	stay unique	services	differentiate	segmentation	minimal

A few to many suppliers supply a market with restricted entry barriers. These result most importantly out of two major reasons, which are also mentioned by M. Porter<sup>18</sup>; Firstly economies of scale and secondly little possibilities to differentiate. A new entrant in the market cannot provide production on the levels in which the incumbents are producing. This would result cost-disadvantage.

Hydraulic seals are products on which you have rather restricted possibilities to differentiate. Of course there are differences in size and also in shape, e.g. seals that might be developed for only one or few customers, but these parts of the market are already covered by the incumbents. The product variety, as stated before is rather limited. Even so promotion, due to the little number of suppliers, is essential. Hydraulic seals are sold only on a B2B-basis and almost always directly from the producer to the customer. This means high control over distribution channels.

<sup>17</sup> L. WAMS, Syllabus 031, HES Amsterdam, November 2001

<sup>18</sup> M. PORTER, Competitive Strategy, Syllabus 031, HES Amsterdam, November 2001

Due to restricted possibilities of differentiation, a price competition is avoided. This would result in margin cuts, which are already on this basis not rather high, as we will point out later in this report. The price elasticity of demand shows kinked demand. This is a consequence which results out of the fact that you buy seals in enormous numbers. Hence, if the price rises to a certain level, you will drop demand kinking or completely.

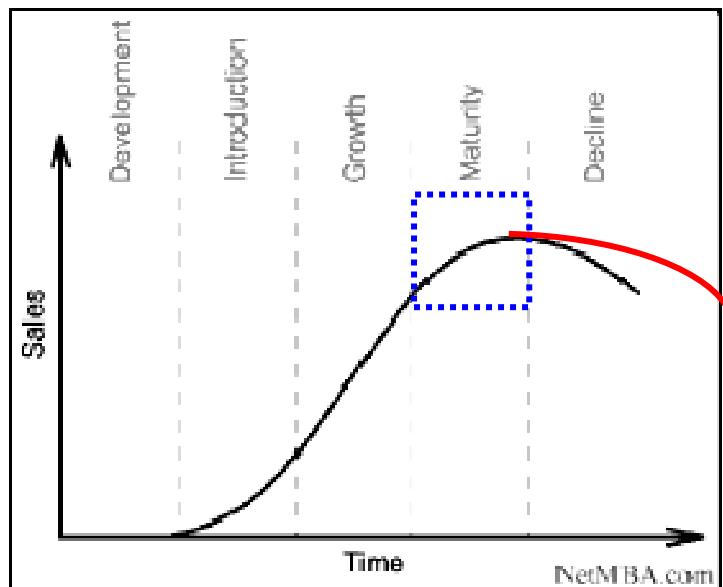
The competitive advantage and the major marketing goals are on the focused view upon this market restricted and give little possibilities to operate. This will be covered and proved later, as we will see, ERIKS fulfils the mentioned directions of differentiation and service providing in his several other key areas and most certainly in the full service packet and combination of these things.

To conclude, the market of hydraulic seals is an almost perfect example of a differentiated oligopoly.

### 2.1.3. Market development phase

The phase the market is in right now is the mature phase. The products offered in this market are all well known and widely sold. Innovations within the market are mainly small innovations to adapt existing products to further fulfil the customer needs. Although there are a lot of new products being developed these products are on-demand, meaning that they are special made for a customer to fulfil a specific demand.

There are however some big changes in the supply side of the market. These changes are not major about the products or services being offered but about the company structures. Companies are working more together so they can work more efficiently and thus lower the costs. Like ERIKS group, that consists of almost 50 companies working together worldwide other large companies are also looking at partners to expand their market share. This means that smaller companies are either being taken over or become part of a larger organization. The individual companies tend to specialize more in a specific area making sure that there is no large competition within the company itself but more highly specialized companies within the group. This makes sure they have a lot of knowledge and know-how on all different areas.<sup>19</sup>



The demand side this market shows constant development. On the one hand the industrial demand for hydraulics and therefore also for seals is not at all declining as we will see later on. Also the economical rise in Asia and also Eastern Europe, Russia, India, Latin America etc. require high levels of support in this business area. Hence the graph of the product life cycle, which is almost similar to the graph of the market development, will flatten as shown

<sup>19</sup> [www.eriks.com](http://www.eriks.com) & [www.yahoo.com](http://www.yahoo.com)

with the red line. Due to the problem of substitutability of hydraulics in building, robotics and other industries mentioned before, this flattening will continue and consequently the declining of the market is, postponed.

#### 2.1.4. Type of customers (current/potential)

Companies in the chemical, pharmaceutical, food, biotechnology, mechanical engineering, semiconductor, oil refining, construction and offshore and metal industry are using hydraulic seals, they are the end users. Hydraulic seals are vital in machinery. Of course, these hydraulic seals are not always being sold to the end users directly; it has several types of customers that can be divided into 3 large market segments:

\* *OEM*: The hydraulic seals are used in the manufacture of finished products by the customers; it is possible that the customer has their own brand name on the hydraulic seals. Original Equipment Manufacturers refer to many industries. Most important are the aeronautical industry (Airbus of Europe, ATR of France/Italy, Boeing of the United States, Bombardier of Canada and Embraer of Brazil ...), the automobile industry with both auto manufacturers (General Motors, Ford, Toyota ...) and components manufacturer (Bosch, BBS, NGK, Pagid, Ferodo ...) and electrical switchgear (US Industrial Electric Manufacturing IEM ...).<sup>20</sup>

\* *MRO & PROJECTS*: Maintenance Repair and Overhaul or Direct maintenance market. In this market, hydraulic seals and services are used directly in the servicing of systems and machines. It concerns mainly plants' MRO market, aircraft's, aerospace sector's ...<sup>21 22</sup> (ADAC Luftfahrt Technik - Helicopter Maintenance and Repair; Aeronexus Technical - Aircraft Maintenance and Support Solutions; Aerotek - Aircraft Wheel-Hub Repairs, Landing Gear and Hydraulic Components; Air Maintenance Estonia - Aircraft Line and Base Maintenance, Component Maintenance and Engineering Services; Aviation Technical Centre of Almaty International Airport - Aircraft Maintenance and Aircraft Component and Structural Repair Services; Avio - PW100 Engine Maintenance, Repair and Overhaul Services; Exeltech - Aircraft MRO; Finnair Technical Services - Airframe Maintenance, Component Support, Landing Gear Overhauls and Engine and APU Support; HYDREP - Aircraft Landing Gear, Hydraulics, Wheel and Brake Maintenance; KLM - Airframe, Engine and Component Maintenance; MTU Maintenance Hannover - Maintenance, Repair and Overhaul (MRO) of Commercial Aircraft Engines, Marine and Industrial Gas Turbines; Priority Aero Maintenance - Line and Base Aircraft Maintenance; Structural Monitoring Systems - Structural Vacuum Monitoring and Inspection; TAROM - Aircraft Maintenance and Services; TMW - Aircraft Engine and Airframe Component Maintenance ...<sup>23</sup>). Hydraulic seals and services are also used for one off, large-scale maintenance of existing process plants and infrastructure works or construction of new ones (Business Jets, Helicopters, Regional Jets, Turboprop Aircraft, Freighters, Long Haul Passenger Jets, Space Craft ...<sup>24</sup>).

\* *Distributor*: There are two kinds of distributors: (i) Local deals for market that is not covered by suppliers own branches; (ii) National distributors export the hydraulic seals to area that is not covered by the suppliers' branches. Today, an increasing number of distributors

<sup>20</sup> [http://en.wikipedia.org/wiki/Original\\_equipment\\_manufacturer](http://en.wikipedia.org/wiki/Original_equipment_manufacturer)

<sup>21</sup> [http://findarticles.com/p/articles/mi\\_hb3078/is\\_200604/ai\\_n18807236](http://findarticles.com/p/articles/mi_hb3078/is_200604/ai_n18807236)

<sup>22</sup> <http://www.airshow.ru/expo/19/list.htm>

<sup>23</sup> <http://www.aerospace-technology.com/contractors/maintenance/>

<sup>24</sup> <http://www.aerospace-technology.com/projects/>

and wholesalers appear on the Asian market in emerging countries (china, Indonesia, Hong Kong and India) whereas export markets are still directed toward the Western world, North/South America and Western/Eastern Europe <sup>25</sup> (CANON Hydraulic Pumps And Machines Trd; Bulbos Geny; Shinak Hydraulics; Shams al hoda general trading & cont. co.; Executive trading services ...<sup>26</sup>).

Customer types			
Customer segments	OEM	MRO	Distributors
Relationship	B2B		
Profile	International corporations, global/large sized companies		
Geographic areas	Originally from Europe and US but outsourcing to Asia ...	Europe & US	Mostly Asia
Specific need	Flexibility in product's features	Reliability & quality of the product	Cost attractive device
Potential demand growth	Emerging industries	Increasing need of maintenance and increasing need of specific maintenance on customized products	Asia development

To sum up, main customers of the gasket and seals industry belong to international corporations and large industries and they are professional customers (B2B businesses). Hydraulic seals customers are all related to engineering, suppliers try to sell the hydraulic seals to as many as possible end users by dividing the customer groups clearly and expand its customer base, such as supply more service to the maintain market or go into new market. Potential customers refer to every emerging branch of industries.

#### 2.1.5. Market size (actual, penetration, potential)

The gasket & seals industry is divided into clearly identified geographical clusters. Most relevant are the US, Japan and the Western European markets.

The US Gasket, Packing, and Sealing Device Manufacturing Industry's revenue for the year 2007 was approximately \$6.6 billion, with an estimated gross profit of 32%.<sup>27</sup> In comparison, total European market for the similar product (gaskets & seals, and other types of sealing devices) is estimated to be worth approximately ½ of the US market, in other words about \$3.3 billion. It is sometimes unclear whether Japanese or European market follows the US's. However, Japan gasket & seals industry can be estimated to be situated between \$3.0 & \$3.5

<sup>25</sup> [http://www.alibaba.com/showroom/O\\_Rings\\_Distributors.html](http://www.alibaba.com/showroom/O_Rings_Distributors.html)

<sup>26</sup> <http://gulfbusiness.tradeholding.com/default.cgi/action/viewcompanies/buyers-importers-distributors/o+rings/>

<sup>27</sup> <http://www.marketresearch.com/map/prod/1653710.html>

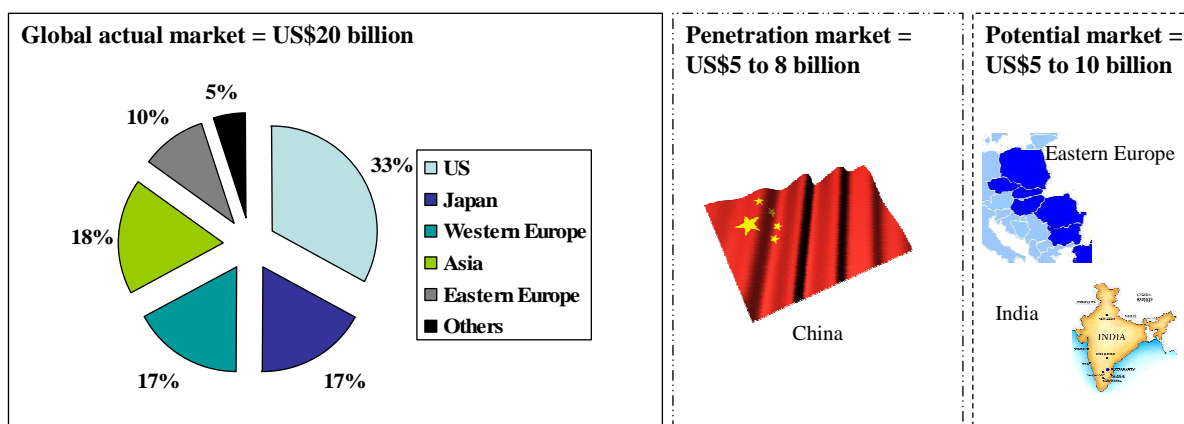
billion. Together, US, Japan and Western Europe amount for 70% of global market of hydraulic seals and represent current markets.<sup>28</sup>

Next to those long established markets, growing areas such as Asia and especially China represent an enormous and fast coming market potential. The enormous increase in manufacturing industries stemming from this area represents a potential market approximating in size and sales the US-American's. But until now, China's market only accounts for less than 10% of the worldwide market.

Remaining 20% of the total market of gaskets and seals are divided between Eastern European countries (estimated to be a bit less than 10%) which offer both penetration opportunity and attractive growth potential, and other emerging industries in Asia and Oceania such as India, Taiwan, and Thailand, Singapore etc. Additional markets should be considered especially in Latin & Central America and Africa but they currently only account for about 5% of worldwide gasket & seals industry.

Based on those estimations, we estimate the total gasket & seals industry worldwide to approximate US\$20 billion with a clear trend toward expansion (in terms of geography and sales volumes). To sum up, please refer to the following graph.

#### Current market size and estimations



As additional information, the gasket & seals market represents a strong example for global sourcing supply market. Relying only the market leader inland figures, stating that import was valued at \$2 billion US dollars from 102 countries and the industry also exported \$1.9 billion US dollars worth of merchandise to 164 countries, we can consider that mostly every country and most industries are involved in this specific market as part of the supply chain.

#### 2.1.6. Demand situation (initial, replacement, additional, potential)

Hydraulic seals and O-rings customers are professionals of the industry and targeted groups belonging to B2B sectors. The global demand for hydraulic seals (O-rings) is dependent on the demand and sales in “end-users” markets and can be described as relatively stable regarding the aftermarket for industry products.

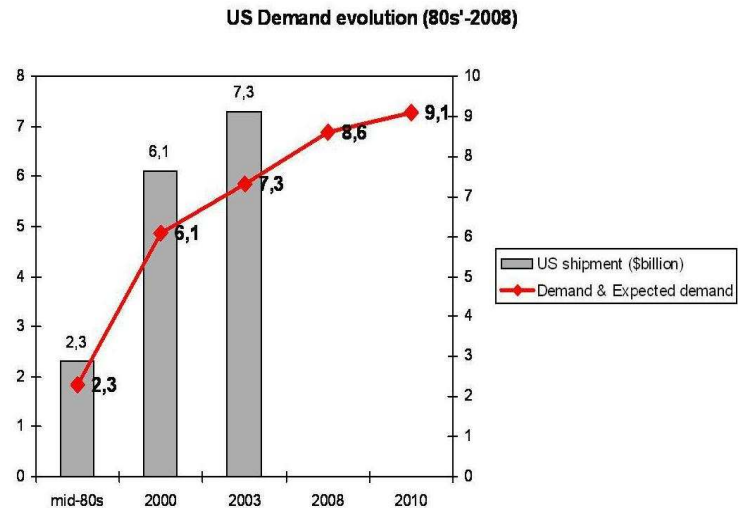
Patented in 1937 by Niels Christensen<sup>29</sup>, O-rings have been first introduced in the market during the Second World War. The device was considered to be “critical war-related”, and the

<sup>28</sup> <http://www.economist.com/countries/USA/profile.cfm?folder=Profile-Forecast>

<sup>29</sup> [http://en.wikipedia.org/wiki/Niels\\_Christensen](http://en.wikipedia.org/wiki/Niels_Christensen)

US government over-passed related patent rights and enabled companies to manufacture regardless from intellectual property.<sup>30 31</sup> In fact, *initial demand* for seals stemmed from the war industry (just as many other innovations) and the product was used in military applications.<sup>32</sup> Gradually, O-rings found a place in the industrial hydraulic sector and later *replacement* followed in other public and private automotive and machinery branches of the industry and continued to develop over all emerging industries to build up the *additional demand*. Today's *potential demand* is oriented toward geographically new industrial sectors (especially China), which represent new potential customers having as well increasing potential needs.

With about \$2.03 billion demand, the mid-80s market “shake-out”<sup>33</sup> situation provided favourable conditions for industry further developments. During the last two decades (90s up to now), the demand for gaskets and seals knew a regular growth which continued to increase into the early 2000s. After a slight decline from \$5.41 billion to \$5.37 billion between 1998 and 1999, shipments of gaskets and seals grew to a record \$6.09 billion in 2000.<sup>34</sup> Considering the



continuing growth (\$7.3 billion in 2003<sup>35</sup>), US demand for gasket & seal– which can be benchmarked for global demand forecast – is expected to reach \$8.6 billion in 2008<sup>36</sup>, and to maintain a 4.3% annual growth rate. Latest forecast an increase up to \$9.1 billion demand for 2010<sup>37</sup>. To sum up, you can refer to the graph showing the trend of demand evolution on the US gasket and seals market.

The successes in this sector have lead to increasingly demanding expectations of the demand: additional product offering thanks to wider and deeper ranges of products as well as special “pack offers” and higher flexibility in production, revised technologies and extended product application (... and more specific requirements such as “one stop shop” distribution possibility<sup>38</sup>) represent minimum competitive advantages to succeed in the current market conditions.<sup>39</sup> To sum up the demand is gaining increasing influence over the gasket and seal industry in areas such as product development, production processes, marketing, and pricing.<sup>40</sup>

<sup>30</sup> [http://www.oringsusa.com/html/history\\_of\\_o-rings.html](http://www.oringsusa.com/html/history_of_o-rings.html)

<sup>31</sup> <http://en.wikipedia.org/wiki/O-ring>

<sup>32</sup> <http://www.hydraulicspneumatics.com/200/Issue/Article/False/6562/Issue>

<sup>33</sup> [http://university-essays.tripod.com/industry\\_lifecycle.html](http://university-essays.tripod.com/industry_lifecycle.html)

<sup>34</sup> <http://www.referenceforbusiness.com/industries/Rubber-Miscellaneous-Plastics/Gaskets-Packing-Sealing-Devices.html>

<sup>35</sup> <http://linkinghub.elsevier.com/retrieve/pii/S1350478900887668>

<sup>36</sup> <http://www.isd.org/pdf/isdinsiderwinter05>

<sup>37</sup> [http://www.mindbranch.com/catalog/print\\_product\\_page.jsp?code=R154-1657](http://www.mindbranch.com/catalog/print_product_page.jsp?code=R154-1657)

<sup>38</sup> [http://www.wye-valley.co.uk/news\\_o\\_ring.htm](http://www.wye-valley.co.uk/news_o_ring.htm)

<sup>39</sup> <http://www.hydraulicspneumatics.com/200/Issue/Article/False/6562/Issue>

<sup>40</sup> See reference 2



“The continued shift in demand toward better-performing products will have a mixed impact on long term growth, since the higher prices these products command is offset by their extended useful lives. (...) Motor vehicles will remain the largest market for gaskets and seals, due to the wide range of under-hood and body sealing applications in vehicles. Demand for gaskets and seals in motor vehicles will rise much more rapidly than between 1998 and 2003, although at a rate below the overall market. The industrial machinery market is expected to see the most rapid growth in demand through 2008, rising 6.4 percent annually from a weak 2003 base.”<sup>41</sup>

### 2.1.7. Segments (typology, criteria, size, geographic)

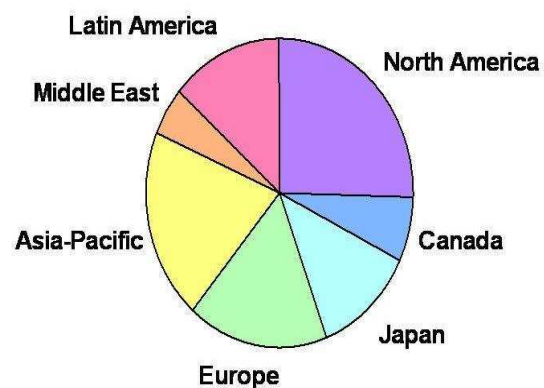
Because of the wideness of the industries targeted, it is necessary to have a segmented approach of the gaskets and seals market. One approach might be demand segmentation (in parallel with product/offer segmentation) which can itself adopt different forms in accordance to the internal strategy of each actor. However, it follows industrial market segmentation<sup>42</sup> (as opposed to consumer market segmentation) in terms of demand (B2B) and focuses especially on geographic and behavioural segmentation of the demand<sup>43</sup>. Considering the numerous potential customers and their differences, a Top-down approach is required.

Most common segmentation follows geographical criteria: market size, industry intensity, end-users dynamic markets, and product requirements (climate>hot/cold temperatures).

Following geographical segments should be considered: North America (US), Canada, Japan, Europe (France, Germany, Italy, United Kingdom, Spain, Russia, rest of Europe), Asia-Pacific, Middle East, and Latin America.<sup>44</sup>

Another possible demand segmentation remains by segmenting the product's features and characteristics: national/industry/sector standards (BS 1806 England; DIN 3771 Germany; SMS 1586 Sweden ; AFNOR 47501; France JIS B2401; Japan ISO 3601-1 International ...), product size (thousands of sizes available –standards and customized –<sup>45</sup>), product (raw) material (type of elastomer, rubber, Buna-N (Nitrile/NBR), Viton® (Fluorocarbon), Silicone, Chemraz®, EPDM / EPR, Kalrez®, Encapsulated (FEP or PFA), Teflon® (PTFE), Neoprene®, Fluorosilicone, Urethane, AFLAS®, ...<sup>46 47</sup>) and sealing application type (Static

### Geographic segmentation of production and distribution



<sup>41</sup> <http://www.isd.org/pdf/isdinsiderwinter05>

<sup>42</sup> [http://en.wikipedia.org/wiki/Market\\_segment](http://en.wikipedia.org/wiki/Market_segment)

<sup>43</sup> See reference 8

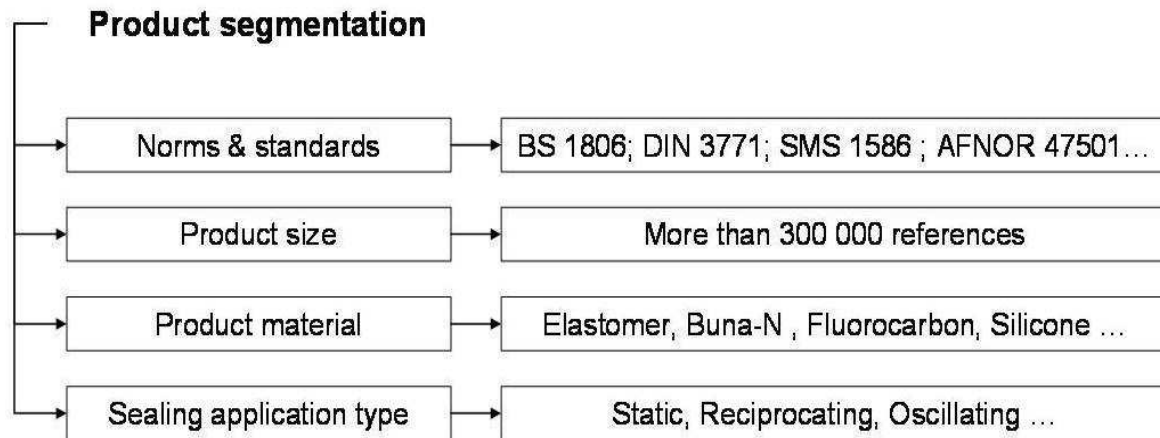
<sup>44</sup> [http://www.the-infoshop.com/study/go15238\\_hydraulic\\_toc.html](http://www.the-infoshop.com/study/go15238_hydraulic_toc.html)

<sup>45</sup> <http://www.superseal.hu/al/catalogs/busak+shamban/oring.pdf> (p. 48 to 117 / 138)

<sup>46</sup> [http://www.eriks.be/fileadmin/eriks.be/documentatie/pdfs/254106\\_1.pdf](http://www.eriks.be/fileadmin/eriks.be/documentatie/pdfs/254106_1.pdf)

<sup>47</sup> <http://www.superiorseals.com/orings.asp>

Seals, Reciprocating Seals, Oscillating Seals, Rotary Seals, Seat Seals, Pneumatic Seals, Vacuum Seals, Cushion Installation, Crush Installation, Rod Wiper Installation<sup>48</sup>).



But this type of segmentation is hardly quantifiable and so difficult to estimate and to establish a strategy for. The type of product does not enable effective demand/product segmentation.

Anyway, a more affective way of segmenting the demand would be to run a sector oriented approach of the customers. Relying on the overview we have now acquired on the market, and information taken from different companies of this sector, it is possible to build an industrial segmentation of the demand according to end-users markets.

Three of them account for more than 90% of total demand – transportation equipment, industrial equipment and machinery, and electrical equipment –. Sales to original equipment manufacturers (OEMs) represent 40% of revenue and aftermarket sales an additional 60%. Transportation equipment, including automobiles, is the largest OEM customer, accounting for 40 percent of total sales.<sup>49</sup>

Other industries concerned are: Mobile Hydraulic Components; Aerospace and Defense; Earthmoving and Construction Industry ; Automotive Sector/Transportation Equipment; Industrial Machinery Sector; Farm Machinery Sector; Oil and Mining Sector; Marine Sector; Materials Handling Systems; Original Equipment Manufacturers; Replacement; Rubber Anti-Vibration Mounts; Sound Insulation; Window Frames; Roofing Systems; Off-Road Equipment; Appliances & Household Products; Computer & Office Equipment, chemical processing; Pharma&food; Semiconductor (...).<sup>50 51 52</sup>

In China for example, engineering machinery industry represents the most important industry consumer of the gasket and seals market taking up nearly 1/4 of total demand.<sup>53</sup>

<sup>48</sup> <http://www.gulfcoastseal.com/downloads/ord5700.pdf>

<sup>49</sup> <http://www.referenceforbusiness.com/industries/Rubber-Miscellaneous-Plastics/Gaskets-Packing-Sealing-Devices.html>

<sup>50</sup> <http://www.eriks.be/fileadmin/eriks.be/documentatie/pdfs/254143.pdf>

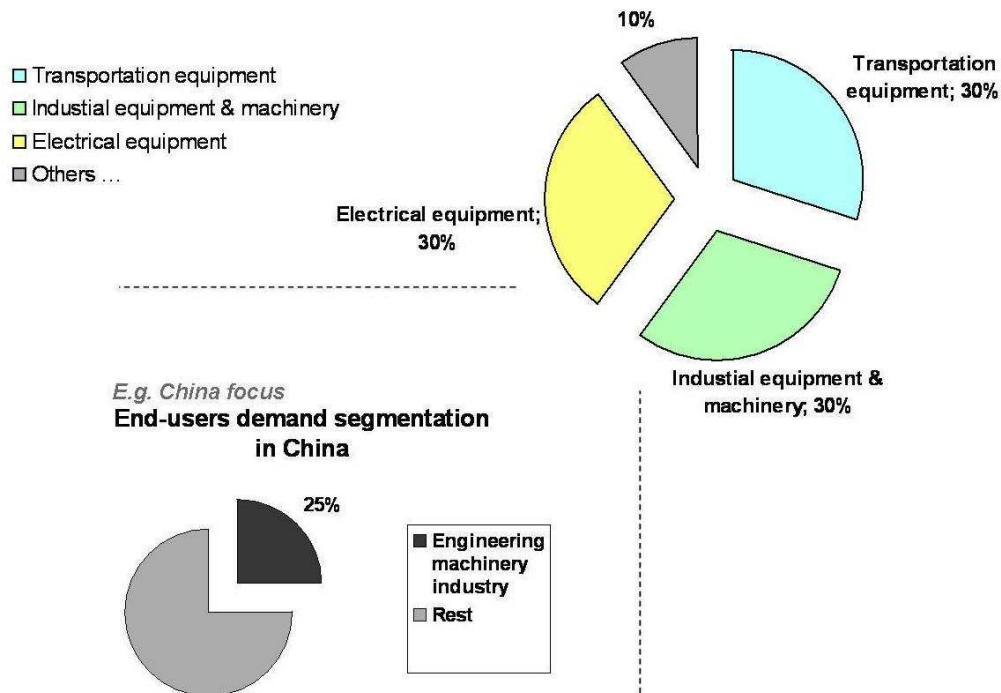
<sup>51</sup> [http://www.the-infoshop.com/study/go15238\\_hydraulic\\_toc.html](http://www.the-infoshop.com/study/go15238_hydraulic_toc.html)

<sup>52</sup>

<http://www.marketresearch.com/product/display.asp?productid=1467601&xs=r&g=1&curr=USD&kw=&view>

<sup>53</sup> <http://www.marketresearch.com/map/prod/1653710.html>

## End-users segmentation



### 2.1.8. Market Growth<sup>54</sup>

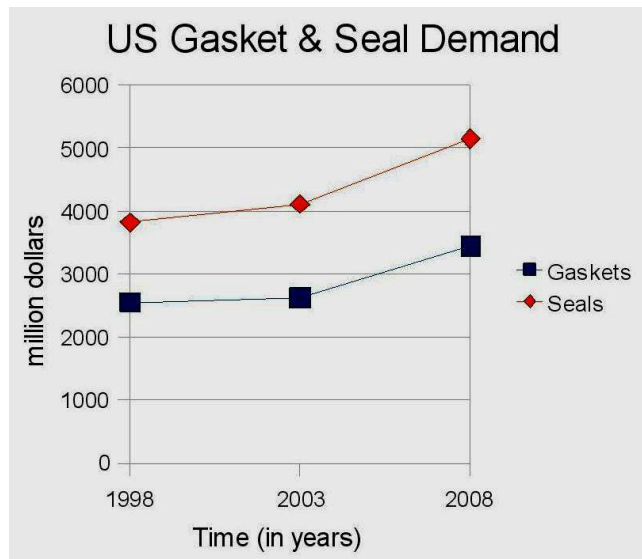
The hydraulic equipment market is influenced by the following key factors: by maturing markets, advancement of technology, high volume purchases by OEMs and pressurized margins.

The global market for hydraulic equipment is projected to cross US\$ 8 billion by 2010. United States is the largest market worldwide, worth an estimated US\$12.5 billion in 2007. Europe is the second largest regional market followed by Japan at third position. Collectively, US, Japan and Europe account for about 70 percent of the global hydraulic equipment market as stated by Global Industry Analysts, Inc. The global and regional markets are expected to grow at CAGRs ranging between 3% and 7%. Asia excluding Japan is the fastest growing market at a CAGR of 6.9% through 2010. The USA will not stay for long the market leader because China is following immediately. China's economy is steadily growing. China's GDP growth is forecasted to slow down but will remain impressive easing from 11.4% in 2007 to 9.9% in 2008 to 8.4 % in 2012.<sup>55</sup> In comparison the USA GDP will slow in 2008 to 1.2% from an estimated 1.8% in 2007. But growth will recover in 2009. <sup>56</sup> Hydraulic pumps and motors market is the largest segment with sales estimated at US\$11.9 billion in 2007. Hydraulic cylinders market is projected to record a CAGR of 6.2% through 2010. Hydraulic valves which represent the second largest segment, is expected to reach US\$ 13.1 billion by 2010. The US gasket & seal demand has grown in the past years steadily.

<sup>54</sup> <http://www.prweb.com/pdfdownload/540585/pr.pdf>

<sup>55</sup> <http://www.economist.com/countries/China/profile.cfm?folder=Profile%2DEconomic%20Data>

<sup>56</sup> <http://www.economist.com/countries/USA/profile.cfm?folder=Profile-Forecast>



US demand for gaskets and seals, is expected to increase 5.0 percent annually (including price increases) to \$8.6 billion in 2008. Gains will accelerate from rates achieved between 1998 and 2003, largely due to an improved outlook for many types of industrial machinery and electrical/electronic equipment that utilize gaskets and seals. Increases in motor vehicle production, while not as dramatic, will also help drive growth, particularly since motor vehicles account for nearly half the gasket and seal market.<sup>57</sup> The global marketplace is fragmented and characterized by several well-established players as well as small niche players.

Market participants include Freudenberg-NOK, Niantic Seals Inc. and Trelleborg Sealing Solutions and others.<sup>58</sup>

### 2.1.9. Trends

#### *Market*

The size of the hydraulic equipment industry is related to the development of the industrial output. The labour intensive industries relocate to other parts of the world. Demand in developing countries is growing, while in mature markets demand arises mostly from replacement parts and accessories sector. The industry continues to trend towards higher concentration of market players with full-line manufacturing by a single supplier becoming the norm.

#### *Technology*

The trends in the hydraulic sealing industry technology are: (i) Further development of material properties – resulting in longer product life; (ii) Offering of Systems instead of only a single seal; (iii) Further development of manufacturing machines – to be able to customize the seals. Further development of material properties: Usually seals were especially designed for either water or mineral oils. But in the hydraulic seal industry a material was found that can resist both water and mineral oils.<sup>59</sup> The company Smirit developed this substance. With this new attributes the seals can be used in more than just one domain. Further more the material out of which the seals consist is becoming more and more improved. The seals are becoming more heat resistant and they tolerate more pressure. The improvements result in a longer product life. Offering of Systems instead of only one seal: Companies offer a complete System – and not only a single seal. Companies like Trelleborg Sealing Solution try to find solutions for the problems of their customers. But not just for a single customer but for a general problem with which every hydraulic cylinder is faced.<sup>60</sup> Further development of manufacturing machines: New computer numeric control machines are becoming developed

<sup>57</sup> <http://www.isd.org/pdf/isdinsiderwinter05>

<sup>58</sup> <http://www.globalspec.com/FeaturedProducts/SearchResults?Criteria=Hydraulic%20Seals%20and%20Pneumatic%20Seals&advancedsearch=0&and=0&timeframe=0&pa=all&arealist=&StartRow=21>

<sup>59</sup> [http://www.globalspec.com/FeaturedProducts/Detail/SimritDivisionofFreudenbergNOK/Disogrin\\_7695\\_and\\_9250\\_for\\_Fluid\\_Power\\_Seals\\_/54475/0?fromSpotlight=1&paidFromBricklet=1&fromAreaId=2492](http://www.globalspec.com/FeaturedProducts/Detail/SimritDivisionofFreudenbergNOK/Disogrin_7695_and_9250_for_Fluid_Power_Seals_/54475/0?fromSpotlight=1&paidFromBricklet=1&fromAreaId=2492)

<sup>60</sup> [http://www.tss.trelleborg.com/in/www/en/news-press/news/News-details\\_2859.jsp](http://www.tss.trelleborg.com/in/www/en/news-press/news/News-details_2859.jsp)

to be able to fulfil customer needs and wishes faster. For example machines that are able to produce customized seal design up to 2.5 meters.<sup>61</sup>

To sum up the trend in the hydraulic seal industry is towards further development of materials and machines and towards offering a solution instead of only a single product.

### 2.1.10. Critical success factors

In order to survive in this maturing and high competitive market, it is important to understand the critical success factors. Critical success factors are also called key success factors and substantial to know for successful penetration of a market.

As D. Aaker points out<sup>62</sup>, there are two major categories of key success factors, strategic necessities and strategic strengths. Necessities do not instantly form advantages even so it is in this particular market a requirement to have, if the company wants to be successful. Thus, others may also have it. Lacking it would be a substantial weakness and could finally result in losses, hence withdrawn of the market. On the other hand, the strategic strengths can be assets or competencies which build an advantage regarding other competitors.

#### *Strategic Necessities*

In the regarding market of hydraulic seals, one needs to have a flexible production process<sup>63</sup>. Standard O-Rings lack differentiation and are consequently unattractive for customers who have specific needs.

A high potential R&D department and therefore sufficient research facilities are needed. Even if end-producing e.g. O-rings is rather simple, it is just the top of the iceberg. One has to be able to predict more accurately potential failures (elastomer) before they occur (in relation to sealing failures caused by temperatures changes<sup>64</sup>) by seeking seal-life prediction analysis know-how.<sup>65</sup>

A third critical strategic necessity would be a high service level and sufficient stocks. Both are assets and competencies which are in this market substantial. Due to the width and the depth of product range and references, managing inventories to balance storage costs and availability is a crucial competence. In other terms, deliver better service and better technology at lower costs.<sup>66</sup>

#### *Strategic Strengths*

Innovation – what seems to be crucial in most industrial branches, also counts for our market. Innovation is the key to new markets or simplified the possibility to do something in a way, which has not existed before. For our specific market, this would mean for example to create new materials, which could stand higher temperatures (product innovation). Other possibility is a new kind of service which is unique and therefore creates high value regarding auxiliary use (service innovation).

<sup>61</sup> <http://simritna.com/news/article.asp?ArticleNbr=1112200714281849>

<sup>62</sup> D.A. AAKER, Strategic Market Management, Wiley, 2007

<sup>63</sup> [http://www.wye-valley.co.uk/news\\_o\\_ring.htm](http://www.wye-valley.co.uk/news_o_ring.htm)

<sup>64</sup> <http://query.nytimes.com/gst/fullpage.html?res=9B0DE5DA1238F937A15751C0A961948260>

<sup>65</sup> <http://www.hydraulicspneumatics.com/200/Issue/Article/False/6562/Issue>

<sup>66</sup> <http://en.allexperts.com/q/Rubber-2470/Hi-David-making.htm>

Another strategic strength results out of one of the mentioned necessity. A production line which is easy adaptable to different kinds of products requires a high level of engineer expertise, thus it might need high investments. If you are the only one on the market who provides these kinds of assets, it forms a strategic strength and will therefore most likely result in a substantial competitive advantage.

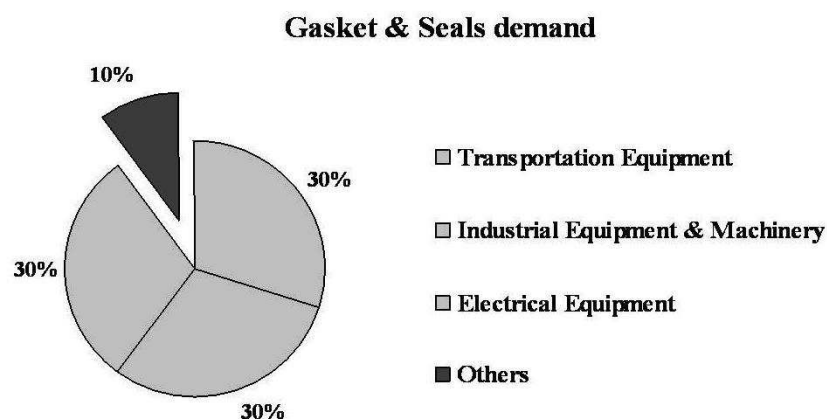
### 2.1.11. Additional issues

The first aspect to be considered refers to the potential up-coming developments in the gaskets & seals industry. "Seal materials can be compounded to enhance specific engineering properties for specific applications." R&D in material (envelope) area provide with sustainable competitive advantage and increased value of the device. Polymer area for example has been researched for the past few years and developed into a more than 20 engineering polymer range available today.<sup>67</sup> It gives brief overview of potential strategies that are the most likely to be followed in the next few years.

The second aspect is related to informative sources on the gasket and seals industry. Two professional organizations are associated with the gasket and seal market: (i) *Gasket Fabricators Association* = gasket cutters and industry suppliers who come together to discuss problems within the industry and to develop possible solutions to those problems. The organization also develops industry standards (2/year technical handbook as well as a quarterly newsletter). (ii) *Fluid Sealing Association* = international trade association (mostly US) which aims at "serving as the point for worldwide efforts to improve the manufacturer's understanding and application of fluid sealing devices and to promote a safe, clean environment."<sup>68</sup>

## 2.2 Customer analysis

In the gasket & seals industry, 90% of total demand refers to three markets: transportation equipment, industrial equipment and machinery, and electrical equipment. Within those customers, OEMs account for 40% of total revenues whereas aftermarket sales build an additional 60%. Transportation equipment, including automobiles, is the largest OEM customer, accounting for 40 percent of total sales.<sup>69</sup>

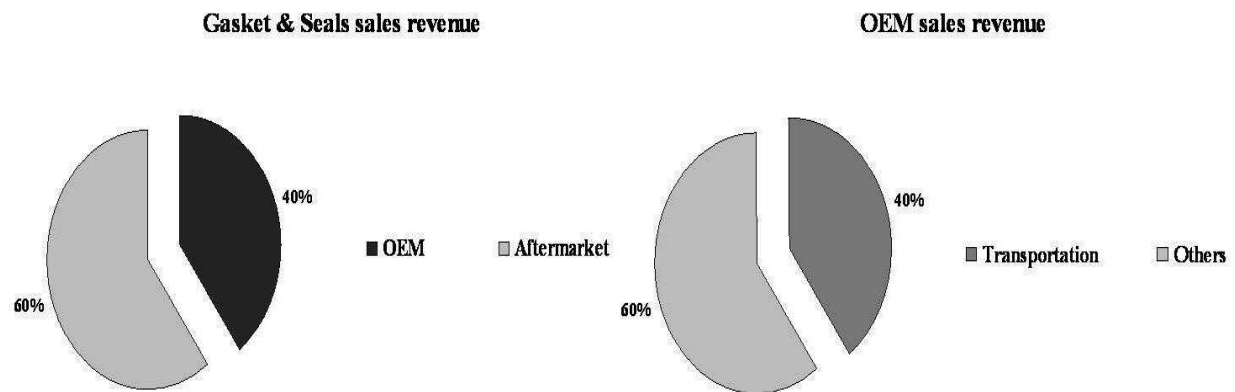


<sup>67</sup> <http://www.hydraulicspneumatics.com/200/Issue/Article/False/6562/Issue>

<sup>68</sup> <http://www.referenceforbusiness.com/industries/Rubber-Miscellaneous-Plastics/Gaskets-Packing-Sealing-Devices.html>

<sup>69</sup> <http://www.referenceforbusiness.com/industries/Rubber-Miscellaneous-Plastics/Gaskets-Packing-Sealing-Devices.html>





### 2.1.1. Characteristics

**Transportation Equipment:** Transportation Equipment refers to manufacturers of equipment for transportation of passengers and cargo by land, air and water. It includes motor vehicles, aircraft, missiles, space vehicles, ships, boats, railroad equipment and others such as motorcycles and snowmobiles.<sup>70</sup> Worldwide relevant companies are Ford Motor co., Alstom, General Motors, Super Steel, New Venture Gear, Cummins Inc., Bombardier, Delphi, Borg-Warner, Valeo and Orion Bus.<sup>71</sup> Most of those companies are old large-sized public companies operating in oligopolistic markets. There is a clear predominance of for long time founded US companies in the automotive industry. The largest share of them represents public companies quoted on stock-exchange markets.

**Industrial Equipment & Machinery:** Industrial Equipment & Machinery refers to farm and construction machinery, manufacturing machinery, metalworking machinery, commercial machinery, and general machinery such as engines and pumps. It also includes heavy machinery such as bulldozers, dredging machinery, pavers, self-propelled back fillers, backhoes, aggregate spreaders, construction plows, and power shovels, as well as forestry equipment.<sup>72</sup> While some products, such as tractors or heaters, are finished products, others, like motors, are components used in further production, and some, like textile looms, are custom-designed for a particular manufacturing process.<sup>73</sup> World leaders are Caterpillar, Komatsu and Deer & Company which alone represent about 1/3 of the total industrial equipment and machinery industry worldwide.<sup>74</sup> Again most of them stem from the US and they are quoted on stock-exchange.

**Electrical Equipment:** Electrical Equipment refers to power, distribution and specialty transformers, switchgear, motors and generators and industrial controls.<sup>75</sup> Current main actors are Alstom, Schneider Electric, General Electric, Siemens and for short founded ABB Asea Brown Boverly.

To sum up, major customers worldwide can be divided into three industries, but still have many things in common. Please refer to the following table.

<sup>70</sup> <http://www.census.gov/epcd/ec97sic/def/D37.TXT>

<sup>71</sup> [http://www.nylovesbiz.com/NYS\\_Home\\_To\\_Business/Industry\\_Clusters/transportation.asp](http://www.nylovesbiz.com/NYS_Home_To_Business/Industry_Clusters/transportation.asp)

<sup>72</sup> <http://www.referenceforbusiness.com/industries/Machinery-Computer-Equipment/Construction-Machinery-Equipment.html>

<sup>73</sup> <http://www.marketresearch.com/product/display.asp?productid=1681166&xs=r>

<sup>74</sup> <http://www.referenceforbusiness.com/industries/Machinery-Computer-Equipment/Construction-Machinery-Equipment.html>

<sup>75</sup> [http://findarticles.com/p/articles/mi\\_m3617/is\\_1992\\_Annual/ai\\_14259798](http://findarticles.com/p/articles/mi_m3617/is_1992_Annual/ai_14259798)

World Leading companies	Industry	Country	Foundation	Legal form	Revenue
<b>Transportation Equipment</b>					
Ford Motor Company	Automotive	USA	1903	Public	US\$179.3 billion (2007)
Alstom	Power generation and rail transport manufacturing	France	1928	Public	€14.208 billion (2007)
Bombardier	Aerospace & Railways	Canada	1942	Public	US\$14.7 billion (2006)
Valeo	Automotive	France	1923	Public	€9.8 billion (2002)
General Motors	Automotive	USA	1908	Public	US\$181 billion (2007)
Orion Bus	Bus building	USA & Canada	1975	Private	
Cummins Inc.	Diversified machinery	USA	1919	Public	US\$11.4 billion (2006)
Borg-Warner	Automotive parts	USA	1880/1928	Public	US\$4.3 billion (2005)
<b>Characteristics</b>	<b>Dominance of the automotive industry</b>	<b>Mostly US and generally Western companies</b>	<b>Old founded companies</b>	<b>Mostly Public</b>	<b>Large-sized / global companies</b>
<b>Industrial Equipment &amp; Machinery</b>					
Caterpillar Inc.	Heavy Equipment	USA	1925	Public	US\$44.958 billion (2007)
Komatsu International Ltd.	Heavy Machinery	Japan	1917	Public	US\$13.41 billion (2005)
Deer & Company	Heavy Equipment	USA	1868	Public	US\$24.082 billion (2007)
<b>Characteristics</b>	<b>Mostly industrial heavy equipment</b>	<b>Mostly US</b>	<b>Old founded companies</b>	<b>Public</b>	<b>Estimated to be US\$300 billion worldwide</b>
<b>Electrical Equipment</b>					
Schneider electric	Electricity & automation management	France	1836	Public	US\$14.6 billion (2005)
Alstom	Power generation and rail transport manufacturing	France	1928	Public	€14.208 billion (2007)
General Electric	Conglomerate	USA	1878	Public	US\$163.391 billion (2006)
Siemens	Conglomerate	Germany	1847	Public	€87.325 billion (2006)
ABB Asea Brown Boveri	Power technology & industrial automation	Switzerland (& Sweden)	1988	Public	US\$24.4 billion (2006)
<b>Characteristics</b>	<b>Automation dominance</b>	<b>Mostly Western companies</b>	<b>Old founded companies (mostly XIX century)</b>	<b>Mostly Public</b>	<b>Large-sized / global companies</b>



<b>Common Characteristics</b>	<b>Traditionally related to people transportation and industrial equipment (plants) but switch to more complex industries through technological development (aerospace and electric improvements)</b>	<b>US &amp; Western European companies</b>	<b>Originally traditional &amp; Old founded companies</b>	<b>Public, large sized companies quoted on stock-exchange</b>	<b>Oligopolistic markets: few very big actors dominate the markets but lately emergence of ventures and alliance to balance old established structures</b>
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The gasket & seals industry customers are predominantly very powerful companies not only in their own industry but also in the world economy. Their activity is crucial and determining in the world's transportation and industries which guarantees their power. In this context, those customers are very demanding to their suppliers in terms of quality, consistency, reliability and delays.

### 2.1.2. Requirements

O-rings are used as sealing devices in the different types of industries previously mentioned, which means that customers' requirements are similar for all types of industry.

Key requirements for purchasing decision						
		--	-	=	+	++
Product	Quality					X
	Reliability					X
	Technical capacity					X
	Large & deep range					X
	Availability					X
	Flexibility					X
	Customization					X
	Maintenance and after sale services					X
Place	Location			X		
	Lead time					X
Promotion	Product image			X		
	Brand image					X
	Corporate image			X		
Price	Selling price		X			
	Promotions & discounts		X			
	Loyalty rewards			X		
Physical evidence	Packaging	X				
	Internet			X		
	Signage				X	
Process	Transparency					X
	Security					X
	Performance					X
People	Relationships		X			
	Loyalty					X

Nevertheless, the most important criterion for the customers are related first to the quality of the product (security and reliability), then to the flexibility of the product (in terms of

adaptability, range and customization) and finally in terms of delivery time (in relation with today's customers' markets requirements).

Due to the use of O-ring as sealing devices, there is a crucial importance placed on the perception of safety and reliability, especially following the O-ring failure on Challenger.<sup>76</sup> Not meeting minimum quality requirements could lead to dramatic consequences. Therefore, the brand image (history ...) and related reliability is decisive in the decision-making process of the customers.

Moreover, from the adaptability of the device will depend the associated performance and level of security. That's why ranges (in terms of size, material, colour ...) and customization also belong to the minimum requirements that customers are seeking. In addition, the flexibility of the product provides the customers with long term solutions and constant improvement possibilities of his activity, which tends through the high service level to enhance customer loyalty.

To sum up, O-ring customers require excellent quality and product reliability, high flexibility and short lead time.<sup>77</sup> Those represent the minimum requirements in the decision making process.

### 2.2.3. Buying behaviour

Different from the common needs of each type of customer, the buying behaviour will be more influenced by the customer's use of the sealing device than by the product's features themselves. In other words, when fulfilling all minimum requirements, customers will focus on surrounding services and context most adapted to their specific needs.

Specific needs differ from OEM, MRO and distributors.<sup>78</sup> The buying behaviour of the customers refers to the process of decision-making. This process in contrast to the behaviour of the customers is mostly similar for each type of customer except as regard to the original need.



The typical decision making process described in this table is strongly dependent from the original need of each type of customer. This is the reason why buying behaviours differ from one customer type to another.

<sup>76</sup> <http://www.fas.org/spp/51L.html>

<sup>77</sup> <http://www.oringswest.com/> & <http://www.ableorings.com/> & <http://deshmukhrubber.com/product.htm>

<sup>78</sup> Refer to 2.1.4. Type of customers in part 2.1. External analysis

EXTERNAL FACTORS	INTERNAL FACTORS	MARKETING
<p>-Groups: strategy within a corporation can influence the choice of supplier (country of origin can be associated with reliability)</p> <p>-Situation: especially geographical situation to decrease lead times</p>	<p>-Perceptual: Image and history of the firm and relationship is determinant</p> <p>-Attitude: Because of the nature of the market, long lasting relationships are predominant</p> <p>-Knowledge: customers have a complete knowledge of O-rings</p>	<p>-Product quality &amp; reliability belong to minimum requirements</p> <p>-Price should be adapted to order volume and discounts made against loyalty</p> <p>-Place is relatively important in terms of lead time</p> <p>-B2B so relatively low relevance of promotion but brand / corporate image can be decisive</p>

	OEM	MRO	Distrib.
Marketing	+	-	++
Internal factors	++	+	+
External factors	-	+	++

To sum up, customers buying behaviour mainly depends from their specific needs. OEM customers are more likely to focus on long lasting relationships, as opposed to distributors who will seek low prices and big volumes. In contrast MRO tend to emphasize the flexibility of the product as well as personalized branding. In each case, the decision making seems to be associated to “Major Re-Purchase” behaviour.<sup>79</sup>

#### 2.2.4. Buying roles

The purchase of O-ring, in other terms the use of sealing technology for the described customers implies many responsibilities due to the nature of the device and its use. This means that purchaser do have an important role when making the decision that could have consequences if it is not think enough. The question raised here refers to the understanding and the awareness of the customer of this role in buying O-rings.

Considering the norms and security/quality requirements for this product, it seems that the buying role of all the customers is clearly understood and those product choices are carefully studied. Even though it also seems that this awareness is quite new and follows different failures that occurred in the last 50 years. We can therefore assume, that purchasing roles understanding are being structured over the years, and probably more awareness could help decrease O-ring failures due to bad use or non adapted model.

In terms of sales parties, the power seems to belong to the seller of the device because first, it is a necessary items in many industries and manufacturers are the one able to customize the product. The balance of the power between the purchaser and the buyer only reverse in case of bad publicity such as O-ring failure in the manufacturer history.

<sup>79</sup> <http://www.knowthis.com/tutorials/principles-of-marketing/consumer-buying-behavior/types-of-purchase-decisions.htm>

### 2.2.5. Buying patterns (usages, frequency)

#### *OEM*

Those customers are using O-rings as integrated part of a manufactured product (transportation ...). As the production is a continuous process, demand coming from OEM should be regular in terms of time. The delivery should be organized according to the forecasted volume of production. On the other hand, as production forecast should be done for a limited time depending on the industry concerned (aircraft: from 5 to 15 year; automotive: from 1 to 2 years; ...), there is a relative cyclic revision of order specific to each customer.

#### *MRO*

Those customers are using O-rings as part of the service they offer to their customer. It means that buying frequency is more random. As they are less possible to forecast their needs, they are more likely to order less quantity according to specific activities.

#### *Distributors*

Those customers are selling sealing devices themselves. In this case, orders are made in large volumes and with regularity (once a month for example). The volumes always depend on re-selling forecasts of distributors according to their demand.

### 2.2.6. Key customer motivators (KCM)

Considering general KCM, it is possible to provide the following table:

Key requirements for purchasing decision					
	--	-	=	+	++
• Pre-and post-sales effectiveness					<b>X</b>
• Ease of doing business				<b>X</b>	
• Product quality					<b>X</b>
• Overall reliability					<b>X</b>
• Performance in selected areas					<b>X</b>

The first obvious KCM refers to the unavoidable need of sealing device. As part of the production process, purchase is above all a necessity.

The second KCM refers to the expressed desire of the customer to build (OEM), provide its customers with (MRO) or distribute (distributors) at an optimum safety level. This belongs mainly to the strategic behavior of the company. A company following a cost leadership strategy is less likely to purchase high quality sealing devices than those seeking differentiation and security.

The last main KCM to identify is the desire of the customer to optimize the usage of the sealing device through better adapted product features. It refers in this case to product flexibility and customization/innovation possibility.

Regarding now KCM according to customer type, and providing the previous statements made in 2.2.3. buying behavior, it is possible to analyze specific most important KCM for each type of customer.

	OEM	MRO	Distributors
KCM	Product reliability and flexibility (0% defect rate and security image)	Availability and short lead time (consistency for own clients) and adaptability of product (specific customers' needs)	Product range and price (best product for lowest price and large & deep ranges)

### 2.2.7. Seasonality and cyclicalities – not applicable

### 2.2.8. Brand/Corporate awareness and brand/corporate loyalty

As previously stated, product features, involving quality, reliability, consistency are minimum requirements to the purchase decision. It means that the final decision should depend from some other factor. Corporate as well as brand awareness can be considered as relevant factors contributing to the supplier choice and loyalty.

Because of the oligopolistic market, corporate awareness in B2B relationships (for customers) and brand awareness (for the end buyer) are very powerful in the gasket and seals industry. Long established companies benefit from a strong image in terms of quality and reliability. Moreover, they are more likely to provide high level and flexible associated services due to their experience. On the other hand those few suppliers have many similarities and seeking for differentiation is very complex and requires high levels of investments. Therefore competitiveness is rude and customers are likely to put suppliers under pressure by switching from one supplier to the other according to provided opportunities. This means that loyalty is likely to be high if suppliers keep constantly a 100% customers' satisfaction level.

### 2.2.9. Additional issues

As it has been stated throughout the customer analysis, long lasting relationship with suppliers represent a determinant factor in the purchasing process. As it will be explained in further analysis, most of the established suppliers are old founded companies operating in differentiated oligopolistic markets. This last observation points out the fact that because of this particular structure of the industry, switch of supplier are less likely to happen. Nevertheless, it also implies that in case of failure of the sealing device, it will be very difficult to reverse the negative publicity.

## 2.3. Competitor Analysis

### 2.3.1. Competitive Levels

Starting the industry wide competitor analysis, one should have a look on the several different competitive levels of competition. As seen before in the customer analysis, specific needs differ regarding the importance for the customers. Consequently, on the manufacturer side, it is important to know, which are major areas to focus in order to compete. The generic question of where does ERIKS compete with others can be answered with:

- Product quality: *Which quality does the product have?*
- Product differentiation: *Mass-production or tailor-made?*
- Brand recognition: *Is the company known widely?*
- Market share: *Where does the company stand regarding my competitors?*
- Service quality: *What services are offered as auxiliary product or in addition?*

- Financial capability: *How easy can the company react on crucial developments?*
- Advertisement: *How is the company or the product promoted?*

Many more could be mentioned here. Even so, not all of them play the same role in this particular market. A ranking of levels will already show generic and substantial factors for the competition.



As seen in the graph and in previous parts (see 2.2.2.), most important is product quality, because customers in seals markets rely heavily on durability and constant performance. Even so, the seal itself will never build the centre of the customer's products; it is the other way around. Thus, product differentiation is almost as important as the product quality itself.

Nevertheless, the seals and gasket market is heavily fought upon. Competing companies measure as third crucial competitive level their service quality. It has been obvious, that customers prefer the competitor, if their products are surrounded by a convincing service. This service could include installation, maintenance, disposing etc.

### 2.3.2 Concentration of strategic groups

A competitive group is a group of firms, that: (i) over time pursue similar competitive strategies; (ii) have similar characteristics; (iii) have similar assets and competencies<sup>80</sup>.

One widespread similarity throughout the industry is the fact, that major competitors position themselves as global brands, which control several small suppliers which used to have strong brand recognition in their particular domestic market. After some time, those small companies have been taken over by today's main players in the market. So this is where the concentration of strategic groups is seen first.

Secondly, as we will also see it later in the report, most competitors offer a wide range of industrial supply in several parts of industry. Due to their strategy to be a A-supplier, meaning covering a high percentage of total company supply, a wide spread portfolio is needed.

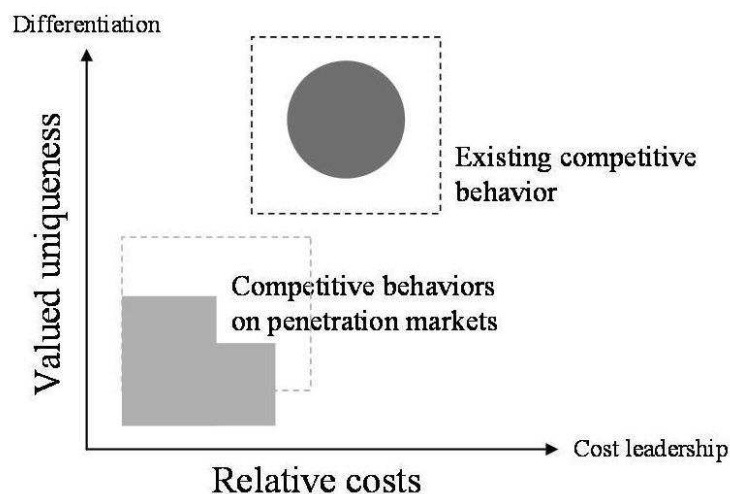
Despite some niche competitors, most of the main competitors, as we will see later, show similarities. Even though, due to their different portfolios, one goes more into automotive, the other concentrates on industrial machinery, assets and competencies differ.

### 2.3.3 Competitive behaviour

<sup>80</sup> D. AAKER, Strategic Market Management, 2007

Speaking about industrial contracts, it is widely spread, that these deals cover huge amounts of money and on the other hand a very valuable service or trade. Thus, every competitor looks thoroughly after its sales. Even so, the advertisement traffic in this market is rather small, consequently an open battle to win the customers choice is not seen.

Nevertheless, due to the long lasting decisions, when choosing a supplier for e.g. O-rings, a tough competition is carried out on the enquiry-level. Companies know, when being asked to give a reasonable proposal, their main competitor is also asked at the same time. Hence, a silent pricing battle could occur. To avoid that, companies very strongly try to convince with by-products, such as service, warranties, logistical services.

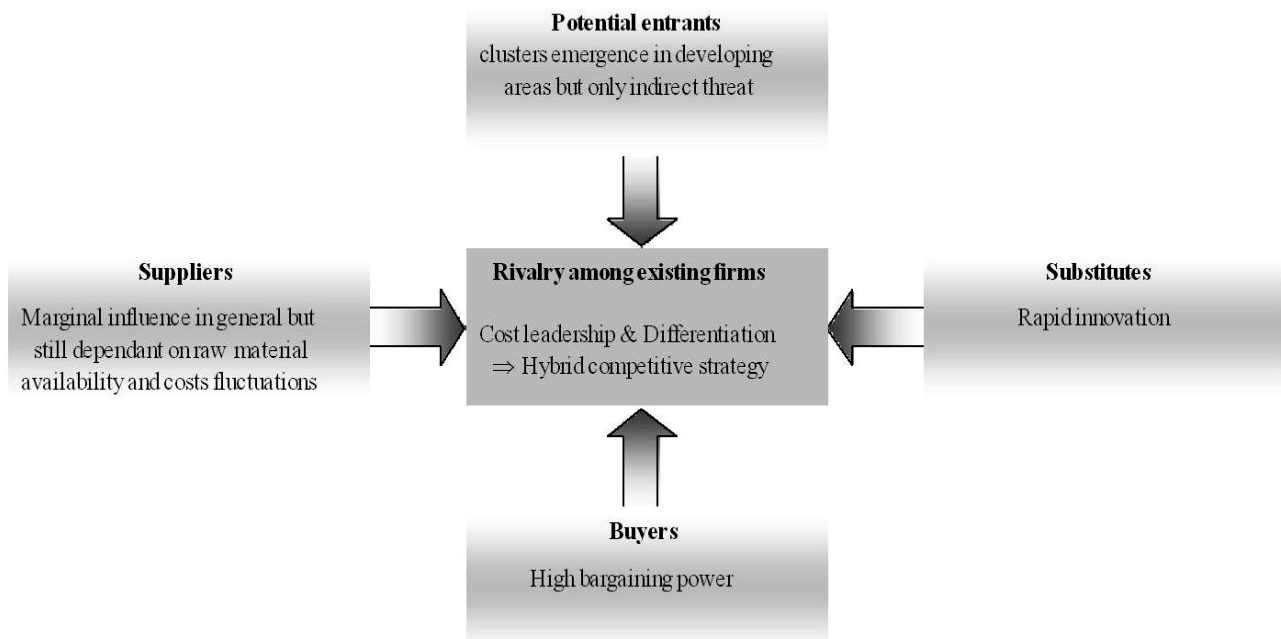


To sum up, the competitive behavior is not at all confrontative. To say it is cooperative would be way to over-exaggerate, but still, the main players do not interfere hard in the competitors area.

#### 2.3.4. Extended Rivalry

Extended rivalry can best be described by the “5 basic competitive forces” by M. Porter<sup>81</sup>. The basic model presents us the following:

<sup>81</sup> M. PORTER, Syllabus 31, HES Amsterdam



For a closer look about the specific five forces in the seals and gasket market, one should name different forces and see how they work in that particular industry.

	Rate of influence	Specific example	Explanation
<b>Rivalry among existing firms</b>	+++	Companies work close to average cost minimum, the possibilities to compete in pricing are limited, and thus companies compete on differentiation via service.	Due to slow industry growth and a lack of differentiation, the internal rivalry between the main equally balanced competitors is rather strong. As seen before, the aggressive competition is avoided; even so, the fight for customers' choice is high.
<b>Bargaining power of Suppliers</b>	+	Special rubber material is needed for high quality seals, the supplier could come up with the plan of threatening their customer to reach a higher price.	The premarket is rather basic. The big investments (such as machinery etc.) are already done. Suppliers are providing raw materials, logistical services etc. The possibility of price pressuring by the suppliers is limited.
<b>Bargaining power of Customers</b>	+++	Due to the availability of a competitor, who sells a product with similar characteristics (homogeneous), customers will bargain with companies.	This is a strong force in this market. Again, competitors try to convince with full-service packets, to avoid pricing discussions. Nevertheless they do know that the competition does not sleep and offers similar products.



<b>Threat of substitute products</b>	+	Instead of hydraulic cranes, CATERPILLAR could use solely electrical power. Possibly innovation brings up substitutes in the future.	An Asian competitor supported by a strong investor could enter the market and show substantial competitive advantages in costs and also better distribution throughout emerging economies.
<b>Threats of new entrants</b>	++	Less important, but not to ignore. Depending on the powers which have to be transmitted, hydraulics could be substituted by electrical powers. But in most areas has hydraulic power transmission proved as extremely effective.	As seen before, entry barriers are high, and to enter in this market is highly risky, due to well established incumbents. Even so, as shown in the example above, regarding emerging markets, the companies in our market should not ignore this threat.

### 2.3.5. Entry-, Exit- and Mobility Barriers

Often before, the topic of barriers in this market has occurred, last to show a possible threat of new entrants.

#### *Entry barriers*

As shown before, incumbent companies on this market have well established and are mostly competing among themselves. To enter only the seals market, already requires high investment and in addition a high level of know how, to threat competitors. So, even if a company wants to enter in only that particular part, entry barriers are obvious.

Even more you can see high entry barriers, when you take into account, that, as we will see later when describing competitors portfolios, all of the main players in our market offer a a broad range of products, where sealing plays not the major role. In addition to that and as we will see on ERIKS later, the key to be successful in this market is to offer a wide and in depth scope of services around your products. Today's industrial demand is way more than buying solid manufactured good, which are used and after that thrown away. Installation, maintenance, finance, disposing, training for employees etc. are often additional business parts, where competitors in this market have established processes and therefore build another entry barrier.

To sum up, entry barriers in this market are high, on the one hand regarding investments to actually being able to produce on the same level, and on the other hand know how in specific areas is substantial to a possible market entry.

#### *Exit barriers*

Regarding to D. Aaker<sup>82</sup>, exit barriers are crucial to the ability of withdrawing from a market. He names five points to specify possible exit barriers:

(i) Specialized assets, representing little value, once you withdraw from that particular market:

<sup>82</sup> D. AAKER, Strategic Market Management, 2007

As seen in the entry barriers discussion, to operate in this market requires high investments in assets such as machinery and equipment. If you turn that around it is more than obvious, that once you want to withdraw from that market, the question arises how to use these assets. In our specific market, it is rather difficult to make use of it and also to get rid of it. Thus, this is the first obvious exit barrier.

(ii) Fixed costs, such as labor agreements, leases etc.: Due to the enormous size of incumbent companies (as we will see later), labor or leasing boundaries of specifically the sealing markets are not very strong, if you compare it to the part of the entire business.

(iii) Relationships to other business units as shared facilities etc.: Later in the report it will be shown, that companies like ERIKS offer a wide scope of industrial services and products. Sealing systems is one of them. Thus, reducing the scope of your portfolio is damaging the rest of your business. Consequently a withdrawal should be considered wisely and therefore this can be seen as exit barrier.

(iv) Government and social barriers: Social barriers are always given, when your company has reached a certain size. Unions and of course also communities of the regions you are producing in have a high interest on the ongoing business. Even so, due to the global positioning of the main players in this market, governmental and social barriers are minor. ERIKS, for example is situated in the Netherlands, but has subsidiaries all over the world, which reduces of course points of conflict with governments.

(v) Managerial pride or emotional attachment: Main competitors have established in this industrial market over a long period of time. Due to several takeovers, incumbents achieved their high economic success. Regarding their long history which evolved mostly out of family owned businesses, it is obvious, that these companies will have emotional attachment to the industry. Thus we are facing also this exit barrier in this particular industry.

To conclude, this industry faces a lot of the classical exit barriers. Nevertheless, you see a lot of mobility, which leads directly to the topic of mobility barriers.

### *Mobility barriers*

These kinds of barriers are borders which keep companies from developing diversification in markets, such as for example, high entry barriers on sub- or related markets. This is not the case in our market. As we see, the main players diversify intensely to provide a wide range of services. Also the provision forward integrated services shows little importance of mobility barriers. Nevertheless, the businesses have achieved the wide spread portfolios after long development, thus, neglecting mobility barriers in total would be too much.

To sum up, you can refer to the following table.

Entry Barrier	Exit Barrier	Mobility Barrier
high, due to - high investments in specialized assets - strong incumbent competitors	- classical exit barriers seen and not easy to overcome - companies react with diversification and expansion	None Companies diversify to escape exit barriers

### **Focus on Gaskets & Seals industry main actors**

In order to go in further details into the competitor analysis, it seems necessary to operate a more specific approach of the main actors of the gasket & seals industry. Until now, the most important aspects of the competitive environment have been presented. The next part is dedicated to selected competitors of the market including ERIKS, subject of this study, and targets a general overview of operated competitive strategies. In a first step, the analyze will focus in addition to ERIKS on SKF, Federal Mogul and Freudenberg, which have been chosen for being the company's most direct competitors. The result of this analyze will enable to draw an accurate overview of the competitive environment at a strategic level.

In the worth \$20 to \$25 billion gasket & seals industry, only a few actors are sharing the largest market share. Also considering short term forecasts which announce an increase up to US\$30 billion for the worldwide market, about 40 groups, most of them from the old Western World seem to be relevant.

Applied Industrial Technologies Incorporated	Gore (WL) & Associates Incorporated	ElringKlinger AG	RA International Limited
Ashton Seals Limited	Henkel KGaA	Emerson Electric Company	RBC Bearings Incorporated
Caterpillar Incorporated	Holm Industries Incorporated	EnPro Industries Incorporated	Sabo Industria e Comercio de Autopecas Limitada
Chesterton (AW) Company	Interface Solutions Incorporated	Federal-Mogul Corporation	Saint-Gobain
Cooper-Standard Automotive Incorporated	Ishikawa Gasket Company Limited	Flexitallic Group Incorporated	SKF AB
Cooper Tire & Rubber Company	Kaydon Corporation	Flowserve Corporation	Smiths Group plc
Dana Corporation	Metzeler Automotive Profile Systems GmbH	Frenzelit-Werke GmbH & Company KG	Total SA
DESC SA de CV	Nippon Valqua Industries Limited	Freudenberg & Company	Toyoda Gosei Company Limited
EaglePicher Holdings Incorporated	Parker-Hannifin Corporation	GDX Automotive	Trelleborg AB
Econosto NV	Performance Products Industries LLC	Gore (WL) & Associates Incorporated	Zhejiang Cathay Packing & Sealing Company Limited

However, identified leading competitors are Freudenberg, SKF, Federal Mogul and Cooper<sup>83</sup>.

## 2.3.a. ERIKS

### 2.3.a.6. Name, facts, size

Eriks group nv is group of technical distribution companies procures, stocks, processes, sells and distributes a wide range of high-quality engineering parts and provides a highly developed range of technical and logistics services.<sup>84</sup> Eriks was founded in 1940 in Alkmaare, Netherlands. ERIKS consists of more than 4,300 employees, over 60 operating companies, and has a presence in 13 countries on 3 continents. ERIKS' activities are divided into eight clusters, which each serve a specific market area.

The current range of products is divided into eight core activities:

- \* Sealing technology
- \* Power transmission
- \* Flow technology
- \* Industrial plastics
- \* Tools and Maintenance products
- \* Electromechanical services and Condition monitoring
- \* Tolerance rings and Tire technology
- \* Technical and logistics services

In 2007, the ERIKS group realized sales of € 949.0 million (2006: € 543.3 million), an increase of 74.6% which is at the top of the expectations range of € 940 to € 950 million as

<sup>83</sup> <http://www.bharatbook.com/bookdetail.asp?bookid=8018&publisher=>

<sup>84</sup> <http://eriks.com/en/about-eriks/company-profile/>

announced on 15 November 2007. All clusters of the ERIKS group fulfilled expectations. The ERIKS group serves over 90,000 customers in all branches of industry, including chemical, pharmaceutical, food, biotechnology, mechanical engineering, semiconductor, oil refining, construction, offshore and metal. In the group we distinguish between the following types of customers or purchasing profiles:

ERIKS 90,000 customers can be divided in 4 groups<sup>85</sup>.

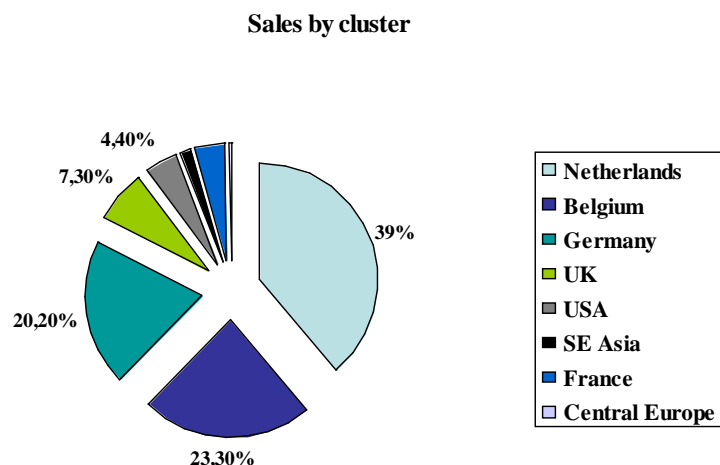
(i) Maintenance market (MRO - Maintenance Repair Overhaul), ERIKS products and services are used directly in the servicing of systems and machines.

(ii) OEM (Original Equipment Manufacturers), ERIKS products and services are used in the manufacture of finished products by the customer.

(iii) Projects, ERIKS products and services are used for one off, large-scale maintenance of existing process plants and infrastructure works or construction of new ones

(iv) Distributionn, Dealers: if existing market areas are not covered by our own branches, we approach local dealers. Export: ERIKS products are exported to market areas in which our group does not have its own branches, especially to obtain the required volume. In these areas we approach national distributors and OEMs

Eriks' geographical activities focus is in Western and Central Europe, where 94% of its sales are achieved. Eriks also has branches in the USA and South-east Asia.



### 2.3.a.7. Market shares and relative MS

The market share of ERIKS group nv in the seals industry is protected and not available. The upcoming part will show where in the world Eriks is making its biggest sales. It is possible to withdraw from the following table that ERIKS has a market share of more than 25% in the Netherlands, so that it can be assumed that Eriks is the market leader in the Netherlands for sealing technology.

Regional market shares by core activity:

<sup>85</sup> <http://eriks.com/en/products-and-services/customers/>

Core activity	Sealing technology	Power transmission	Flow technology	Industrial plastics	Tools and Maintenance products	Electro mechanical services and Condition monitoring	Tolerance Rings and Tire technology* Rencol+ WYKO Tire Technology
Country/region							
Belgium	++	++	++	+	++	-	-
Central Europe	+	+	+	-	-	-	-
Germany (western and southern Germany)	+	++	+	-	+	-	-
France (northern and western France)	+	+	+	-	+	-	-
The Netherlands	+++	+++	++	++	++	-	-
UK	+	++	+	-	+	+++	+++
USA (region of the companies)	++	-	-	+	-	-	-
South-east Asia	+	-	+	-	-	-	-

+++ = >25%      + = <10%  
++ = 10-25%      - = core activity not part of the cluster's range

### 2.3.a.8. Market position: standing, reputation, prestige

Eriks has more than 25% of regional market shares in the Netherlands in the sealing technology followed by Belgium and the USA (region of the companies) with about 10%-25%. In the rest of Europe and South-east-Asia Eriks has a regional market share of less than 10%.

The company works closely with their manufacturers on product development and manufacturing specifications. ERIKS only selects manufacturers with ISO 9001:2000 certification to guarantee its customers the best quality and security.

### 2.3.a.9. Behaviour: 4Ps policy

#### Price

The pricing in the seals industry it is rather unclear. Eriks provides specialized seals as well as mass product seals. So that one can say that the price might differ depending on the product.

#### Product

ERIKS offers Sealing Technology, Power Transmission, Flow Technology, Industrial Plastics, Tools and Maintenance Products, Technical and logistics Services, Electrical and Mechanical Engineering Services, and Specialist Technology

#### *Promotion*

The promotion of hydraulic seals companies is corporate focused.

#### *Place*

The ERIKS group currently consists of over 50 group companies with branches in 13 countries. The geographical focus of the group's activities is in Western and Central Europe, where 94 percent of its sales are achieved. ERIKS also has branches in the USA and South-east Asia (Singapore and Malaysia).<sup>86</sup>

To sum up SKF behavior in the different Ps, this spreadsheet helps to focus:

<b>4Ps Policy</b>	
<b><i>Product</i></b>	Innovative, high quality
<b><i>Price</i></b>	High, striving for cost reduction
<b><i>Place</i></b>	Expansion
<b><i>Promotion</i></b>	Corporate focused
<b><i>People</i></b>	Innovative, highly trained

#### **2.3.a.10. Distribution proportion, ratio – not applicable**

#### **2.3.a.11. Goals and generic strategy**

Eriks group aims to develop from a traditional distributor into an industrial service provider.<sup>87</sup> In the upcoming years, the group will continue its expansion both through organic growth and acquisition and will meet the objectives fixed for the years 2007 to 2009.<sup>88</sup> The ERIKS group wants to be the innovative, reliable and flexible supplier of choice in line with the defined mission. To its manufacturers, the ERIKS group wants to be a reliable, cooperative partner with sufficient market share and volume, serving the entire industrial market based on its extensive technical and logistics know-how. The ERIKS group is striving to achieve the following objectives<sup>89</sup>:

- \* to build up leading market positions in Western and Central Europe
- \* to take a strong market share (in the top 3) in all core activities in its range in all regions where the group has its own branches.
- \* to offer an extensive range of high-quality mechanical engineering components.
- \* to possess and offer a high level of know-how so as to be an innovative supplier.
- \* to have a balanced spread of sales across the main customer types (purchasing profiles) of 'Maintenance' and 'Original Equipment Manufacturers' (OEM) to control its risk profile.

<sup>86</sup> <http://eriks.com/en/about-eriks/profile/>

<sup>87</sup> <http://eriks.com/en/about-eriks/eriks-group-nv>

<sup>88</sup> <http://eriks.com/en/about-eriks/objectives/#tab-6529>

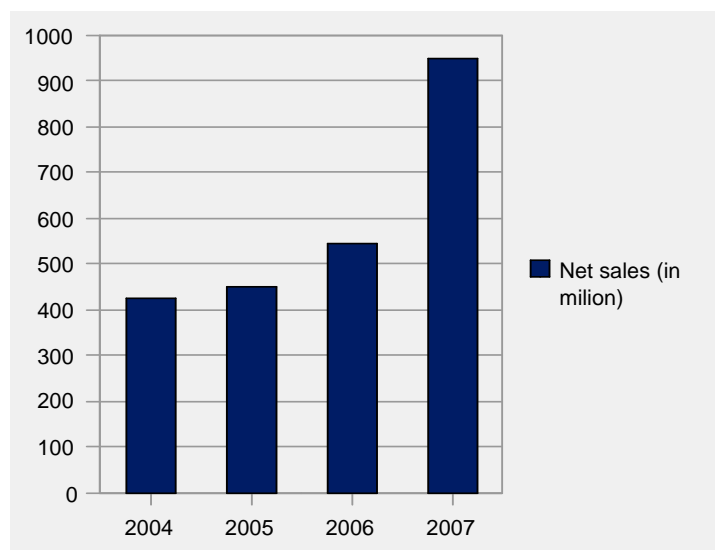
<sup>89</sup> <http://eriks.com/en/about-eriks/objectives/#tab-6529>

- \* to expand our current activities in the USA ('buy-build' strategy).
- \* to maintain our activities in South-east Asia organically.

### 2.3.a.12. Financial position

ERIKS recorded revenues of €543.3 million in 2006 during the fiscal year that ended December 2006, an increase of 21.1% over 2005. The operating profit of the company was €43.8 million during fiscal year 2006, an increase of 22.3% over 2005. The net profit was €27.8 million in fiscal year 2006, an increase of 25.9% over 2005.<sup>90</sup> In 2007 Eriks recorded sales revenues of €949.1 million. The ERIKS group benefited from increased industrial activities in all countries where the company is present. At the same time our customers appear to appreciate the strategy and market approach of the ERIKS group. Market positions were strengthened in all regions.

Sales for the year 2007 amounted to € 949.1 million an increase of 74.7percent compared to 2006 (+ € 405.8 million). This increase can be further specified as follows:



- Increase of € 350.8 million due to acquisitions realized in 2006 and 2007
- Decrease of € 1.8 million due to the disposal of activities
- decrease of € 2.9 million due to lower currency exchange rates
- Organic growth of € 59.7 million or 11.1 percent.

Realised sales can be broken down as follows (€ millions):

By cluster	2007	2006	Change in %	Organic growth in %
Belgium	151	126,7	19,2	12,9
Central Europe	5,8	1,3	-	-
Germany	117,5	109,7	7,1	7,1
France	16,4	22,8	-28,2	-3,6
Netherlands	237,1	211,9	11,9	10,9
UK	377,5	39,4	-	-
Europe	905,3	511,8	76,9	10,8
USA	35,8	23,8	50,6	19,4
South.east Asia	8	7,7	4	7,3
<b>Total</b>	<b>949,1</b>	<b>543,3</b>	<b>74,7</b>	<b>11,1</b>

### 2.3.a.13. SWAD

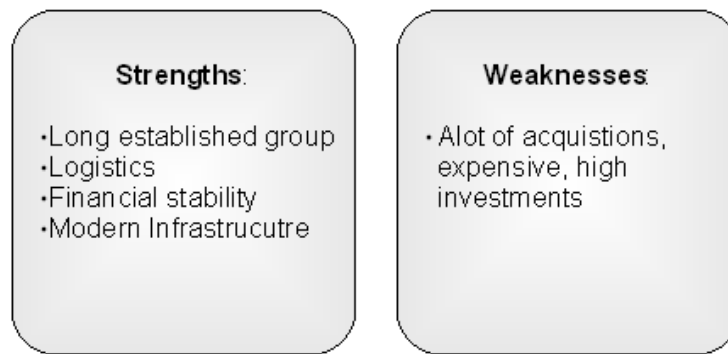
<sup>90</sup> <http://www.datamonitor.com/companies/company/?pid=C01B7B5D-7B4A-4928-9D56-58BBE1D34D6C>

	Effect on FEDERAL MOGUL			Influence on performance	
	Strength	Neutral	Weakness	High +	Low -
	+	=	-		
<b>Strength / Weakness Analysis</b>					
<b>1/ Marketing</b>					
Image	X			X	
Reputation for quality	XX			X	
Reputation for service	XX			X	
Accessibility to raw materials	X			X	
Familiarity with market	XX			X	
Market share	X				
Market size		X		X	
Market growth	X			X	
Pricing strategy	X				X
R&D	X			XX	
Innovation	XX			XX	
Positioning	X			X	
Domestic distribution	XX			XX	
Export distribution	X			XX	
Ease of entry		X			X
Geographical proximity	X				X
Sales force	X			X	
Advertising & promotion	X				X
<b>2/ Financial</b>					
Cost of capital			X		
Financial stability	X			XX	
Profitability	X			XX	
Return on equity	X			XX	
<b>3/ Manufacturing</b>					
Facilities	X			X	
Economies of scale	X			X	
Capacity of production increase	X			X	
Ability to deliver on time	XX			XXX	
Technical & manufacturing skills	XX			XXX	
Costs		X		XXX	
<b>4/ Organisational</b>					
Leadership	X			X	
Dedication of workers		X		XX	
Flexibility, adaptability	X			X	
Administration skills		X		X	
Ability to respond to changing conditions		X		X	

The previous table enables a detailed overview of internal and external contexts influences. But a more targeted analyse is required to have a better understanding of the concrete strengths and weaknesses first, and of the threats and opportunities on the other hand.



Therefore, please refer to following graph.



## 2.3.b. Federal Mogul

### 2.3.b.6. Name, facts, size

One large competitor of ERIKS is the FEDERAL MOGUL Corporation (“FMC”). FMC is one of the largest suppliers for mainly the automotive industry and therefore in direct competition to the part of ERIKS sealing business in that particular industry.

Federal-Mogul Corporation is an innovative and diversified \$6.3 billion global supplier of quality products, trusted brands and creative solutions to the automotive, light commercial, heavy-duty truck, off-highway, agricultural, marine, rail and industrial markets. The 50,000 people of Federal-Mogul located in 35 countries drive excellence in all they do<sup>91</sup>.

Federal Mogul World Headquarters is situated in Southfield, Michigan, USA and leads a global network of engineering and technical centers in the U.S., Europe and Asia. As premium supplier of products, services and solutions to original equipment manufacturers (OEMs) that use quality components in their vehicles and automotive systems, and to aftermarket customers who sell Federal Mogul’s brand-name replacement parts through repair shops and retail outlets.

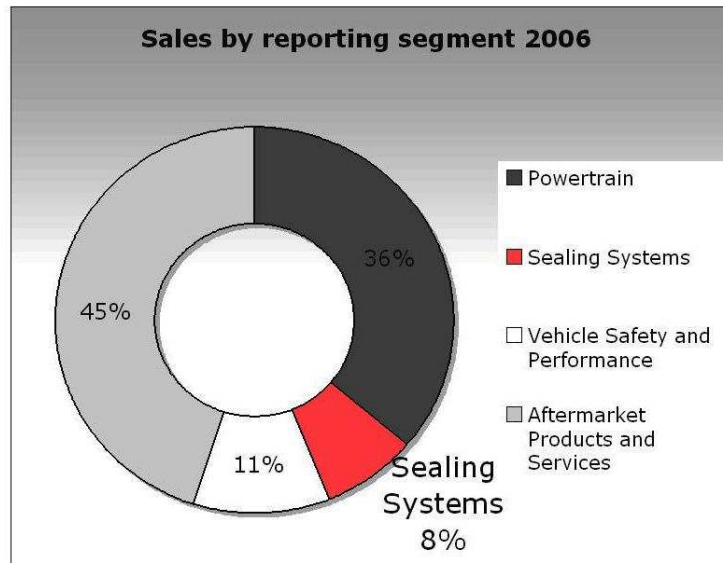
Federal Mogul structures itself in four main businesses. The fifth is the corporate level which is the management of the widely diversified corporation.<sup>92</sup>



FMC’s sales in 2006 reached 6,326 million US \$. These sales are divided as followed:

<sup>91</sup> <http://www.federal-mogul.com/en/OurCompany/>

<sup>92</sup> FEDERAL MOGUL annual Report 2006, CORP/MI/10-K02/23/2007



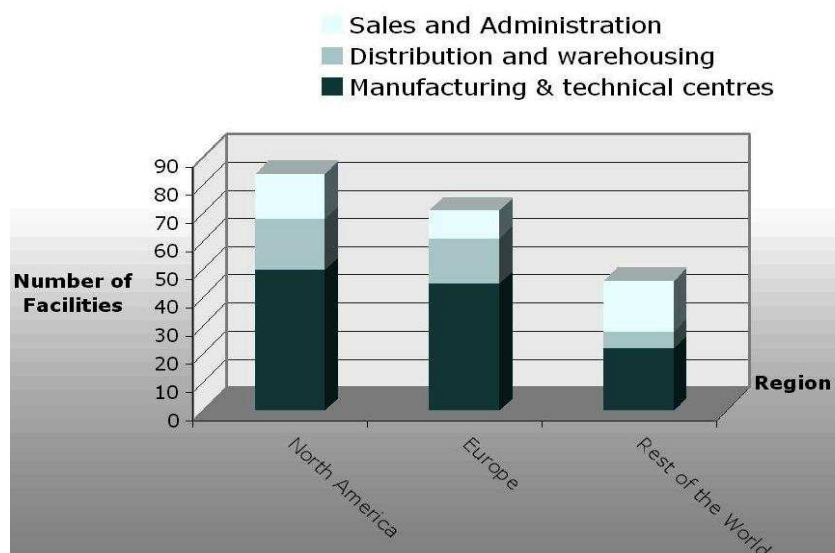
As clearly seen, sealing systems are all in all a minor part of Federal Mogul's portfolio. Nevertheless, regarding overall sales, these 8% still stand for \$ 476 million. In regards of FMC's overall sales, sealing systems part decline slightly, as seen in the following spreadsheet.

Year	Net sales (in Millions)	Sealing Systems (in Millions)	%
2002	\$5,157.30	no information	
2003	\$5,522.90	no information	
2004	\$6,174.10	\$503.00	8.15%
2005	\$6,286.00	\$476.00	7.57%
2006	\$6,326.40	\$476.00	7.52%

### Size

FMC employs 41,300 full time personnel world-wide. FMC owns 201 facilities of three different kinds in 35 countries; Manufacturing and technical centers, distribution and warehousing, and administrative offices.

### Federal Mogul Facilities Worldwide



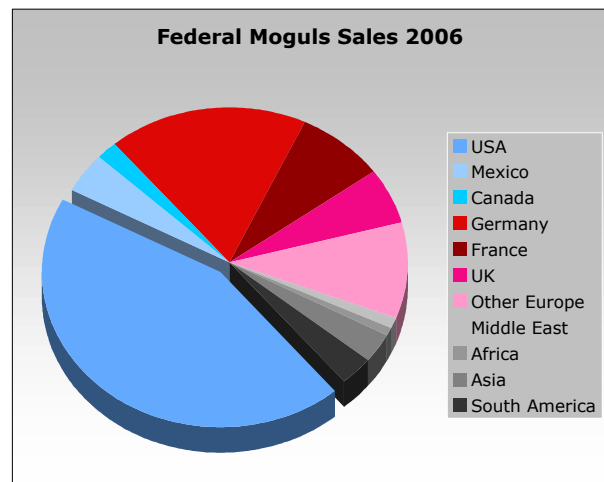
As you can see clearly, the major part of the manufacturing business of federal mogul is still situated in North America and Europe.

### 2.3.b.7. Market Shares and relative Market Share

### 2.3.b.8. Market Position

FEDERAL MOGUL has a strong name in automotive supply industries. Its aftermarket business is represented by 25 brands, which operate in their strongest market areas. Federal Mogul Corporate is active in several countries and enjoys throughout its brand landscape a excellent reputation.

Even so, Federal Mogul is majorly active in its domestic market, the US. 44% of corporate wide sales were achieved in the United States, if you include Mexico and Canada, North America stands for 50% of the total sales. Second place is Germany (18%), then follow other European countries, as you will se in the graph below<sup>93</sup>.



Federal Mogul's popularity also derives from its recently 100 year business jubilee. After founding in 1899, FMC built up a consistent mixture of growth and innovation. In the 1950s, FMC started to go global by acquiring several businesses in Europe. This created a well-known widely operating network and is still the basis of their success.

Over the years FMC achieved several industry awards<sup>94</sup>, such as AAPEX New Products Award, AAPEX Automotive Communication Award, 2007 Supplier of the Year from National Pronto Association.

### 2.3.b.9. Behaviour concerning the 4 Ps

#### *Product*

As seen before in this report, competitors strive heavily towards product differentiation and in addition service byproducts. Thus, innovation and ingenuity play a major role. This is exactly what Federal Mogul achieves. Close to customer development and innovation in products and services.

#### *Price*

The pricing in the entire market is rather unclear. Avoided competition and tailor-made products force the providers to first quote a price after profound negotiations with the customer. These conversations are also needed to fulfill the individual needs, hence, the customer won't be confused about the late outcome of the price.

<sup>93</sup> FEDERAL MOGUL annual Report 2006, CORP/MI/10-K02/23/2007

<sup>94</sup> <http://www.federal-mogul.com/en/Media/Awards/>

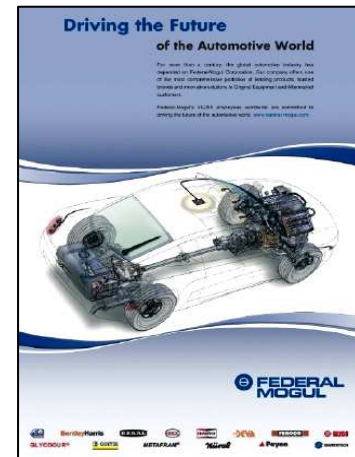
Federal-Mogul is as a well known and well established company likely to have comparably high prices. Its position as market leader, which often refers also to cost leadership might be doubted, due to main production facilities in labor-cost-high regions.

### *Place*

Solidly based in their domestic markets and Germany, Federal Mogul strives to further global expansion. Industry-wide the distribution channels are directly B2B, sometimes, concerning OE-After sales, their products are offered in OE-Retailer. This is where the widely spread brand landscape of FMC comes into account. Without them, FMC would likely face issues concerning brand recognition.

### *Promotion*

Federal Mogul presents itself as a strong partner in the entire automotive supply chain. Always also referring to its domestic brands, Federal Mogul clearly understands itself as widely known. This can be seen in this advertisement<sup>95</sup> (as published in AUTOMOTIVE NEWS EUROPE, ENGINE TECHNOLOGY INTERNATIONAL, VEHICLE NEWS, etc.)



Also clearly pointed out is, that regarding power train, electronics, mechanics, braking etc. FMC is open to supply almost every part a customer could require. This proves the before mentioned well-established reputation and their flexible capabilities.

### *People*

Not originally in the 4P-theory, but still important is the 5<sup>th</sup> P which is people. Especially in the focused industry, where innovation plays a major role, it is worth to have a look on topics such as individual challenging, corporate behavior etc.

For FMC, an open, team orientated philosophy is very important. As holder of over 4,200 patents world wide, FMC knows to appreciate intellectual assets which are created by their employees. Thus, FMC takes high care upon personal relation and a work force which lives best-practice culture throughout all business areas.

To sum up FMC behavior in the different Ps, this spreadsheet helps to focus:

4Ps Policy (and extended 7Ps model)	
<b>Product</b>	diversified, innovative, highly reliable
<b>Price</b>	High, striving to cost reduction
<b>Place</b>	Expansion, B2B-Relations, brand-supported at retailers
<b>Promotion</b>	Corporate focused, self assured and promoting their potential
<b>People</b>	Challenging, innovative, team-orientated

### 2.3.b.10. Distribution, proportion, ratio – not applicable

<sup>95</sup> <http://www.federalmogul.com/en/OurCompany/CompanyOverview/Advertising-Collateral/>

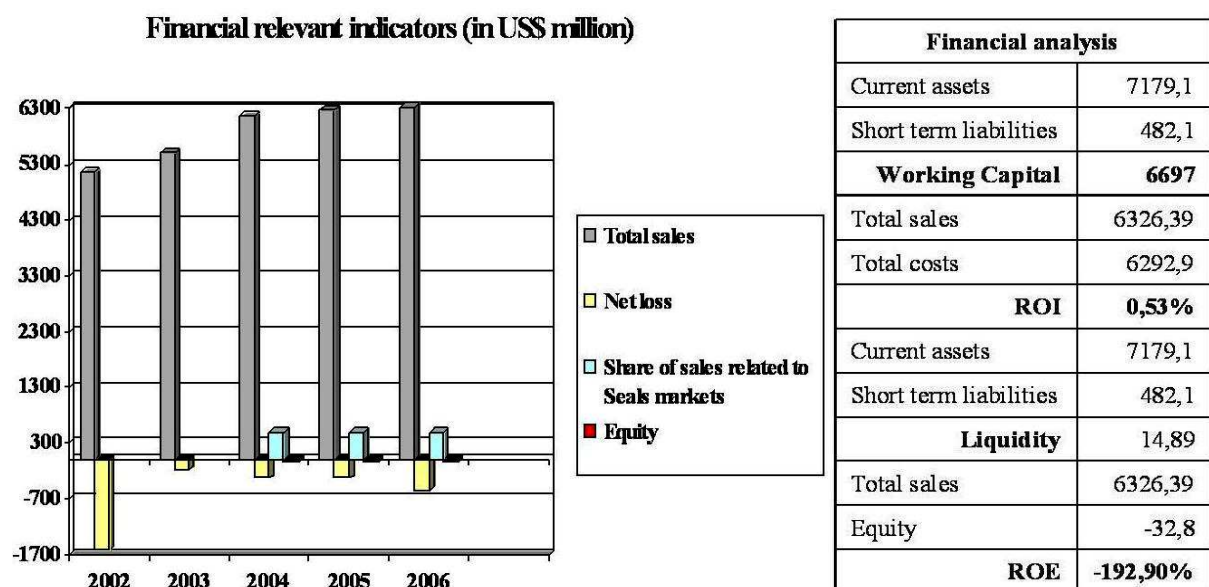
### 2.3.b.11. Goals and generic strategy

FMC is willing to create global profitable growth by leveraging new sustainable competitive advantages. To fulfill this goal, FMC's strategy consists of the following primary elements<sup>96</sup>:

- \* Focus on core competencies to provide global market share and cash flow growth
- \* Provide value added products through leading innovative technology, modules and systems to customers in all markets served
- \* Extend the Company's global reach to support its OEM customers penetrate new markets and acquire new customers. The Company is particularly focused on furthering its relationships with the Asian OEM while strengthening market share with US and European OEMs
- \* Leverage the strength of the Company's global aftermarket leading brand positions, product portfolio and range marketing and selling expertise, and distribution and logistics capabilities.
- \* Utilize the company's leading technology resources to develop advance and innovative products, processes and manufacturing capabilities
- \* Aggressively pursue cost competitiveness in all business segments by continuing to consolidate and relocate manufacturing operations to best cost countries, utilizing the company's strategic joint ventures and alliances, and consolidation and rationalization of business resources and infrastructure.

To sum up, the generic strategy of Federal Mogul fits perfectly in the described market environment: product differentiation, further global expansion while strengthening domestic core competencies and, where as this part is the most crucial and especially important for Federal Mogul, reducing costs in all business parts. This last and substantial strategy direction is, regarding expansion plans of FMC relatively reasonable and achievable. For expansion are higher capacities inevitable. Thus, building up new production facilities with highly effective work performances will rebalance the production and lower its costs.

### 2.3.b.12. Financial position



<sup>96</sup> FEDERAL MOGUL annual Report 2006, CORP/MI/10-K02/23/2007

(million\$)	2002	2003	2004	2005	2006
<b>Total sales</b>	\$5 157,30	\$5 522,90	\$6 174,10	\$6 286,00	\$6.326,39
<b>Total costs</b>			\$4 996,80	\$5 245,30	\$5 221,20
<b>Net loss</b>	-\$1 628,90	-\$189,50	-\$334,00	-\$334,20	-\$549,60
<b>Equity</b>			-\$36,00	-\$38,10	-\$32,80

Due to a lack of detailed information, it is not simple to explain this negative financial situation. Assumptions show that this is the result of a long time of unhealthy growth. Too long the company acquired new assets with borrowed money, which led into a lack of equity. This underlines the company's strategy, which has to effect through upcoming years, to reduce costs dramatically and reduce liabilities while building up equity.

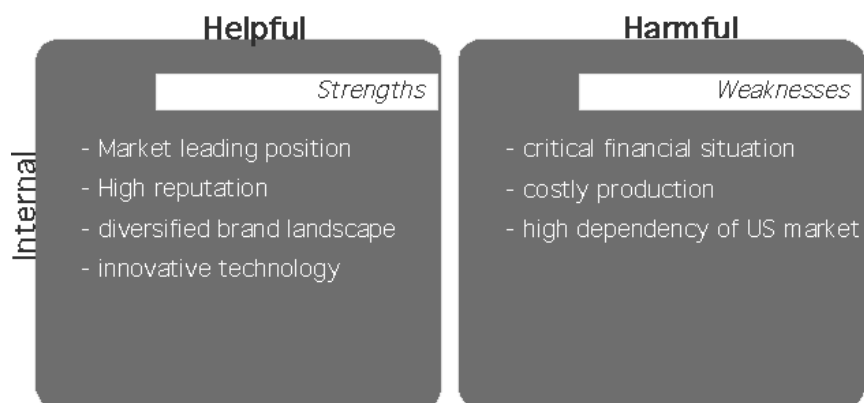
### 2.3.b.13. SWOT

	Effect on FEDERAL MOGUL			Influence on performance	
	+	=	-	High	Low
<b>Strength / Weakness Analysis</b>					
<b>1/ Marketing</b>					
Image	X			X	
Reputation for quality	XX			X	
Reputation for service	X			X	
Accessibility to raw materials	X			X	
Familiarity with market	XX			X	
Market share	X				
Market size		X		X	
Market growth	X			X	
Pricing strategy	X				X
R&D	X			XX	
Innovation	XX			XX	
Positioning	X			X	
Domestic distribution	XXX			XX	
Export distribution	X			XX	
Ease of entry		X			X
Geographical proximity		X			X
Sales force	X			X	
Advertising & promotion		X			X
<b>2/ Financial</b>					
Cost of capital					
Financial stability			X	XX	
Profitability			X	XX	
Return on equity			X	XX	

3/ Manufacturing					
Facilities			X	X	
Economies of scale	X			X	
Capacity of production increase		X		X	
Ability to deliver on time	XX			XXX	
Technical & manufacturing skills	X			XXX	
Costs			XXX	XXX	
4/ Organisational					
Leadership	X			X	
Dedication of workers	XX			XX	
Flexibility, adaptability	X			X	
Administration skills		X		X	
Ability to respond to changing conditions		X		X	

The previous table enables a detailed overview of internal and external contexts influences. But a more targeted analyse is required to have a better understanding of the concrete strengths and weaknesses first, and of the threats and opportunities on the other hand.

Therefore, please refer to following graph.



## 2.3.c. Freudenberg

### 2.3.c.6. Name, facts, size

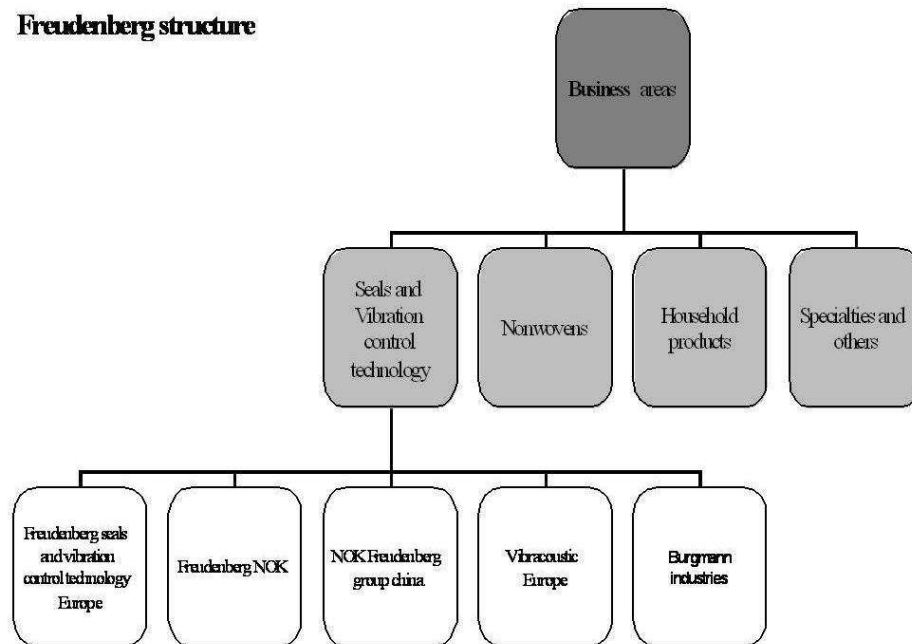
One of the most important actors of the gasket and seals industry is Freudenberg Group.

#### *About the company*

The Freudenberg Group, owned by some 300 heirs to the founding father Carl Johann Freudenberg, comprises 13 Business Groups operating independently on various markets all over the world. Founded in the middle of the 19<sup>th</sup> century, the group now operates in 53 countries where it supplies seals, vibration control technology components, filters, nonwovens, release agents and lubricants to almost all of the world's automakers, and other branches of industry, such as mechanical and plant engineering, the energy and chemical industry or the medical and pharmaceutical sector. A small share of their products is sold to

final users under the vileda®, O'Cedar® and Wettex® brands.<sup>97</sup> The following table describes the company management structure.<sup>98</sup>

### Freudenberg structure



### Focus on Seals and Vibration control business area

Freudenberg produces seals and vibration control components for many sectors of industry. The automotive industry is the largest customer grouping. The Business Area is divided into four Business Groups that can be seen on the previous graph.

(i)International business is characterized by a close partnership with the two Japanese companies NOK Corporation (seals and vibration control technology) and Eagle Industry (mechanical seals). It is the largest Business Group in this Business Area, offering complete sealing solutions for customers in the automotive and general industry sectors (Brand Simrit). Vibration control solutions are available for manufacturers of agricultural and construction machinery, rail vehicles and machines. (ii)Like Freudenberg Seals and Vibration Control Technology, Freudenberg-NOK General Partnership supplies seals and vibration control components to customers in the automotive industry and other industry sectors, focusing on the American market. Vibracoustic offers anti-vibration components and complete solutions to customers in the automotive industry. (iii)On the American market, the products are manufactured and marketed by Freudenberg-NOK General Partnership under the Vibracoustic brand name. (iv)The Burgmann Industries Business Group produces and markets mechanical seals, expansion joints, magnetic couplings and special automotive seals worldwide. On the international stage, the company cooperates with the Japanese seals manufacturer Eagle Industry under the name of Eagle Burgmann Industries.<sup>99</sup>

### Size

Freudenberg's most important customers are in the automotive, textile and clothing, and construction industries. With 28,500 employees spread throughout the 53 countries, the Freudenberg Group reports sales revenues of almost €3.9 billion (approximately US\$4.4 billion) in 2003. The group invested €140 million (approximately US\$157 million) in

<sup>97</sup> [http://www.freudenberg.com/ecomaXL/index.php?site=FCN\\_EN\\_portrait](http://www.freudenberg.com/ecomaXL/index.php?site=FCN_EN_portrait)

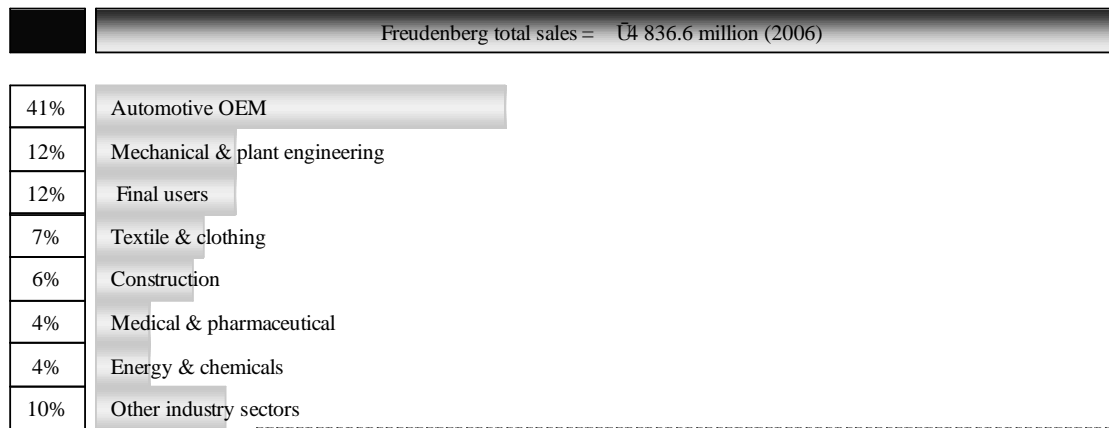
<sup>98</sup> [http://www.freudenberg.com/ecomaXL/index.php?site=FCO\\_EN\\_management\\_structure](http://www.freudenberg.com/ecomaXL/index.php?site=FCO_EN_management_structure)

<sup>99</sup> <http://www.freudenberg.com/ANNUALREPORT2006/content/content/unternehmensgruppe/index.html>



research and development in 2003, with almost 2,000 people in that area.<sup>100</sup> Freudenberg Group companies are active in the following markets (2006):<sup>101</sup>

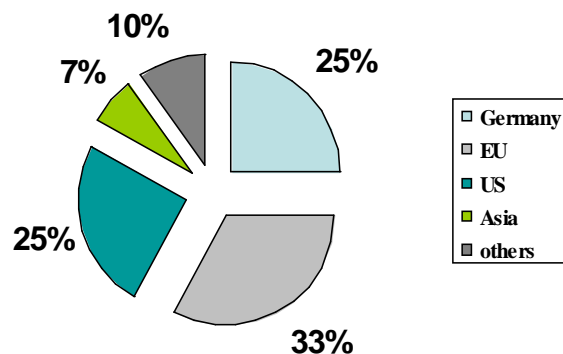
### Sales structure by sector



From this graph and the previous given figures, it is possible to deduce that the company's business area -seals and vibration control components- represents about 60% of total sales or US2.65 billion. In fact, total sales in the year under review amounted to 2,693 million Euros (2004: 2,346 million Euro).<sup>102</sup>

### Operating areas

Sales by the Freudenberg Group have risen in all regional markets. Highest percentage growth was reported in South/Central America (partly currency related) and Asia. Once again, the region accounting for by far the largest share of Group sales was the European Union (excluding Germany) with a share of 33 percent (2004: 34 percent), while the share of sales in North America and Germany remained unchanged at 25 percent. The share of Group sales in Asia was 7 percent (2004: 7 percent).<sup>103</sup> Sales repartition is described in the previous graph.



To sum up, please refer to following table in 2.3.15.Competitive overview.

### 2.3.c.7. Market share and relative MS

Freudenberg market shares represent highly protected information that is kept hidden. First it is very difficult to define the appropriate market due to the wide range of product and business areas; moreover it seems to be a strategic choice not to make that information public. Anyway, some information is available such as inland (Germany) market share standing at more than 50%. Additional information can be found in the upcoming table in

<sup>100</sup> [http://www.sap.com/platform/netweaver/pdf/CS\\_Freudenberg.pdf](http://www.sap.com/platform/netweaver/pdf/CS_Freudenberg.pdf)

<sup>101</sup> [http://www.freudenberg.com/ecomaXL/index.php?site=FCO\\_EN\\_markets](http://www.freudenberg.com/ecomaXL/index.php?site=FCO_EN_markets)

<sup>102</sup>

[http://www.freudenberg.com/ANNUALREPORT2005/content/lagebericht/entwicklung\\_geschaeftsfelder/index.html](http://www.freudenberg.com/ANNUALREPORT2005/content/lagebericht/entwicklung_geschaeftsfelder/index.html)

<sup>103</sup> [http://www.freudenberg.com/ANNUALREPORT2005/content/lagebericht/umsatz\\_ertragslage/index.html](http://www.freudenberg.com/ANNUALREPORT2005/content/lagebericht/umsatz_ertragslage/index.html)

2.3.15. Competitive overview.<sup>104</sup> But according to the observation made and the company profile we can assume that the company remains in leader and challenger positions in most of its markets and business areas.

To sum up, Freudenberg group can be regarded either as leader or as challenger of the gasket & seals industry. Consequently, relative market share is not really relevant to mention.

### 2.3.c.8. Market position: standing, reputation, prestige

As described in the presentation of Freudenberg at the Hannover Exhibition HIM, the company is a long-standing technology leader in the field of seals and nonwovens.<sup>105</sup> Freudenberg has acquired a reputation as a Technology Specialist for seals and vibration control technology and holds a leading position in the field of automotive interior filters.<sup>106</sup> It has also acquired a reputation for the high standard of its training thanks to a strong emphasis on employees' involvement and satisfaction.<sup>107</sup>

Moreover, the prestige of the group is seated in its 1984 created foundation, which enables it to get involve in social life above its commercial nature. Freudenberg is especially active in the integration of migrant families and cultural minorities in a society that has become an immigrant society, and warding off hostile and discriminatory reactions encountered by these groups, in promotion of democratic culture, the prerequisite for peaceful social coexistence through encouragements in democratic learning and responsibility in schools and communities as well as fighting against extremist influences, in support of young people, particularly the socially disadvantaged, encountering difficulties between school and working life and in the re-integration of the psychologically ill into working life and the working environment and creation of an awareness of their problems.<sup>108</sup> Having such convictions is a very strong and powerful mean in building a company image.

To sum up, the company benefits from a long lasting, strong established positive and qualitative image and reputation. Its position on the markets it is operating in represent a proof of reliability which highly appreciated by customers.

### 2.3.c.9. Behaviour: 4Ps policy

Freudenberg 4Ps policy can be briefly resumed as follow:

4Ps Policy (& 7Ps extended model)	
<b>Product</b>	Constant innovation & diversification, value adding for customer satisfaction
<b>Price</b>	Minimum cost for best quality
<b>Place</b>	Trust in foreign emerging markets & geographical expansion
<b>Promotion</b>	Strong company identity seeking for leadership
<b>People</b>	Entrepreneurial freedom & respect and trust

### 2.3.c.10. Distribution, proportion, ratio – not applicable

<sup>104</sup> <http://www.bundeskartellamt.de/wDeutsch/download/pdf/Fusion/Fusion04/B3-112-03.pdf>

<sup>105</sup> <http://www.fair-pr.com/hm08/exhibitors/freudenberg.html>

<sup>106</sup> [http://www.freudenberg.com/ecomaXL/index.php?site=FCO\\_en\\_press\\_archive\\_detail&udtx\\_id=1952](http://www.freudenberg.com/ecomaXL/index.php?site=FCO_en_press_archive_detail&udtx_id=1952)

<sup>107</sup> <http://www.freudenberg.com/ANNUALREPORT2006/content/content/lagebericht/05.html>

<sup>108</sup> [http://www.freudenberg.com/ecomaXL/index.php?site=FCO\\_EN\\_foundation](http://www.freudenberg.com/ecomaXL/index.php?site=FCO_EN_foundation)

### 2.3.c.11. Goals and generic strategy

As a family business, Freudenberg is known for its sustainability and long-term development. Global quality standards are the Freudenberg Group's main objective, and especially so in regions in which explosive economic growth appears to dominate events on the market, and probably also the company's principles of activity.<sup>109</sup> Freudenberg is operating a differentiated strategy and since 1934, seals and molded products have been custom-designed to special dimensions for its customers.<sup>110</sup>

Concretely, the company fixes long term strategic goals. The nature of the market as well as the company's history and financial structure enables it very good knowledge of the environment, which represents the most important factor in customers satisfaction.

According to Porter's model of generic competitive strategy, it is difficult to clearly position Freudenberg because it is following all the strategies at the same time.

		Low Cost	Product uniqueness
<b>Industry wide</b>	<i>Gasket &amp; seals industry</i>	Cost leadership strategy	Differentiation strategy
<b>Market segment</b>	<i>O-rings</i>	Cost leadership strategy	Differentiation strategy

This is a typical case of hybrid strategy described in the book Logistics and Supply Chain Management, from Christopher.

The typical Freudenberg strategic behaviour can be summarised according to the following graph.

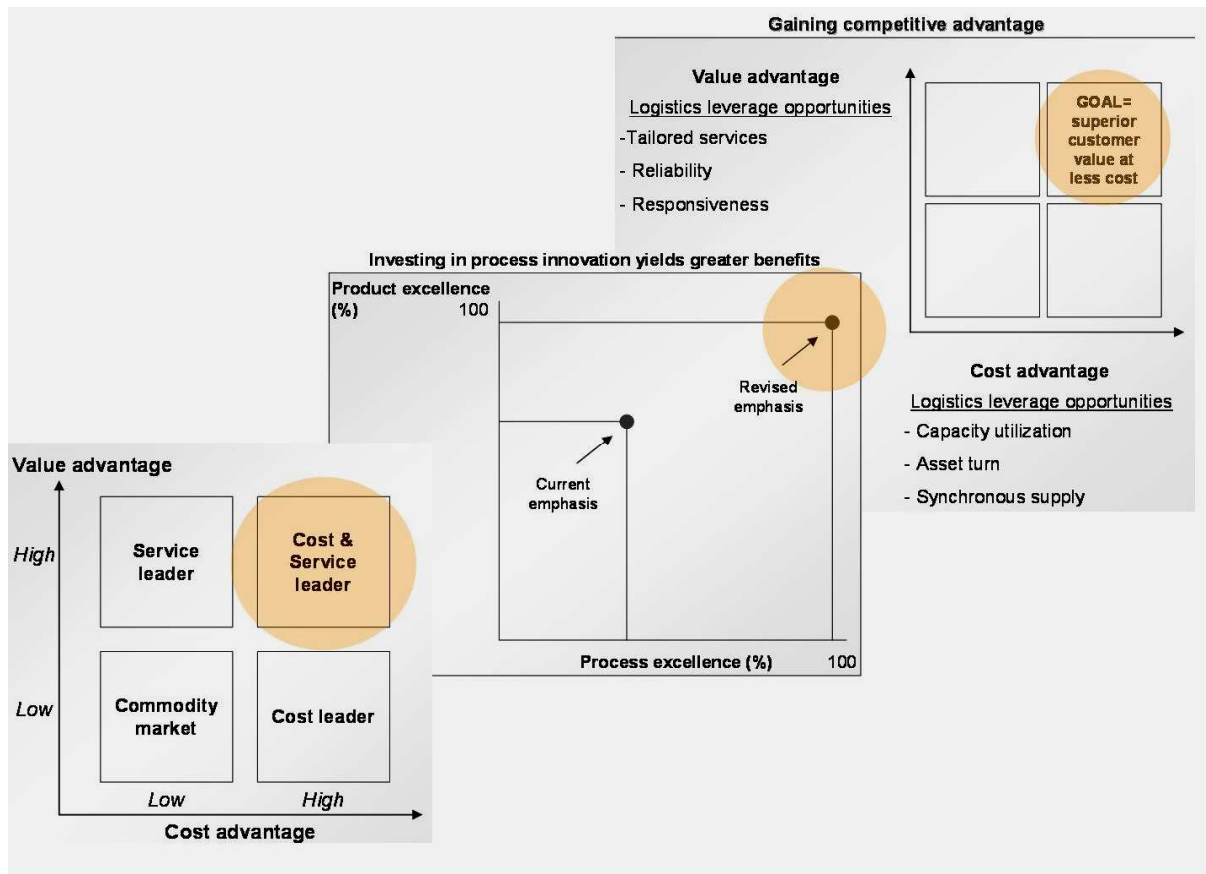
In brief, both the strategic seek and the company experiences have contributed to minimize price in the production process. Freudenberg has lead cost leadership strategies at the start of its economic growth.

However because this policy has been successful, and because the competitive structure of the market does not enable to propose lower prices than Freudenberg's, a strategic move toward differentiation has been adopted.

Even though the company should keep low costs level to keep its competitiveness. The same behaviour can be observed in each segment of the company. The strategic adaptation of each segment is more related to expansion and targeting.

<sup>109</sup> see to reference 10

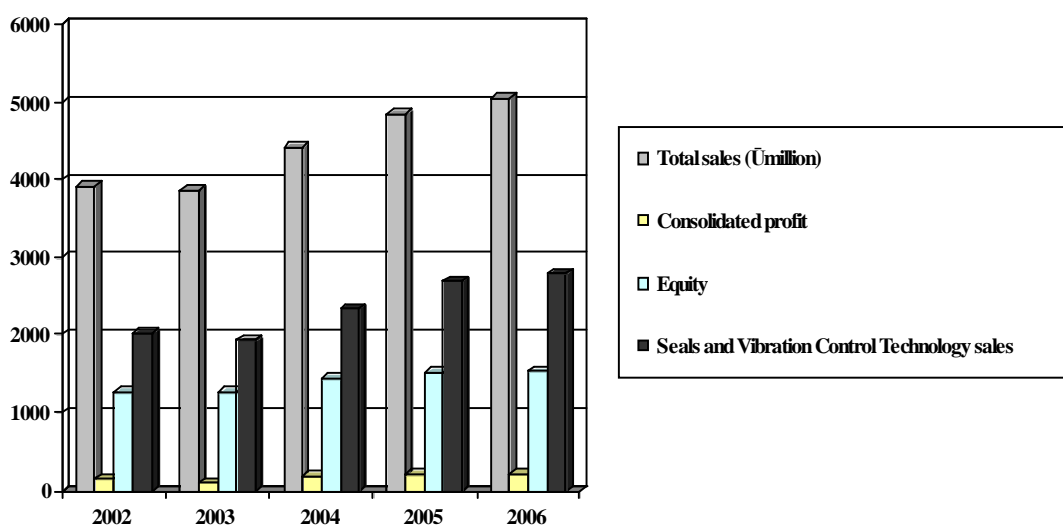
<sup>110</sup> [http://www.freudenberg.com/ecomaXL/index.php?site=FCO\\_EN\\_history\\_diversification](http://www.freudenberg.com/ecomaXL/index.php?site=FCO_EN_history_diversification)



### 2.3.c.12. Financial position

Considering the balance sheet and the income statement of Freudenberg Group, the analysis shows the financial stability of the company.<sup>111</sup>

#### Financial relevant indicators



Working capital amounts €619.9 million (Current assets= €1835.4 million & Short term liability= €1218.5 million). With a consolidated profit (2006) of €219.1 million, the company

<sup>111</sup> <http://www.freudenberg.com/ANNUALREPORT2006/content/content/finanzbericht/03.html>

operates a ROI of 4.5%. Considering the in 2003 invested €140 million, the company shows a strong financial health.<sup>112</sup>

### 2.3.c.13. Strengths, weaknesses, advantages, disadvantages

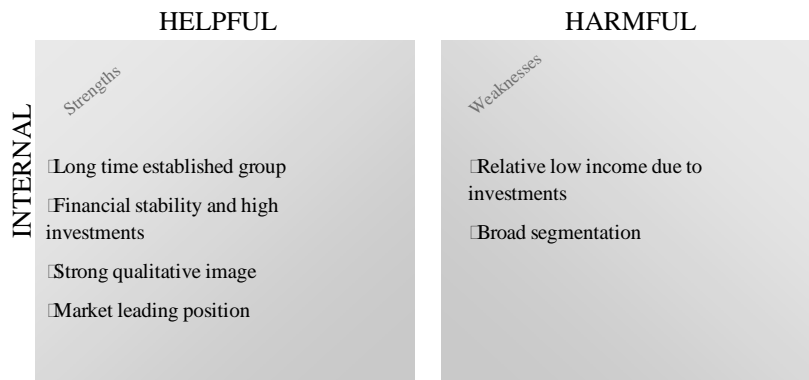
	Effect on Freudenberg			Influence on performance	
	Strength +	Neutral =	Weakness -	High +	Low -
<b>Strength / Weakness Analysis</b>					
<b>1/ Marketing</b>					
Image	XX			X	
Reputation for quality	X			X	
Reputation for service	X			X	
Accessibility to raw materials	X			X	
Familiarity with market	XX			X	
Market share		X			
Market size	X			X	
Market growth	XX			X	
Pricing strategy		X			X
R&D	X			XX	
Innovation	X			XX	
Positioning		X		X	
Domestic distribution	XXX			X	
Export distribution	X			X	
Ease of entry					
Geographical proximity		X			X
Sales force	X			X	
Advertising & promotion		X			X
<b>2/ Financial</b>					
Cost of capital					
Financial stability	X			XX	
Profitability					
Return on equity					
<b>3/ Manufacturing</b>					
Facilities					
Economies of scale					
Capacity of production increase					
Ability to deliver on time	XX			XXX	
Technical & manufacturing skills	X			XXX	
Costs					
<b>4/ Organisational</b>					
Leadership			X	X	
Dedication of workers	XX			XX	

<sup>112</sup> [http://www.freudenberg.com/ANNUALREPORT2006/content/downloads/GB06\\_kompl\\_UK\\_160507.pdf](http://www.freudenberg.com/ANNUALREPORT2006/content/downloads/GB06_kompl_UK_160507.pdf)

Flexibility, adaptability	X			X	
Administration skills	X			X	
Ability to respond to changing conditions	X			XXX	

The previous table enables a detailed overview of internal and external contexts influences. But a more targeted analyse is required to have a better understanding of the concrete strengths and weaknesses first, and of the threats and opportunities on the other hand.

Therefore, please refer to following graph.



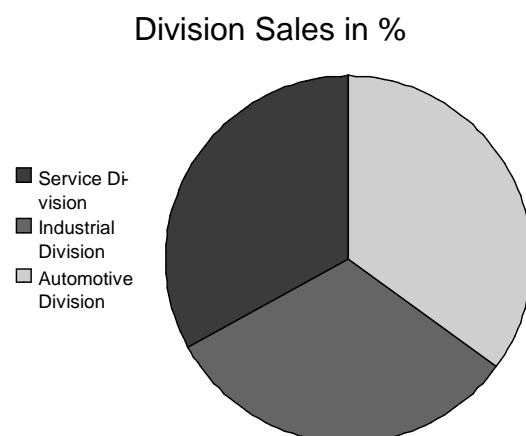
## 2.3.d. SKF

### 2.3.d.6. Name, facts, size

One of ERIKS competitors is the SKF Group. It is one of the leading global suppliers of products, solutions and services in the area comprising rolling bearings, seals, mechatronics, services and lubrication systems. The Group's service offer also includes technical support, maintenance services, condition monitoring and training.

AB SKF, Svenska Kullagerfabriken AB, is a Swedish company and it was established in 1907 in Goteborg, Sweden and has today 120 productions sites in 24 counties. It consists of more than 140 companies and employs 42,888 people worldwide.

SKF's business is divided into three divisions: Industrial, Automotive and Service. Each focusing on specific customer groups worldwide. The divisions are independent, however, in that they constitute a huge market within the SKF Group with products, services, know-how on offer to each other to enable any of the divisions to serve its final customers.



The Industrial Division, is responsible for sales to industrial original equipment manufacturer (OEM) customer and for the product development and production of a wide range of bearings (in particular spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings and high precision bearings), lubrication systems linear motion

products by-wire systems and couplings. The division has four specialized business areas: Aerospace, Railways, Lubrication systems and Actuation & Motion Control. The Division's sales will represent some 32% of the Group's sales.

The Automotive Division, is responsible for sales to the producers of cars, light trucks, heavy trucks, buses, two-wheelers, house-hold appliances, power tools and electric motors and also for sales to the vehicle service market. The division develops and produces bearings, seals and related products and service solutions. The products include wheel hub bearing units, taper roller bearings, small deep groove ball bearings, seals, special automotive products and complete repair kits for the vehicle service market. The Division's sales will represent some 35% of the Group's sales.

The Service Division is primarily responsible for sales to industrial aftermarket, mainly via a network of some 7,000 distributor locations. The division also supports customers with knowledge-based products and service solutions to optimize plant asset efficiency through consulting and mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts. The division also deals with logistics and distribution for both the SKF Group and external customers. The Division's sales will represent some 33% of the Group's sales.

The turnover in 2007 was SEK 58,6 billion this corresponds to \$8.7 billion.<sup>113</sup>

<b>SKF AB</b>					
<b>Three-year review divisions/segments (in SEK million)</b>					
<b>MSEK</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>\$</b>
<b>Industrial Division</b>					
Net sales	12.527	14.750	17.083	19.266	<b>17176</b>
<b>Service Division</b>					
Net sales	14.216	16.115	17.678	19.597	<b>17984</b>
<b>Automotive Division</b>					
Net sales	15.972	17.423	18.255	19.617	<b>17869</b>
<b>Total</b>	<b>42715</b>	<b>48288</b>	<b>53016</b>	<b>58480</b>	<b>53029</b>

As seen in the table SKF sales went in the previous years continuously up in all divisions. The market demand for SKF's products and services is expected to be higher for the Group. The demand is expected to be higher in Europe, significantly higher in Asia and Latin America and relatively unchanged in North America. The demand is expected to be higher in all divisions. Seals are one of the five products that SKF offers. SKF does not give any specific numbers about the sealing production, but seals belong to the Automotive Division, so that we can assume that because the number of sales of this division goes up the seal sales also go up. Another sign for the higher demand in the SKF company is the acquisition of the industrial seals company, Economos Austria GmbH, in the year 2006 and the acquisition of the shares of the leading North American seals company Macrotech Polyseal Inc..<sup>114</sup>

### 2.3.d.7. Market shares and relative MS

<sup>113</sup> <http://www.skf.com/portal/skf/home/about?contentId=005061&lang=en>

<sup>114</sup> <http://www.skf.com/portal/skf/home/about?contentId=187516&lang=en>

Since 2006 SKF is slowly becoming the market leader for hydraulic seals in North America of seals. In 2006 SKF has acquired 51 % of the shares of the North American seals company Macrotech Polyseal Inc. And will acquire the remaining 49 % in the next three years. Macrotech is a leader in fluid power seals based on polyurethane (PU) technologies and engineered plastics (mainly PTFE - PolyTetraFluoroEthylene) for the industrial customers in the US market. The product range comprises mainly injection molded PU hydraulic seals. The biggest customer segments are fluid power (mainly hydraulics) and process equipment. Some 95% of Macrotech's customers are to be found in the North American market. This acquisition strengthens SKF's position in industrial seals by bringing to the Group new products and new technologies. Geographically, SKF's global organization will also be able to bring Macrotech's products to markets outside North America.<sup>115</sup>

And through the acquisition of 100% of the shares of Economos Austria GmbH from Salzer Holding GmbH SKF is strengthen its market position in industrial seals. Economos has a global presence, with Western Europe being its main market. The company is headquartered in Judenburg in Austria. Economos operates through more than 20 subsidiaries around the world and its extensive distributor network.<sup>116</sup>

Further information about the market share of SKF in this industry is not traceable because the information is highly protected.

To sum up, SKF is strengthened its market position of the seal industry by acquisitions of leading seal companies in North America and Austria.

#### **2.3.d.8. Market position: standing, reputation, prestige**

SKF has been designing various bearing applications and products to meet the customer demands. Moving away from stand-alone bearing units, engineers at SKF are working closely with their automotive clients to come up with easily renewable, serviceable as well as cost effective solutions like various types of hub bearing units and sealing solutions.<sup>117</sup>

SKF is working with Six Sigma which is a systematic and disciplined approach to achieving excellence in all new and existing processes. It is an important part of the continuous improvement process within the SKF Group and a natural development from TQM, Lean, 4Z and other improvement programs. Six Sigma is about creating stable processes throughout the extended enterprise.<sup>118</sup> During the year of 2006, SKF received a number of awards and forms of recognition for its work with Six Sigma. For example SKF India received first prize in the IMTMA-Siemens Productivity Championship Award in the First Productivity Summit 2006 organized by Indian Machine Tool Manufacturers' Association (IMTMA). SKF India was also awarded an Honorary Mention for their "Breathing Beyond Constraints" project in the Lean Six Sigma award category of European Six Sigma excellence awards by the IQPC, the International Quality & Productivity Centre. SKF CEO Tom Johnstone was recognized as well with the ISSSP European Six Sigma Leader award by the ISSSP, the International Society of Six Sigma Professionals, for his work with committing the company to continuous improvement. Tom Johnstone is the first European corporate leader to receive the prestigious

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<sup>115</sup> [http://vsmus-origin.skf.com/usa\\_english/node54.aspx?id=493](http://vsmus-origin.skf.com/usa_english/node54.aspx?id=493)

<sup>116</sup> [http://vsmus-origin.skf.com/usa\\_english/node54.aspx?id=555](http://vsmus-origin.skf.com/usa_english/node54.aspx?id=555)

<sup>117</sup> <http://articles.jimtrade.com/1/72.htm>

<sup>118</sup> <http://www.skf.com/portal/skf/home/about?contentId=152904&lang=en>



award and shares the honour with well-known CEO's such as Jack Welch of GE and Charles Holliday of DuPont.<sup>119</sup>

SKF is certified global management environment certificate ISO 14001 and with the health and safety certificate OHSAS 18001. SKF operations have been approved for quality certification in accordance with either ISO 9000 or QS 9000.

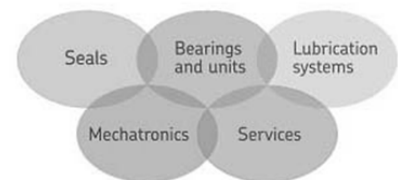
#### 2.3.d.9. Behavior: 4Ps policy

##### *Price*

The pricing in this industry is unclear. SKF is a well established company which from the very beginning focused intensively on quality, technical development and marketing. The results of the effort in the area of research and development have led to a growing number of innovations that has created new standards and new products. It also offers the exact sealing solution that the customers need. So that SKF is likely to have high prices.

##### *Product*

SKF offers a wide range of products. Including Seals, Bearings and units, Lubrication systems, Mechatronics and Services. Since 1990 SKF offers a wide range of seals for example, Automotive seals, Axial shaft seals, Hydraulic seals, Radial shaft seals, and Static seals.



##### *Promotion*

SKF offers one of the most comprehensive assortments of technology and competence that can offer customers results beyond their expectations. Supported by SKF growing strength in the technology platforms, and their strong network of industry, segment and product specialists, and the innovate shared culture of SKF employees around the world, they can offer one of the most comprehensive and truly global offers of any company. SKF works to show their customers, and the world, the true power of their experience, expertise and creativity.

##### *Place*



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119

[http://www.skf.com/portal/skf/home/aboutpaf\\_dm=shared&paf\\_gear\\_id=600030&contentId=448121&action=viewDetail&lang=en](http://www.skf.com/portal/skf/home/aboutpaf_dm=shared&paf_gear_id=600030&contentId=448121&action=viewDetail&lang=en)

SKF has 120 productions sites in 24 counties. It consists of more than 140 companies worldwide. All the locations of SKF are visible in the world chart beneath. Most of SKF locations are located in Europe but SKF can be found on every continent of the world. This way SKF is able to be close to its customers for the supply of both products and services.

To sum up SKF behavior in the different Ps, this spreadsheet helps to focus:

4Ps Policy	
<b>Product</b>	Diversified, innovative, high quality, technical development
<b>Price</b>	High, reduction of maintenance costs
<b>Place</b>	Expansion
<b>Promotion</b>	Customer focused
<b>People</b>	Trust, respect, recognition and team-oriented

#### 2.3.d.10. Distribution proportion, ratio – not applicable

#### 2.3.d.11. Goals and generic strategy

SKF is operating a differentiated strategy. Since 1990 SKF is operating in the sealing industry, which started with the acquisition of the Chicago Rawhide company. SKF is offering integrated solution to their customers.

SKF has several goals:

- (i) To equip the world with SKF knowledge<sup>120</sup>
- (ii) To help to achieve maximum return on reliability investment<sup>121</sup>
- (iii) To be a preferred company for customers<sup>122</sup>
- (iv) To transition companies that are acquired into one global, universally recognized SKF brand and to ensure customers the same high level of quality and service they have enjoyed previously<sup>123</sup>

#### 2.3.d.12. Financial position

**SKF** recorded revenues of SEK58.6 billion (approximately \$8.7 billion) during the fiscal year ended December 2007, an increase of 10.4% over 2006. The operating profit of the company was SEK7.5 billion (approximately \$1.1 billion) during fiscal year 2007, an increase of 12.4% over 2006. The net profit was SEK4.6 billion (approximately \$0.7 billion) in fiscal year 2007, an increase of 6.4% over 2006.<sup>124</sup>

In recognition of the financial stability of the Group, the capital structure targets are also revised and envisage a gearing of around 50% and an equity/assets ratio of around 35%. This will still ensure the financial flexibility to enable the Group to continue to invest in good

<sup>120</sup> <http://www.skf.com/portal/skf/home/about?contentId=004505&lang=en>

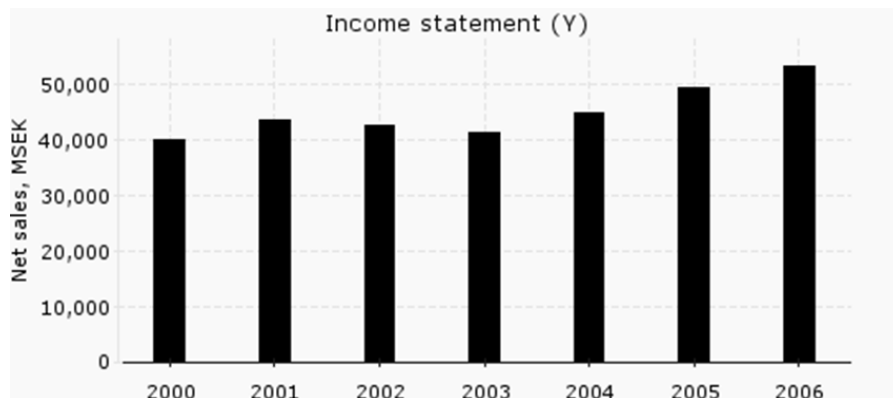
<sup>121</sup> <http://www.skf.com/files/510096.pdf>

<sup>122</sup> [http://www.skf.com/portal/skf\\_id/home/news?contentId=187720#](http://www.skf.com/portal/skf_id/home/news?contentId=187720#)

<sup>123</sup> <http://www2.chicago-rawhide.com/>

<sup>124</sup> <http://www.datamonitor.com/companies/company/?pid=441B5FB1-1681-48A1-BC94-080D85AB5272>

opportunities to strengthen the business, while maintaining a strong credit rating. On 31 December 2006, the earning was 39.1%.<sup>125</sup>



### 2.3.d.13. SWOT

	Effect on FEDERAL MOGUL			Influence on performance	
	Strength +	Neutral =	Weakness -	High +	Low -
<b>Strength / Weakness Analysis</b>					
<b>1/ Marketing</b>					
Image	XX			X	
Reputation for quality	XX			X	
Reputation for service	X			X	
Accessibility to raw materials	X			X	
Familiarity with market	X			X	
Market share	X				
Market size		X		X	
Market growth	X			X	
Pricing strategy	X				X
R&D	X			XX	
Innovation	XX			XX	
Positioning	X			X	
Domestic distribution	XX			XX	
Export distribution	X			XX	
Ease of entry		X			X
Geographical proximity	X				X
Sales force	X			X	
Advertising & promotion	X				X
<b>2/ Financial</b>					
Cost of capital		X			
Financial stability	X			XX	
Profitability	X			XX	
Return on equity	X			XX	

<sup>125</sup>

[http://www.skf.com/portal/skf/home/investors/paf\\_dm=shared&paf\\_gm=content&paf\\_gear\\_id=600033&included=http%3A%2F%2Finvestors.skf.com%2Fmain.php%3Fp%3Dshare%26lang%3Den](http://www.skf.com/portal/skf/home/investors/paf_dm=shared&paf_gm=content&paf_gear_id=600033&included=http%3A%2F%2Finvestors.skf.com%2Fmain.php%3Fp%3Dshare%26lang%3Den)

3/ Manufacturing					
Facilities	X			X	
Economies of scale	X			X	
Capacity of production increase	X			X	
Ability to deliver on time	XX			XXX	
Technical & manufacturing skills	XX			XXX	
Costs		X		XXX	
4/ Organisational					
Leadership	X			X	
Dedication of workers	XX			XX	
Flexibility, adaptability	X			X	
Administration skills		X		X	
Ability to respond to changing conditions		X		X	

The previous table enables a detailed overview of internal and external contexts influences. But a more targeted analyse is required to have a better understanding of the concrete strengths and weaknesses first, and of the threats and opportunities on the other hand.

Therefore, please refer to following graph.

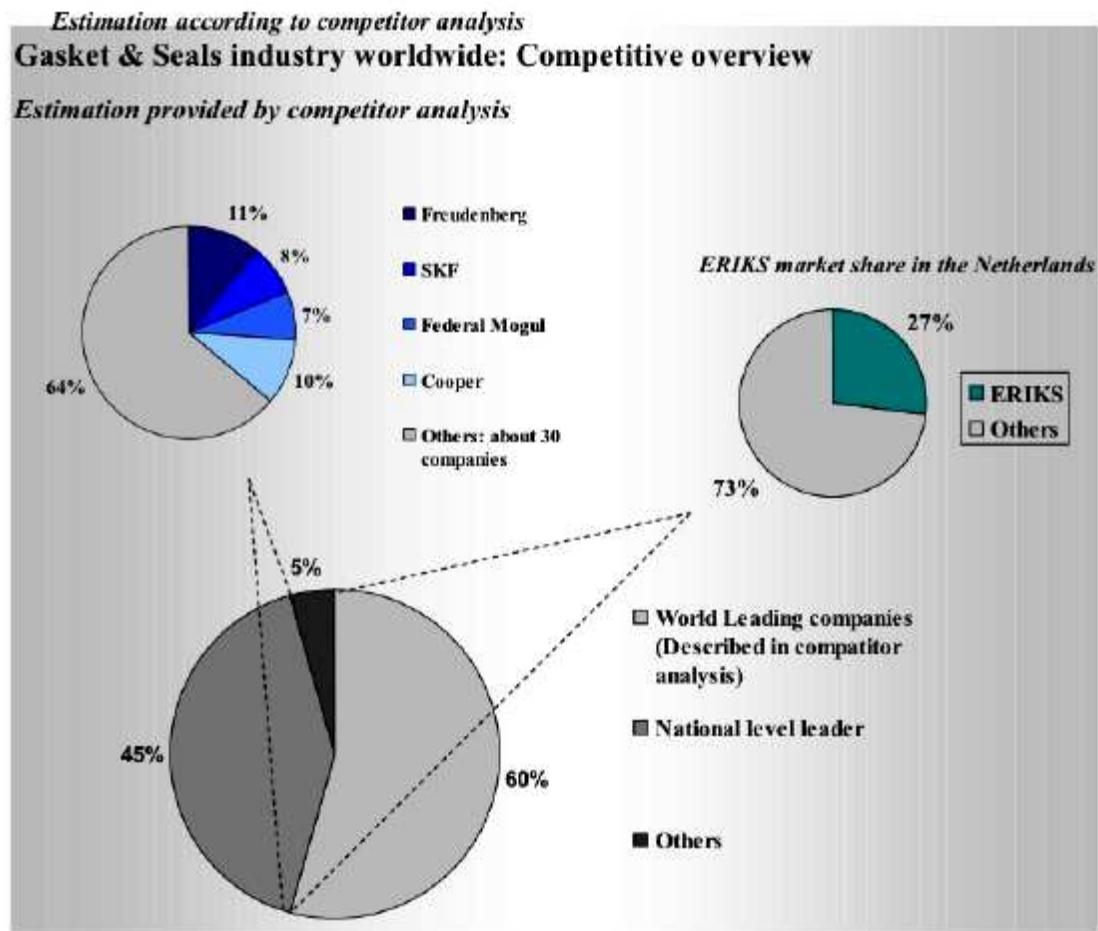


#### 2.3.14. Additional issues

All the competitor and competitive analysis is based on the fact that there is no up-coming or latent possible or serious substitution mean on the market of gaskets and seals and particularly, concerning O-rings. Anyway, it is important to remain aware of a possible unexpected change in the industry such as a product innovation. But as far as the industry is concerned, there is absolutely no sign of evidence of such upcoming threat.

#### 2.3.15 Competitive overview

Deducting from our research we estimate the following market division:



As said, due to a lack of specific information, we cannot prove these numbers. To sum up our findings about ERIKS' competitive environment, please refer to the following table:

	ERIKS	Freudenberg	SKF	Federal Mogul
<b>Country</b>	Netherlands	Germany	Sweden	USA
<b>Legal form</b>	Nv (naamloze vennootschap) dutch public liability company	Limited partnership (Kommenditgesellschaft)	Public Corporation	Public Corporation
<b>Foundation</b>	1940	1889	1907	1899
<b>Structure</b>	8 core activities	5 strategic business areas:	3 Divisions	4 strategic areas (mostly in automotive)
	Sealing technology, Power transmission, Flow technology	Seals & vibration control technology (about 60% of total sales revenue)	Industrial	Powertrain
	Technical and logistics services	Nonwovens	Automotive	Sealing Systems

	Industrial plastics, Tools and Maintenance products	Household products	Service	Vehicle and Safety Performance
	Electromechanical services and Condition monitoring, Tolerancerings and Tire technology	Specialties & others	-	Aftermarket solutions
<b>Revenues</b>				
	Sales: €949.1 million (2007)	Sales: US\$4,4 billion (2003)	Sales: US\$ 8,7billion	Sales US\$ 6,326 million
<b>Employees</b>				
	4 300	28 500	42,888	41,600
<b>Operating areas</b>				
(% of sales)	3 continents	54 countries	24 countries	35 countries
<b>Europe</b>	94%	33%	-	42%
<i>*Germany</i>	20,2%	25%	-	18%
Netherlands	39%		-	
<b>US / North America</b>	4,4%	25%	-	50%
<b>China / Asia</b>	1,4%	7%	-	3%
<b>Rest of Europe</b>	-	4%	-	-
<b>South/Central America</b>	-	4%	-	3%
<b>Africa/Australia</b>	-	2%	-	1%
<b>Automotive Division</b>	-	-	35%	-
<b>Industrial Division</b>	-	-	32%	-
<b>Service Devison</b>	-	-	33%	-
<b>Market share</b>				
<b>Worldwide</b>	-	Freudenberg Bausysteme 50%		-
<b>Europe</b>	-		53%	-
<i>*Germany</i>	-	More than 30% (65% of IT spin-off market) (80% Freudenberg Bausysteme)	-	-
<b>US / North America</b>	-	-	20%	-
<b>China / Asia</b>	-	-	15%	-
<b>Latin America</b>	-	-	5%	-
<b>4Ps policy</b>				
<b>Product</b>	Innovative, high quality	Constant innovation & diversification	Diversified, innovative, high quality, technical development	diversified, innovative, highly reliable
<b>Price</b>	High, striving for cost reduction	High, striving for cost reduction	High, reduction of maintenance costs	High, striving to cost reduction

<b>Place</b>	Expansion	Trust in foreign emerging markets & geographical expansion	Expansion	Expansion, B2B-Relations, brand-supported at retailers
<b>Promotion</b>	Corporate focused	Corporate focused, Strong company identity seeking for leadership	Customer focused	Corporate focused, self assured and promoting their potential
<b>People</b>	Innovative, highly trained	Entrepreneurial freedom & respect and trust	Trust, respect, recognition and team-oriented	Challenging, innovative, team-orientated
<b>Company goals</b>				
	Expansion, profit	Company development and contribution to general development	Expansion, to help customers	Expansion, profit
<b>Generic strategy (key points)</b>				
	Expansion & Innovation	Differentiation & innovation	Innovation & Differentiation	expansion and build up in low cost countries
<b>SWOT</b>				
<b>S</b>	Reasonable financial position	Long establishment, good image, strong market position	Financially stable, established widely	Diversified, strong brands
<b>W</b>	Brand recognition mostly national	Very diversified segmentation and high investments	Inexperienced in this particular market	high costs
<b>O</b>	Increasing demand and market opportunities			
<b>T</b>	Level of competitiveness, rapid changing market conditions, rise of raw material and transportation costs			

## 2.4. Product situation (industry wide)

### 2.4.1. Core, Actual, augmented

The O-ring “total product” can be broken down into three key parts<sup>126</sup>.

#### *Core benefits*

The core product itself is the benefit the customer receives from using the product. O-rings offer sealing capacity (friction properties) and adaptability to mechanical processes, machineries and engines. O-ring core benefits for the customer are a reduced power loss, reduced board areas and an integration that addresses complexity.<sup>127</sup>

#### *Actual product*

The consumable product is the O-ring itself and represents the main good the customer is purchasing. But the actual product includes also further product decision. Those can be

<sup>126</sup> <http://www.knowthis.com/tutorials/principles-of-marketing/product-decisions/components-of-a-product.htm>

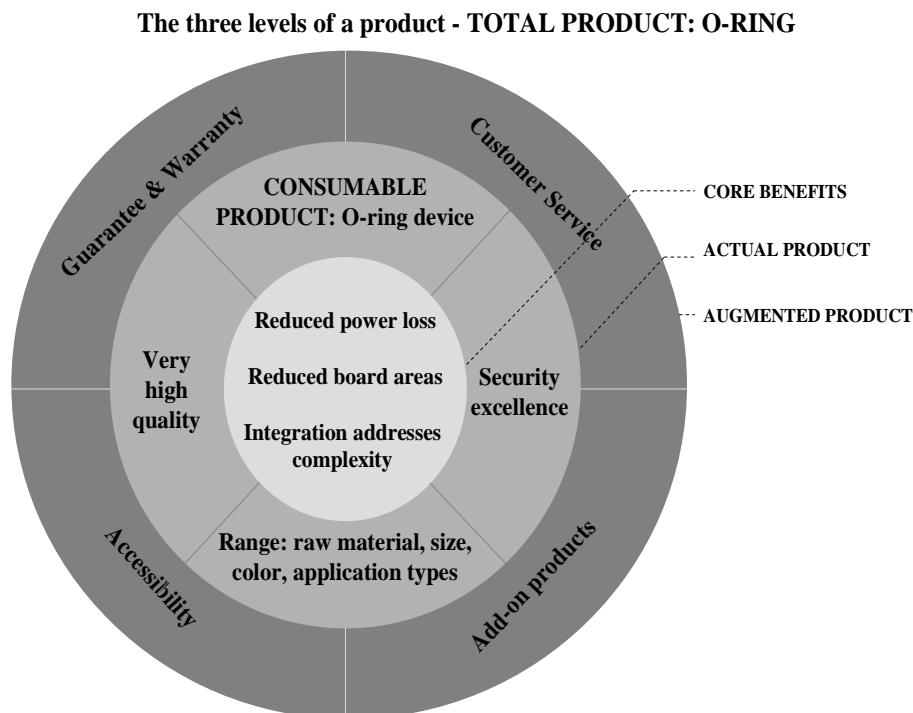
<sup>127</sup> [http://www.apec-conf.org/2004/APEC04\\_SP3-4\\_IR.pdf](http://www.apec-conf.org/2004/APEC04_SP3-4_IR.pdf)

described through three main aspects. A Very high quality of raw material and features, an excellent security level expressed through reliable certifications according to customer's industry requirements (ISO/TS 16949: 2000 – Automotive industry<sup>128</sup>; ISO 9001: 2000 – Water distribution) and to specific national norms (Germany DVGW-W270 & KTW<sup>129</sup>; England WRAS/WRC; US NSF Org. for plastic & rubber materials<sup>130</sup>), and a wide range of product available (size, application, color, material).<sup>131</sup>

#### *Augmented product*

The augmented O-ring product includes guarantees and warranties both coming from legal requirements and company's certification (and also company's image and reputation), associated customer service<sup>132</sup>, accessibility, which represents the perceived value of product availability and lead time<sup>133</sup>, and complementary products<sup>134</sup>.

To sum up, please refer to the following graph.



#### **2.4.2. Classification**

The classification of hydraulic seals is a very difficult and confusing subject due to the wide range of the device and also because of its integrated position within mechanical processes.<sup>135</sup>

<sup>128</sup> [http://www.maxim-ic.com.cn/pdfserv/en/pr/TS16949\\_Certification\\_062106.pdf](http://www.maxim-ic.com.cn/pdfserv/en/pr/TS16949_Certification_062106.pdf)

<sup>129</sup> [http://www.geberit.be/Geberit/Inet/be/wcmsbep.nsf/files/usr-pdf-](http://www.geberit.be/Geberit/Inet/be/wcmsbep.nsf/files/usr-pdf-Cahierdecharges%20Geberit%20Mapress%20Inox%2004-2005.pdf/$file/Cahierdecharges%20Geberit%20Mapress%20Inox%2004-2005.pdf)

[Cahierdecharges% 20Geberit% 20Mapress% 20Inox% 2004-2005.pdf/\\$file/Cahierdecharges% 20Geberit% 20Mapress% 20Inox% 2004-2005.pdf](http://www.geberit.be/Geberit/Inet/be/wcmsbep.nsf/files/usr-pdf-Cahierdecharges%20Geberit%20Mapress%20Inox%2004-2005.pdf/$file/Cahierdecharges%20Geberit%20Mapress%20Inox%2004-2005.pdf)

<sup>130</sup> <http://www.ecvv.com/product/vp827967/China-o-ring-01.html>

<sup>131</sup> See also 2.1.7. Segments

<sup>132</sup> See following 2.4.6. Service practices

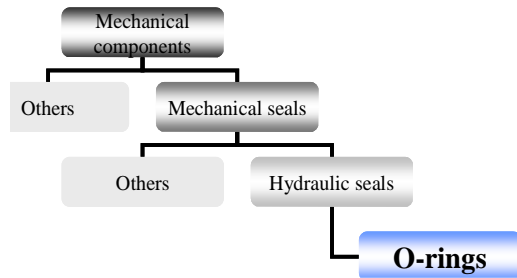
<sup>133</sup> See also 2.2.2. Requirements

<sup>134</sup> See following 2.4.9. Adjacent products

<sup>135</sup> <http://www.mcnallyinstitute.com/02-html/2-11.html>



Because of that reason more than 600 subcategories of seals can be categorized according for example to their chemical composition.<sup>136</sup> However it is commonly accepted that O-rings belong to the category of hydraulic seals within the mechanical seals, which themselves are defined under mechanical components.<sup>137</sup>



### 2.4.3. Product form/class

There are various methods of classifying mechanical seals. One of them refers to the product's forms.

- (i)*The rotating seal.* The springs/ bellows rotate with the shaft.
- (ii)*The stationary seal* The springs/bellows do not rotate with the shaft.
- (iii)*The inside mounted seal.* All components are in the pumping fluid.
- (iv)*The outside mounted seal.* None of the metal components are in contact with the pumping fluid. Most designs clamp to the shaft rather than using set screws that damage ceramic or glass coated shafts.
- (v)*The single seal.* It has only one set of sealing faces.
- (vi)*Dual seals.* More than one set of faces are installed in a variety of configurations.
- (vii)*The unbalanced seal.* The seal faces are subjected to full system hydraulic and surge pressures in addition to the spring pressure.
- (viii)*The balanced mechanical seal.* The design allows the seal faces to see only a small portion of the system hydraulic pressure.
- (ix)*The elastomer type of seal* , utilizing an o-ring, wedge, chevrons or a U-cup, with the o-ring type having the most advantages.
- (x)*The metal bellows seal.* All elastomers have been eliminated from the design.
- (xi)*The cartridge seal.* The seal is mounted on a sleeve that can be secured to the shaft from out side the seal chamber.
- (xii)*The non-cartridge seal.* The seal attaches directly to the pump shaft or sleeve, or in some cases, against a shaft shoulder.
- (xiii)*The split seal.* In a true split seal all the seal components are split in half so that the seal can be installed without taking the equipment apart. Rubber components are not allowed to be glued together as this would cause a "hard spot", interfering with the free movement of the dynamic elastomer.
- (xiv)*The solid seal.* The equipment must be disassembled to install the seal.
- (xv)*Motion seals.* They have larger internal clearances along with different spring arrangements and wider hard faces to compensate for excessive radial and axial motion. A radial movement capability of plus or minus 1/8" (3 mm) would be typical.
- (xvi)*Pump Seals.* Manufactured for 3/8 inch (10 mm) packing space. Some designs will go into 5/16" (8 mm).
- (xvii)*Original equipment seal designs.* The type you get if you don't specify a specific brand and model number.
- (xviii)*Off the shelf,* universal seal designs. Designed to fit into the thinnest, shortest space and still meet the necessary operating conditions. Most are non-fretting designs with universal materials installed as standard.<sup>138</sup>

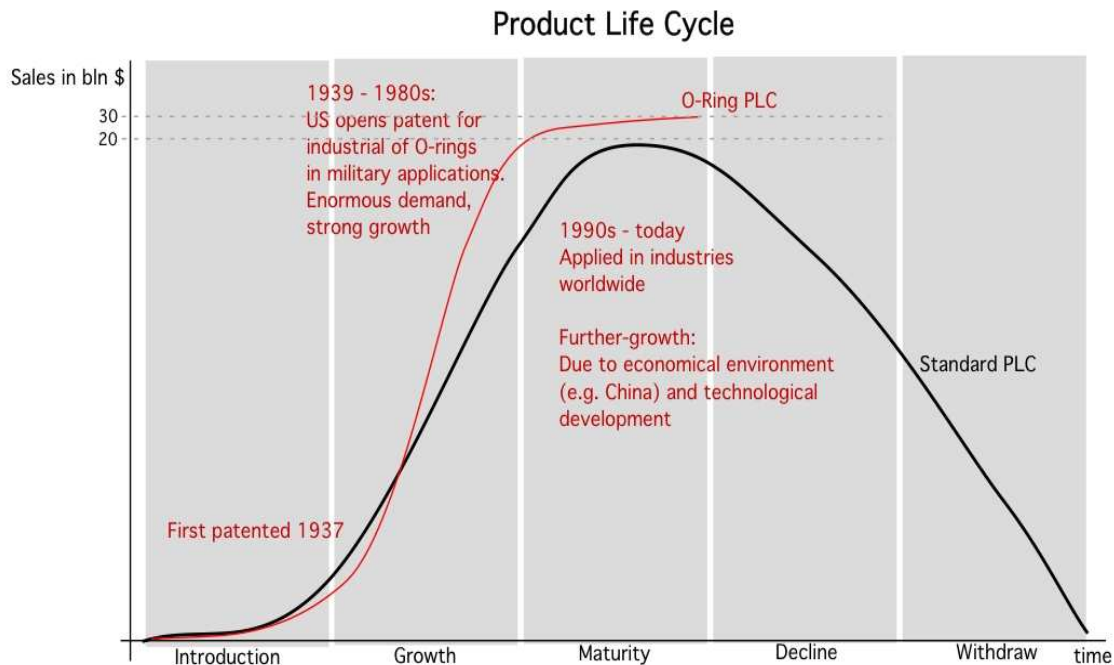
<sup>136</sup> <http://www.mcnallyinstitute.com/02-html/2-11.html>

<sup>137</sup> [http://productsearch.machinedesign.com/research/mechanical\\_components/seals/hydraulic\\_pneumatic\\_seals](http://productsearch.machinedesign.com/research/mechanical_components/seals/hydraulic_pneumatic_seals)

<sup>138</sup> <http://www.mcnallyinstitute.com/02-html/2-11.html>

## 2.4.4. Product life cycle stage

According to the previous researches and relying on the estimation we made concerning the demand and market situation and growth, it is possible to provide the following PLC graph.<sup>139</sup>



The MATURITY stage for the O-ring product is very profitable: (i) low costs: well established market (ii) sales volume peaks (iii) increase in competitive offerings (iv) proliferation of competing products (v) brand differentiation, feature diversification.

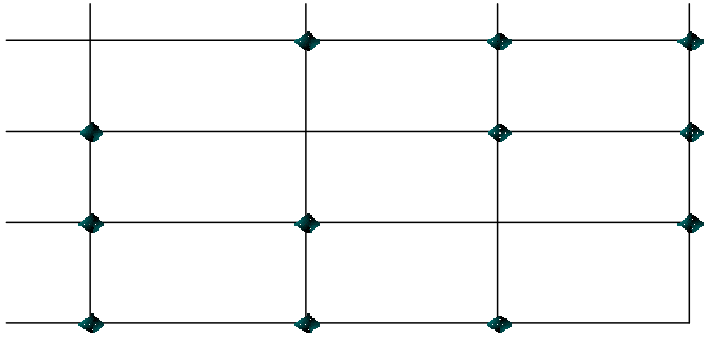
## 2.4.5. Assortment

O-rings have a very wide range of references. Talking about assortment refers the product segmentation that has been discussed in part 2.1.7 *Segments* of the analysis. According to previous observation, it is possible to refer to the following table for an overview of O-ring assortment. For further information about O-ring sizes (which can be recognized as main changing requirement), you can refer to the O-ring size chart.<sup>140</sup>

<sup>139</sup> [http://www.marketingteacher.com/Lessons/lesson\\_plc.htm](http://www.marketingteacher.com/Lessons/lesson_plc.htm) & see also 2.1. *Market analysis*

<sup>140</sup> <http://www.superiorseals.com/oringtech.asp>

## O-ring assortment

		Norms & standards	Size	Material	Application type
		International/National Industry / Sector / Company specific	300,000 references (standards, customized, country specific measurement unit)	Elastomer type, rubber, Fluorocarbon, Silicone, Chemraz, Teflon, Neoprene, Fluorosilicone, Urethane ...	Static Seals, Reciprocating Seals, Oscillating Seals, Rotary Seals, Pneumatic Seals, Vacuum Seals ...
Norms & standards	International/National / Industry/Sector specific / Company specific				
Size	300,000 references (standards, customized, country specific measurement unit)				
Material	Elastomer type, rubber, Fluorocarbon, Silicone, Chemraz, Teflon, Neoprene, Fluorosilicone, Urethane ...				
Application type	Static Seals, Reciprocating Seals, Oscillating Seals, Rotary Seals, Pneumatic Seals, Vacuum Seals ...				

### 2.4.6. Service practices

Providing the result of the market analysis, we know that the market actors operate hybrid strategies which mean that beyond seeking cost leadership they have to differentiate their offer. As O-ring ranges are quite similar to the whole industry, main differentiation can be observed in the servicing policy of suppliers.<sup>141</sup> Those services refer to the augmented part of the product as described in part 2.4.1. of this section. Following are some examples of practiced services: Handbooks, O-ring kits (braided/hydraulic packing, floor matting ...), kiss cutting, product customization, testing (analytical, consultancy ...) ...<sup>142 143</sup>

### 2.4.7. Branding policy

Even if some old established brands have acquired a worldwide qualitative image and can add value to the product it is integrated in, manufacturers using O-ring prefer to be able to use their own branding so as to provide their customer with a final one branded product increasing this way the excellence image associated with their own brand. However when looking at product (machinery or plant equipment ...) description, it is common to recognize original brand production of each separate element. This shows the importance of branding of O-rings.

To sum up, O-ring branding policy has two levels. First the production company's branding which get its importance in the quality reliability of the final product. Second the branding of the customer's company which wants to integrate the device in its own product.

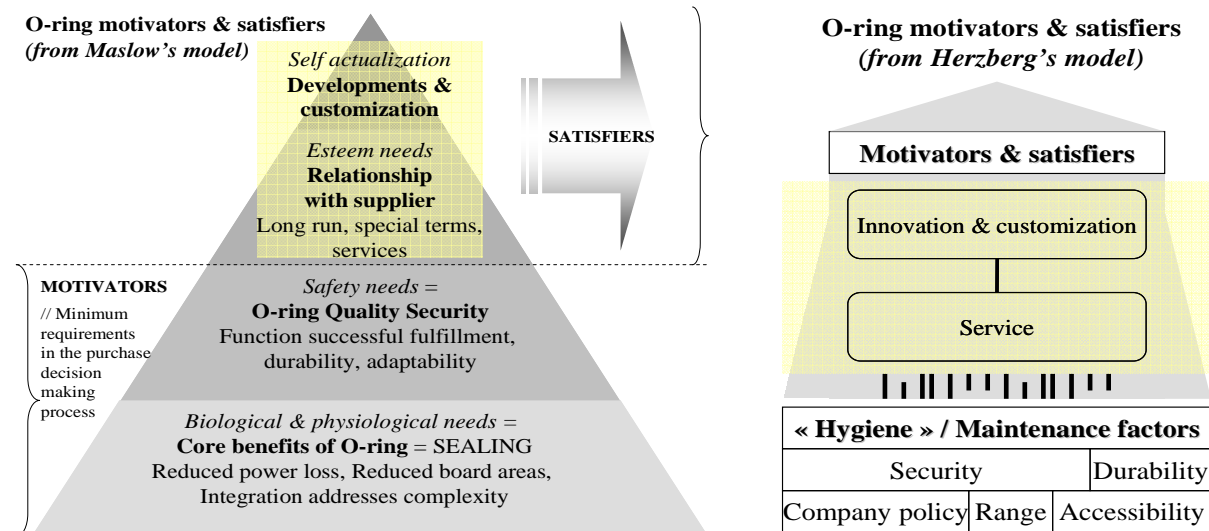
### 2.4.8. Satisfiers, motivators

<sup>141</sup> See also 2.1. Market Analysis

<sup>142</sup> <http://www.quickcutgasket.com/services.html>

<sup>143</sup> <http://www.dowcorning.com/applications/search/products/Details.aspx?prod=01889826&type=PROD>

If applying first Maslow's hierarchy of needs and then Herzberg's paradigm of hygiene and motivating theory to O-ring satisfiers and motivators, it is possible to provide a clear view of that aspect. It is therefore necessary to rely on previous analysis.<sup>144</sup> In the case of O-rings, most commonly recognized motivators are related to the minimum requirements of the purchase decision making (Quality, security ...) and satisfiers can be identified as product related services and customized relationship with customers.



*O-ring motivators (Key product characteristics in purchase decision)*

- \* Long lasting and strong relationship with the supplier is determinant in terms of product associated services, customization and special pricing.
- \* Product constant improvement and adaptation to customer's need.

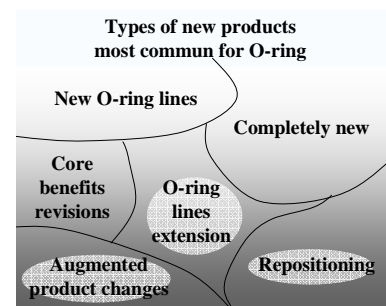
## 2.4.9. Adjacent products

There are many products adjacent or complementary to the O-ring and they mostly are used either in addition to the O-ring or as testing/maintenance/repair support. Some of them are: adhesive backed materials and back-up rings, molded rubber products to customer specifications, lathe cut washers, seal tape, plastic and metal Shim Stock, glue and sealant, capsules, envelopes, vibration shock mounts, rubber strips & stripping, clips, cord ...<sup>145 146 147</sup>

## 2.4.10. Technology new product development

As it has been discussed previously in this study, the product itself limits major development possibilities even though implementations and minor developments are quite numerous.

Current developments belong to O-ring line extension (with perfluoroelastomer O-ring seals developed specifically to seal critical pharmaceutical and food processes<sup>149</sup>) and repositioning (Semicon Sealing Solutions wafer fab processes



<sup>144</sup> See also 2.2.6. KCM

<sup>145</sup> <http://www.quickcutgasket.com/services.html>

<sup>146</sup> <http://www.preferredengineering.com/tools.html>

<sup>147</sup> [http://productsearch.machinedesign.com/research/mechanical\\_components/seals/hydraulic\\_pneumatic\\_seals](http://productsearch.machinedesign.com/research/mechanical_components/seals/hydraulic_pneumatic_seals)

<sup>148</sup> <http://www.superiorseals.com/orings.asp>

<sup>149</sup> [http://findarticles.com/p/articles/mi\\_m0PIL/is\\_2004\\_Oct\\_13/ai\\_n6233947](http://findarticles.com/p/articles/mi_m0PIL/is_2004_Oct_13/ai_n6233947)

are creating hotter and more aggressive environments for critical o-ring seals than ever before due to increasing need for seals that help improve yields and thereby reduce cost of ownership)<sup>150</sup>.<sup>151</sup> However some new O-ring lines also are created such as the ISC X-rings, a specially developed four-lip seal profile, as a replacement for O-rings in low-speed dynamic and oscillating motion applications<sup>152</sup>.

#### **2.4.11. Add issues**

Providing the result of the O-ring analysis industry wide, it appears clearly that there is a lack of unification on an international level, and this includes O-ring wide range of product.

Another issue to consider relates to substitute products. Even if it the influence on the global O-ring market is relatively marginal, there is a trend toward self building rings for very little customers. As they use the device internally for maintenance reasons, a substitute to the O-ring commonly known product as appeared on the market. It takes the form of a rubber role from which the user can cut the appropriate model of O-ring he needs.

### **2.5 Distribution Situation (industry wide)**

#### **2.5.1. Places, locations, outlets**

The sealing industry operates worldwide with international distribution centers complemented by local warehouses most of the time those are located close to the production sites. All operations are designed to optimize resource utilization, cycle times, pick-pack productivity and customer service at highest quality level. They utilize the latest warehousing technology, including radio frequency (RF) communication and extensive use of bar coding systems to provide real-time visibility, and world-class accuracy.

#### **2.5.2. Channels**

The sealing industry operates in a business-to-business market as it was mentioned earlier in the report. The most important channel that is used by the seal industry is the Internet. The industry created e-commerce solutions to meet the customers' specific needs. Every company in the industry offers the possibility to order their products online. Through the B2B e-marketplaces, (which are software systems) industrial buyers and sellers are able to transact business online over the Internet through a central node.

Benefits:

- 24-hour, real-time availability of inventory monitoring and product ordering services, so that customers can obtain products they need, when they need them
- Cost-effective, one-source approach for purchasing – less time to find products, simplified searches, less administration, fewer ordering errors
- Flexible search capabilities, by product number or name
- Highly advanced, security-encryption system – secure and reliable ordering, with advanced processes for administrator to control local users' rights

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<sup>150</sup> <http://www.pspglobal.com/kalrez-news-1/index.html>

<sup>151</sup> [http://en.wikipedia.org/wiki/New\\_Product\\_Development#Types\\_of\\_new\\_products](http://en.wikipedia.org/wiki/New_Product_Development#Types_of_new_products)

<sup>152</sup> [http://www.sciencedirect.com/science?\\_ob=ArticleURL&\\_udi=B6VJJ-4BSCF4G-4&\\_user=10&\\_rdoc=1&\\_fmt=&\\_orig=search&\\_sort=d&view=c&\\_acct=C000050221&\\_version=1&\\_urlVersion=0&\\_userid=10&md5=ffd91e3d25268a9c0ae5f6d1dc7396fd](http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VJJ-4BSCF4G-4&_user=10&_rdoc=1&_fmt=&_orig=search&_sort=d&view=c&_acct=C000050221&_version=1&_urlVersion=0&_userid=10&md5=ffd91e3d25268a9c0ae5f6d1dc7396fd)

Further channels that used in the seal industry are TELESale, DIRECT (OEM) Sale and Distributors. Telesale helps to profitably grow the business incurring the minimum of cost by proactive use of the telephone and ensuring excellent service. Direct Sale is used to profitably grow the market by improving and developing customer retention and entanglement within the OEM business via the development of professional supply partnerships and offering of value added products, services and solutions. Some companies in the seal industry are using distributors to ensure that the channel of supply to the market is serviced profitably by authorized distributors in pursuit of the business ambitions.

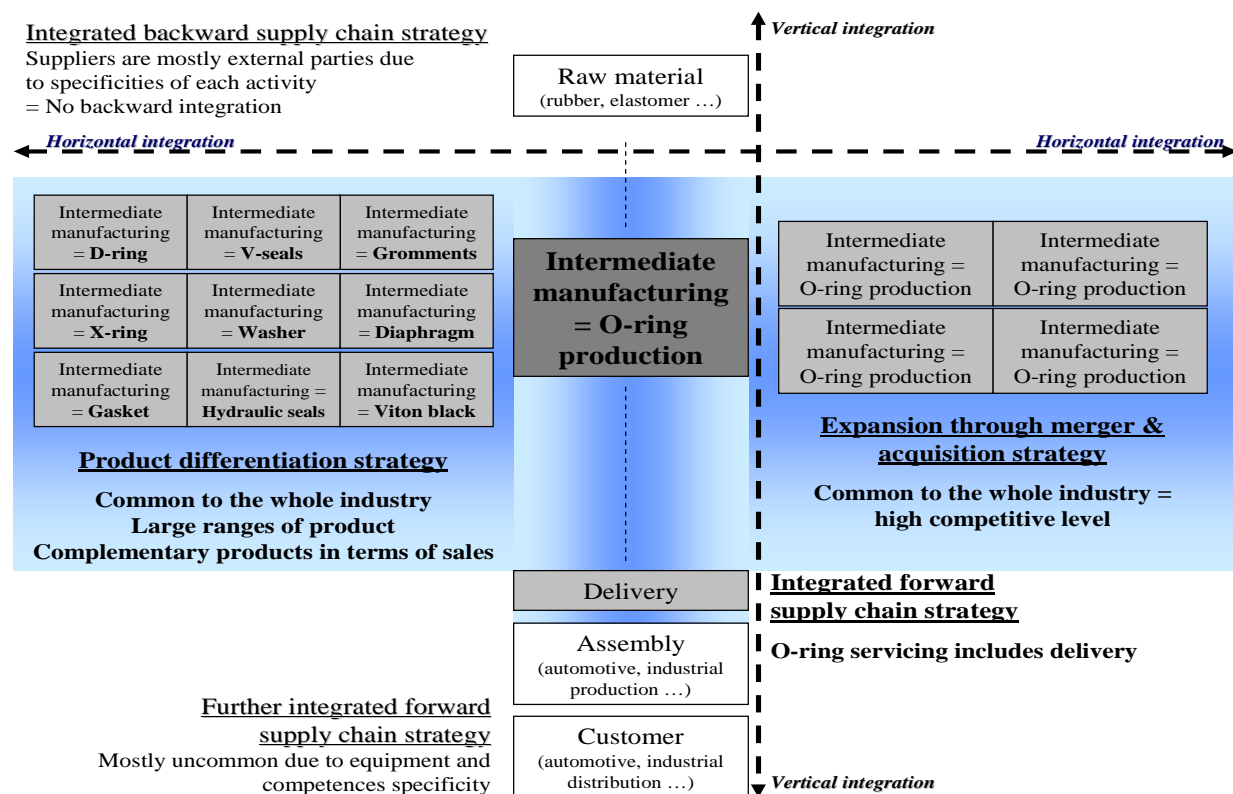
### 2.5.3. (In) Formal organization

Whilst the internal structure of an individual company might be relatively informal, the logistical management is formal in its activities. The logistical management requires a largely automated and integrated system not only within the organisation to help managed the flow of materials and information, but also in connection with the external factors in their supply chains. Information must pass through secure channels upon which both parties, the supplier and purchaser, can rely.

### 2.5.4. Margins and discounts

There is not sufficient information provided by the seal industry about discounts in the distribution. Anyhow we assume that discounts are offered to long term customers and also to new customer to attract those. The discounts depend probably not only on the volume ordered by the customers but also on the amount of orders that the customer makes. Another criterion might be predictability of the orders to make it easier for the company to be able to plan its transportations utilization in the long run. In 2.6., the issue of discounts for pricing policy will be approached more.

### 2.5.5. Dynamics (horizontal, vertical)/ integrative forces



### *Horizontal Integration*

The acquisition of additional business activities at the same level of the value chain is referred to as horizontal integration. This form of expansion contrasts with vertical integration by which the firm expands into upstream or downstream activities. Horizontal growth can be achieved by internal expansion or by external expansion through mergers and acquisitions of firms offering similar products and services. A firm may diversify by growing horizontally into unrelated businesses.

The sealing industry grows horizontal. All the mentioned competitors in the sealing market expand through mergers and acquisitions of firms that offer similar products and services.

### *Vertical Integration*

The degree to which a firm owns its upstream suppliers and its downstream buyers is referred to as vertical integration. Because it can have a significant impact on a business unit's position in its industry with respect to cost, differentiation, and other strategic issues, the vertical scope of the firm is an important consideration in corporate strategy. Expansion of activities downstream is referred to as forward integration, and expansion upstream is referred to as backward integration. The sealing industry is using forward integration by offering the supply to its customers by themselves through especially developed delivery systems.

## **2.5.6. Logistics (physical distribution)**

Logistics in the seal and gasket industry manage a worldwide-integrated transportation network. The Global Transport Network includes all transport modes, including daily airfreight and weekly sea freight departures to all major markets worldwide. The network offers a time-phased transportation network that ensures a reliable delivery service to customers globally. The logistics services have a European transportation network, combining cross border traffic with efficient, delivery to final customers. The service is using fixed timetables; the network provides reliable, short lead-time deliveries across the continent. A similar system has been implemented in North America providing efficient short lead-time deliveries. The network in the Asia-Pacific region still has to be extended to be able to provide the same kind of efficiency as the European network does.

## **2.5.7. Trends/ expectations**

As a result of the emerging markets in Asia, China and India, the distribution networks will be further expanded in the Asian countries. To offer a better supply worldwide. Furthermore the companies will be facing increasing transportation costs associated with the movement of goods, and fuel and the increasing labour costs.

## **2.5.8. Additional Issues**

### *Tracking System*

The customers of the seal industry are able to track their goods, by the Global Tracking Service (GTS), up to final destination since all shipments within the transportation network are equipped with bar code labels to secure identification and precise routing.

### *Transport Errors System*

The companies offer a Service Transport Process Error system, which gives the customer/supplier the possibility to create a complaint, if the delivery from the logistics services has not fulfilled the transportation agreement. These complaints can be made through

the websites of the companies. Too prevent anyone to just enter complain the website for complaints is secured by a login system.

## 2.6. Pricing Situation

### 2.6.1. Industry Levels and Ranges

As proven in the competitor analysis of this report, the gasket and seals market represent in our 4 big competitors' portfolios only a small part of the entire business. Value adding is mostly achieved by differentiation; compact sealing systems and additional services around the sole seal.

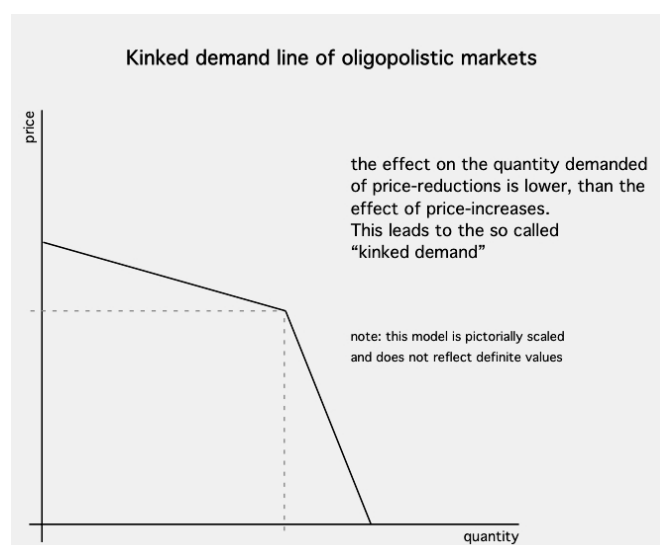
Thus, we are facing backwards pricing, to come up with a price, which guarantees high margins, but at the same time is adequately motivated by the entire service provided. The simple production of seals, does not grant enough room for forward pricing, or in other words, if our focused companies would forward-price, their margins would suffer upon high pricing competition. And as we have seen before, pricing competition is due to differentiation widely avoided.

However, we do have examples of aggressive pricing policies, but those are mostly product suppliers of seals only. They avoid additional services, due to incapability of competition against the main players. Mostly those companies research competitors' prices and see if they could beat it. This is also a form of backward pricing.

To sum up, main companies avoid pricing war and effect backward pricing simultaneously with product differentiation to motivate those prices. Once a company invested heavily in machinery to produce seals, the production itself, or in other words, the variable costs of sealing products are rather low.

### 2.6.2. Price-Elasticity of Demand

As seen in 2.1.2, we are facing a (differentiated) oligopoly. In this market form, quantity demanded shows a kinked decrease on a specific price level<sup>153</sup>. This occurs because of the directly effect of your companies price policy. To have a clear view on that, please refer to a simplified graph of demand in gasket and seal market.



<sup>153</sup> HES Syllabus HVAAM/101/08/028, Managerial Economics



As seen, on price level  $P_1$  that represents the company's current price, demand decreases rapidly after a slight price increase and vice versa. Customers do not accept price increases, due to the availability of substitutes through competing manufacturers, if the product stays as it is. This proves before mentioned directions towards differentiation regarding tailor-made sealing solutions and services, which are the only way of keeping customers when one company increases the price. In other words, companies have to try to provide products which are hard to substitute.

Due to insufficient info, we cannot calculate a definite elasticity. We have different arguments for the different customer groups to make assumptions. First, concerning overdue maintenance, customers won't wait very long with their purchase, even if prices have risen. Second, distributors, which are not seeking for high service levels, but for huge amounts of high quality products with lowest possible prices, would swap supplier if risen prices attack their margins.

Third, OEMs are the once, which need and appreciate additional services and therefore have long-lasting supply contracts with suppliers. Hence and due to tailor-made products and negotiated prices switching is not common.

Due to those arguments and our general knowledge about the industry, we can conclude that in general, price elasticity of demand is **inelastic** and sum up with following assumptions.

	OEMs	MROs	Distributors
$ E_p  \approx$	0.5	0.8	0.99

### 2.6.3. Industry Practices

Prices for single O-Rings start in general at around 0,07 €<sup>154</sup>. Here one has to have in mind, that of course buying one O-Ring has concerning quantity a totally different approach for pricing policy than on the scales we have to have a look in industry. Also, one has to remember the enormous scope of sizes, forms and applications, where prices surely differ. Nevertheless this number gives us a slight idea of price ranges we are operating in.

In our reduced industry scope of 4 main competitors, we hardly see any prices before we carry out a request for quote. This proves before mentioned behaviour, that companies in our industry differentiate heavily to motivate their prices. Once a customer inquires, companies will set up a complete offer, which is a mix of products, warranties and services. This complexity makes a price comparison difficult. If the supplying company meets or exceeds the customer's expectations, they have a high chance to go through negotiations without having to offer major discounts.

This leads directly to the next issue, in which this will be covered more intensely.

### 2.6.4. Discounts, Actions, Events

Due to a classical B2B environment, we do not see special actions or events, which grant major price advantages for customers. "Buy one – Get one for free" or similar well-known actions out of daily life are not applicable in this part of industry.

<sup>154</sup> <http://www.preisroboter.de/search.php?search=oring&x=0&y=0&min=&max=>

Nevertheless, discounts or rebates are commonly used in the gasket and seals market. Regarding low-price suppliers, which provide mostly products for distributors, we detect discounts linked to quantity. Especially in this business relationship, this makes sense, as we know that distributors of products only (no services) rely heavily on unit margins. Consequently, a lower procurement price grants a higher margin when selling or more room for pricing policy for their selves.

Looking on our well-differentiated main players in the market we do not have sufficient info to deduct a defined discounting behaviour. However, taking the customer analysis in account, especially “Requirements” (2.2.2.) and “Buyer Behaviour” (2.2.3.), we know, that price plays a minor role in customers’ purchase decisions. Therefore we assume to find most discounts coupled to long lasting business relationships and convincing service agreements. In other words, if a customer (in particular OEM or MRO) places an order at a major competitor such as ERIKS, the ratio between the seal itself, and the service surrounding it is rather small. Thus, the companies have room to grant discounts on seals without attacking their overall profit.

### **2.6.5. Typical Price and Cost Structures**

Major investments are needed to have the production capacity to manufacture gaskets & seals on a competitive level. If one does not reach economies of scale, the margins reached will be rather little and therefore the company is facing major issues and likely has to withdrawn from the market. This has also been proved when we discussed entry barriers (2.3.5.).

Even so, the production itself is rather cheap. Meaning, after investment and research & development costs (fix), the variable costs, such as raw materials, labour, electricity etc. are rather low.

Consequently we can assume a cost structure that shows high fixed costs and on the other hand low variable cost. This means in consequence, economies of scale are substantial for long profitable growth. In other words, the contribution margin as a percentage of solely seal production should be very high to cover high fixed costs and generate major cash flow.

To sum up, even without giving a certain idea of a typical price, we can say, that due to economies of scale, major player in our market have low unit costs of seals and therefore possibilities to vary the price. They are operating somewhere around average total cost minimum and therefore enjoy high profit margins.

### **2.6.6. Additional Issues**

In addition, it is worth mentioning, that in particular in this market, currency fluctuations play a role. To a certain extend, even if seals are only a small product and thus represent small parts of possible investments, customers will notice significant differences if a currency has differed from values before. Industry in general, uses globalization to reduce costs in any possible part of their business. As an example we see the weak US \$, which provides export advantages for US-companies. Therefore, a global sourcing policy might bring a financial advantage and should be considered.

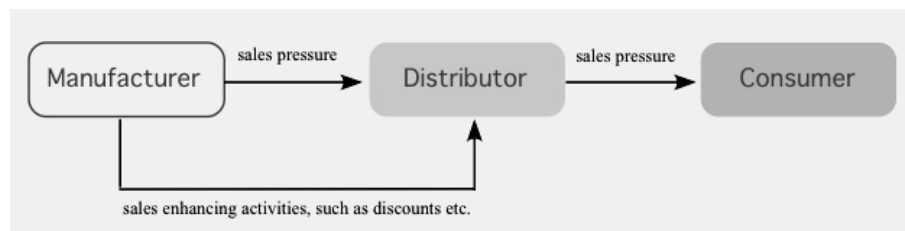
## **2.7. Promotion / Communication Situation**

### **2.7.1. Instruments Commonly Used**

### *Pull & Push*

According to Kotler & Bliemel<sup>155</sup> the difference between Push & Pull strategies lies mostly in the effort, a company provides to stimulate sales and therefore in which direction the effect of it goes. Best way to determine either one of the strategies is to check, if demand is created at the end-consumer and therefore drew through the distribution channel (pull) or if sales are stimulated by profitable opportunities given to distributors and incentives are granted (push). Due to our B2B relationships, there is a lack of distribution-channel-depth. At the same time, if the end-consumer, in our case an industrial company itself, shows demand for gaskets and seals, it will approach our industry directly.

Consequently, classical push or pull strategies are not fully detectable. However, there are several indicators to show a certain push and pull behaviour: For the distributing customers, we can assume, that through pricing advantages sales will be increased. This advantage will give the distributor the opportunity, to have for him possibilities to grant pricing advantages to stimulate sales. Therefore we are facing trade promotion and the product is “pushed” through the distribution channel:



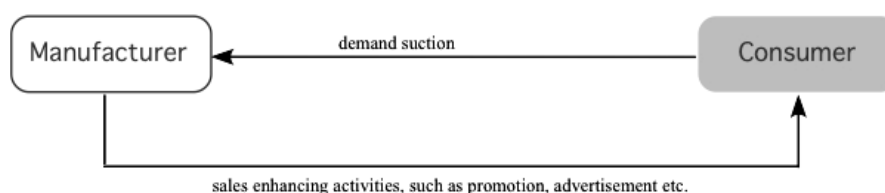
The push-strategy is dominating, because, if you reduce this model by taking the distributor out, you have a direct relationship between customer and manufacturer. Promotion activities as discounts, rebates etc. will directly enhance the sales pressure downwards.



On the other hand and mostly for the customer relationships to OEMs and MROs we detect corporate advertising, which is created to enhance brand awareness. Leading companies try to present themselves as overall supplier and create impulse to place an inquiry. This behaviour is seen for example from SKF and Federal Mogul.

The pull strategy creates curiosity at the consumer and leads to demand suction, which shows a contrarian direction of effect.

Model wise, this would show a classical pull-strategy:



<sup>155</sup> KOTLER & BLIEMEL, Marketing Management, Pearson 2006

### *Personal selling*

The personal selling is dominating the promotion in the focused market. Due to a high level of differentiation the personal relationship between manufacturer and consumer is needed. At least after taking in account, that due to a lack of open pricing (as discussed in 2.6.), companies, as our 4 major players need to go in direct negotiations to understand their customers' needs, provide the best possible solution and thus motivate their prices.

### *Advertising*

As seen above, companies show corporative advertisement. The target group is way too small and too widely spread, that the diffusion would be too high to advertise in general media. Effective in this case would be the Internet advertisement. To reach worldwide customers, the Internet has become a major media channel to promote industry products. Using common search engines provides simple and fast-directed promotion<sup>156</sup>. Another important part is advertising around trade fairs. This will be covered in the trade fair section.

### *Sales Promotion*

The Internet has shown to be the major platform for this market. Consequently this market is not very developed regarding sales promotion.

### *Trade Promotion*

Trade promotion is trade orientated sales promotion<sup>157</sup>. This is seen more for the customers of the distribution area. Especially the branding is important. As we know, e.g. FEDERAL MOGUL, with its 32 brands worldwide gives the distributor the opportunity to advertise the brand.

### *PR*

Especially wide spread companies like Freudenberg, Federal Mogul etc. have a certain importance in Public Relations. As we know, branding plays here a major role for customers' choice, and therefore a company operating in this business should try to present themselves "clean" and transparent. Usually the companies Homepage is used to spread PR besides approached media.

Here an overview of PR-Behaviour<sup>158</sup>:

	<b>ERIKS</b>	<b>SKF</b>	<b>FEDERAL MOGUL</b>	<b>FREUDENBERG</b>
Press releases per month	ca. 1	ca. 2	ca. 6	ca. 25
Topics of PR	*corporate info *bus. development *acquirements *awards	*corporate info *bus. development *acquirements *awards	*awards *corporate info *new products *acquirements	*corporate info *bus. development *acquirements *successful projects *innovation *awards

<sup>156</sup> <http://www.google.com/search?client=safari&rls=de-de&q=oring&ie=UTF-8&oe=UTF-8>

<sup>157</sup> <http://www.wiwi-treff.de/home/mlexikon.php?mpage=beg/verkfhandel.htm>

<sup>158</sup> [www.freudenberg.de](http://www.freudenberg.de), [www.federal-mogul.com](http://www.federal-mogul.com), [www.skf.com](http://www.skf.com), [www.eriks.com](http://www.eriks.com)

Additional efforts	-sponsoring educational projects to maintain technical topics in schools etc -support of cultural events	Company magazine „EVOLUTION“	no information	- Freudenberg Foundation, supports local educational facilities - Youth programmes -Environmental programs
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### *Trade fairs, Exhibitions*

Trade fairs are especially in industry extremely important. No where else are customers facing a high concentration of providers, and vice versa, no where else have manufacturers the possibility to present their selves to a broad audience. Especially companies with a global innovative image use trade fairs to present new developments. However, a trade fair is highly cost effective and therefore companies choose wisely to which fair they are going.

	SKF	Fed. Mogul	Freudenberg	ERIKS
Upcoming (2008)	27	11	2	
Fairs' topic	Mechatronics Logistics Transportation Power Transmission Chemical & Hydrocarbon process Textile, Leather Machine tools	Automotive Automotive supply	Automotive supply	Will be dealt with in more detail in the internal analysis
Regions	Worldwide	Worldwide	Germany	
Addition		We assume, that all companies are also represented widely under their diversified brand-network on specific fairs		

The only industry specific trade fair is Isgatec, a subdivision of the POWTECH in Nuremberg, Germany. It is specified on sealing technology. However, the fair is too specified for our 4 main companies, due to their diversified portfolio is that too little. ERIKS and Freudenberg attended POWTECH, but there is no data, that they go again in 2008. This proves again, that all major companies provide packaged solutions and present themselves as A-suppliers.

### *Direct Marketing*

As seen before is personal selling very important. Closely to that is direct marketing which shows the characteristic of direct contact to the customer via a medium (such as phone, email, etc.) However, direct marketing is not strongly applicable in this industry. As the Direct Marketing Association (DMA) has defined<sup>159</sup>, direct marketing is an interactive system, where the customer is reached via a medium to reach a measurable reaction. In other words, the customer decides in the moment of approach if one is going to purchase or not. As we know, decisions in this industry rely on major investments and personal negotiations. Direct

<sup>159</sup> KOTLER & BLIEMEL, Marketing Management, Pearson 2006

marketing is not useful and would present an aggressive and negative image, which would cause negative impact on customer relations.

### 2.7.2. Budgeting and Strategies

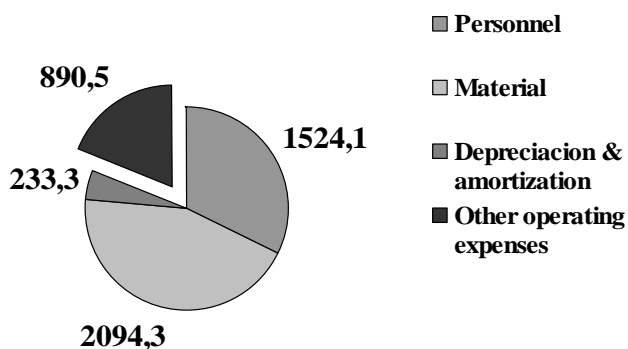
There are not sufficient data which provide specific data for determining concrete ratios. Even so we can say, that selling and administrative spending meet between 6 and 9%. Deducted from that we assume a promotion expense of app. 3%

### 2.7.3. Total spending, ratios, effects

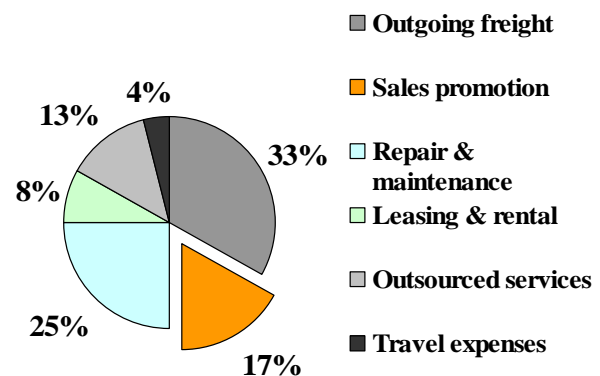
General total spending can be deducted from Freudenberg's annual report 2005, which gives us an idea of how it is divided throughout the industry.

Freudenberg's share of expenses dedicated to promotion is very marginal. In the consolidated balance sheet, sales promotion expenses are registered under "Other operating expenses". It is counted with outgoing freight expenses and other selling expenses such as repair maintenance, leasing and rental, outsourced services and travel expenses and represents about 17% of that subdivision. To sum up, Freudenberg promotion expenses are up to 151.3 Mio € and are worth 3.2% of total expenses (4 772 Mio € 2005).<sup>160</sup>

Repartition of total expenses (€4 742,2 Mio)



Repartition of other operating expenses



Unfortunately we have no information about the sub-divisional repartition, but with this number we can deduct approximations for the rest of the relevant industry.

### 2.7.4. Trends, expectations

Companies will go on pushing their strong brand name. Corporate advertising will be dominant and targets maximum brand awareness. Besides the essential role of advertising<sup>161</sup> in a differentiated oligopoly there is not much space for effective advertisement.

## 2.8. MESO (industry dynamics)

Before starting this section of the study, it is necessary to clearly understand the market we are going to refer to in the MESO environmental variables analysis. In the 4Ps analysis, we

<sup>160</sup> [www.freudenberg.com/ecomaXL/get\\_blob.php?name=Freudenberg\\_GB\\_2005\\_E\\_complete.pdf](http://www.freudenberg.com/ecomaXL/get_blob.php?name=Freudenberg_GB_2005_E_complete.pdf)

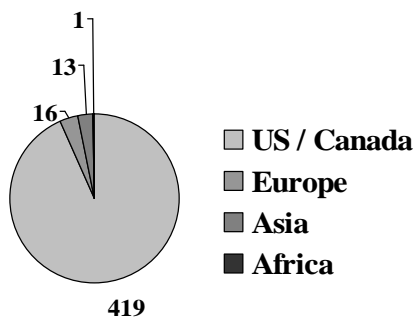
<sup>161</sup> L. WAMS, HES-Syllabus HVAAM/101/08/031

have looked at the O-ring industry-wide, in other words in the equipment industry. Talking about the MESO analysis refers more specifically to the industry dynamics, in other words it refers to the competitors of ERIKS on the markets of gasket and seals, and when possible in the market of O-rings.<sup>162</sup> The analysis will focus on a sector level. We will therefore refer to part 2.3. *Competitor analysis* of this study and describe the environmental variables of Freudenberg, SKF, Federal Mogul and other relevant actors such as Niantic Seal Inc., Parker Seal Group, John Crane Inc., and Garlock Sealing Technologies.

### 2.8.1. Suppliers: current/potential

When looking at suppliers in the gasket and seals industry, again there is a lack of visibility. The suppliers' market is also an oligopolistic market with about 500 companies worldwide only for elastomer and rubber materials suppliers. The left attached figure is an overview of current rubber material suppliers' situation.<sup>163</sup>

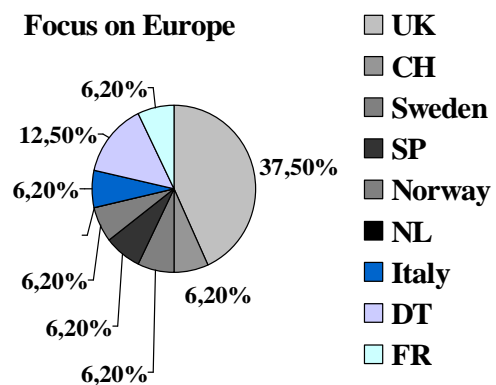
**Rubber supplier geographical repartition  
(among 449 companies)**



There is a clear dominance of US suppliers of raw materials for the gasket & seals industry with up to 93% of total studied market in this case. In Europe, the repartition of raw material for O-ring is more balanced. However there is a net dominance of the UK market. From all those statement two observations can be formulated: first, most raw material companies belong or stem from former colonial empires; secondly, US global companies dominate the market.

Focusing now on the competitor portfolio chosen for the study, it is possible to notice a strong attachment to suppliers and a special care and attention paid to suppliers' relationships. This is mostly due to the cost leadership seeking of the customers who need to purchase for the lowest price possible, and secondly because in this case the power is more on the side of the manufacturers. Consequently, O-ring manufacturers organize reward systems and high level requirements when selecting their supplier. In addition to that, there is a strong need of reliability especially concerning delivery. The following analysis is based on the competitor's portfolio study.

**Focus on Europe**



Freudenberg 12 best rated suppliers (in total there are over more than 200 companies)<sup>164</sup> are Akzo Nobel Polymer Systems, Bulk Molding Compounds, Inc., United Parcel Service, Cancarb Ltd., Combined Metals of Chicago L.P., ExxonMobil Chemical, Lord Corp. Advanced Elastomer Systems, DSM Elastomers, Firestone Polymers, LLC, Solvay Solexis, Inc. and Zeon Chemicals L.P.<sup>165</sup> Most of them are US global companies. Federal Mogul also

<sup>162</sup> [http://en.wikipedia.org/wiki/Context\\_analysis](http://en.wikipedia.org/wiki/Context_analysis)

<sup>163</sup> [http://materials.globalspec.com/specsearch/suppliers/materials\\_chemicals\\_adhesives/plastics\\_elastomers\\_polymers/elastomers\\_rubber\\_materials?RegEvent=new](http://materials.globalspec.com/specsearch/suppliers/materials_chemicals_adhesives/plastics_elastomers_polymers/elastomers_rubber_materials?RegEvent=new)

<sup>164</sup> <http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/09-23-2003/0002022804&EDATE>

<sup>165</sup> <http://www.bulkmolding.com/aboutbmc/whoisbmc1.html> & <http://www.aboutus.org/BulkMolding.com>

honoured three of its North American suppliers and recognized no less than 200 others worldwide.<sup>166</sup> Best rated of them are Carboly Inc. of Warren, Michigan, and Parrish Machine of South Bend.<sup>167</sup> SKF has a different approach in terms of supply. 50% of the raw material for seals is produced within the integrated supply chain, in other words, by SKF itself.<sup>168</sup> China's demand for raw materials has grown massively over the past 20 years. According to Barclays Capital, the country now consumes a quarter of the world's copper, and alone accounted for a staggering 94 per cent of the global growth in demand for aluminum. It also now accounts for almost a tenth of global oil demand. Fears over future energy supplies have made national energy security a priority for China. It has realized that competition for

	Freudenberg	Federal Mogul	SKF
Current suppliers (Best rated ones)	Akzo Nobel Polymer Systems (NL), Bulk Molding Compounds, Inc. (US but prod US, Asia, EU, South America) United Parcel Service (US)	Carboly Inc. (US) Parrish Machine (US)	50% self-supply
Characteristics	Global long established companies		Integrated upstream supply chain model
Potential suppliers	Low because of the need of long lasting relationships China's investments in Africa (self dependent supply)		Further integration by acquisition strategy

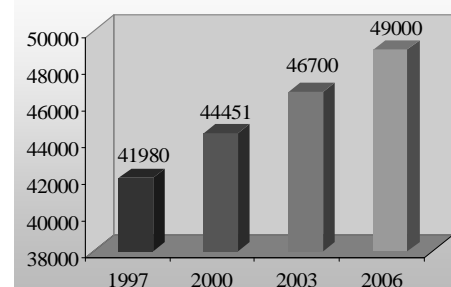
raw materials is hotting up.<sup>169</sup> But as many actors are present on this market, other companies are not to be overlooked. The difficulty again is to position those suppliers on the market despite the lack of visibility over market shares. Wolverine for

example (among others) claims to belong to the worldwide most relevant suppliers of rubber, metallic and paper coated gasketing.<sup>170</sup>

## 2.8.2. Labor

Total gasket and seals industry employment in 2000 was about 44,451 compared to 41,980 in 1997. Of the 44,451 workers employed in 2000, 32,298 were production workers earning an average of \$14.07 per hour. The range of employment varied extensively, from factory workers producing the products, to chemists and engineers who develop the compounds and designs, to the sales force that deals with OEM and aftermarket accounts. The average number of workers per establishment was approximately 65.<sup>171</sup>

**Total Employees in Gasket and Seals Market**



<sup>166</sup> <http://www.newscom.com/cgi-bin/prnh/20000525/DETH025LOGO>

<sup>167</sup> <http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/03-07-2002/0001682803&EDATE>

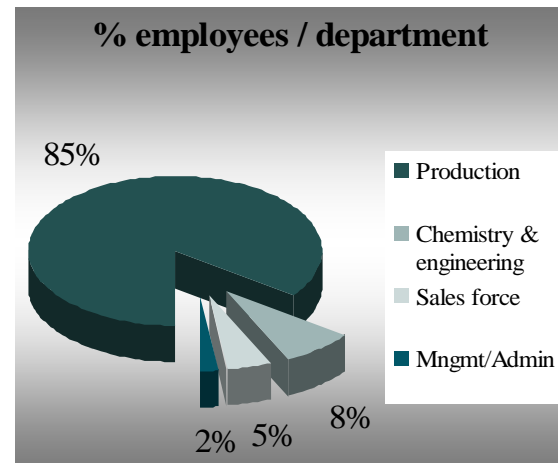
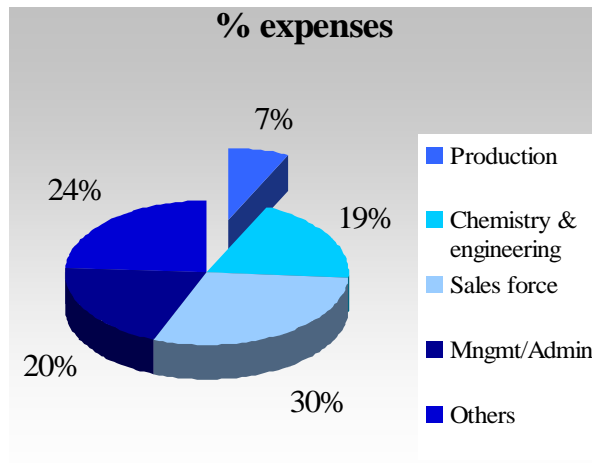
<sup>168</sup> [http://www.handels.gu.se/epc/archive/00001538/01/Brucaite\\_2000\\_14.pdf](http://www.handels.gu.se/epc/archive/00001538/01/Brucaite_2000_14.pdf)

<sup>169</sup> <http://www.guardian.co.uk/business/2008/feb/10/mining.china?gusrc=rss&feed=business>

<sup>170</sup> [www.eaglepicher.com/EaglePicherInternet/Companies/Wolverine\\_Division/Products\\_Services/](http://www.eaglepicher.com/EaglePicherInternet/Companies/Wolverine_Division/Products_Services/) - 35k

<sup>171</sup> <http://www.referenceforbusiness.com/industries/Rubber-Miscellaneous-Plastics/Gaskets-Packing-Sealing-Devices.html>





General remarks about the labour market for equipment industry concern the trend toward cheap labour employment. On the other hand, it happens that this industry cluster is facing a shortage of skilled labour now that industrialization has progressed. Universities and on-the-job training centres for innovation are now needed for further developments. In addition to that, the growing shortage of skilled workers in industrial maintenance, the growing complexity of equipment, and the automation of production processes call for improved and increased employee training and retraining.<sup>172</sup> Local governments play the main role in constructing infrastructures and forming institutions.<sup>173</sup> Another aspect that should be taken into consideration is the wages competitive level existing on the gasket & seals industry. Due to the observed shortage of skilled labour, current firms need to promote their HR in order to attract and retain workforce.<sup>174</sup>

Focusing now more particularly on the competitor analysis and other main actors, it is possible to provide an accurate overview of employment structures within those companies and analyse their HR strategy in accordance to previously observed labour market trends.

	Freudenberg	Federal Mogul	SKF
<b>Total employees</b>	33 526	43 100	42 900
<b>Share employed in seals related departments</b>			
<i>absolute</i>	20 762	Estimations <sup>175</sup> About 3500	n.a
<i>relative</i>	62%	7.5%	n.a
<b>Total personnel expenses</b>	1 535 Mio €	-	1 564 Mio € (14704 MSEK)
<b>Share devoted to seals employees</b>			
<i>absolute</i>	859,6 Mio €	476 Mio \$	n.a.
<i>relative</i>	56%	-	n.a.

<sup>172</sup> [http://www.eric.ed.gov/ERICWebPortal/custom/portlets/recordDetails/detailmini.jsp?\\_nfpb=true&\\_ERICExtSearch\\_SearchValue\\_0=EJ199196&ERICExtSearch\\_SearchType\\_0=no&accno=EJ199196](http://www.eric.ed.gov/ERICWebPortal/custom/portlets/recordDetails/detailmini.jsp?_nfpb=true&_ERICExtSearch_SearchValue_0=EJ199196&ERICExtSearch_SearchType_0=no&accno=EJ199196)

<sup>173</sup> [http://www.ide.go.jp/English/Publish/Dp/pdf/100\\_kuchiki.pdf](http://www.ide.go.jp/English/Publish/Dp/pdf/100_kuchiki.pdf)

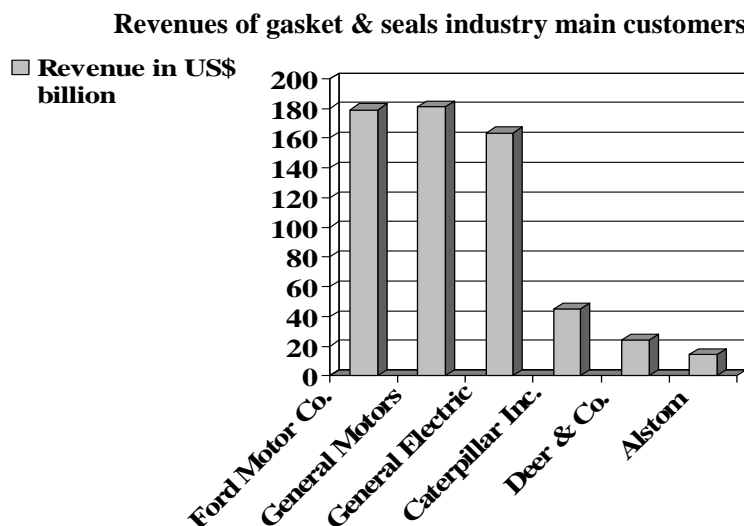
<sup>174</sup> [http://www.sciencedirect.com/science?\\_ob=ArticleURL&\\_udi=B6VFD-45MWRWP-4&\\_user=10&\\_rdoc=1&\\_fmt=&\\_orig=search&\\_sort=d&view=c&\\_acct=C000050221&\\_version=1&\\_urlVersion=0&\\_userid=10&md5=00f595e1936151d907ef4f44d9d68ff3](http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VFD-45MWRWP-4&_user=10&_rdoc=1&_fmt=&_orig=search&_sort=d&view=c&_acct=C000050221&_version=1&_urlVersion=0&_userid=10&md5=00f595e1936151d907ef4f44d9d68ff3)

<sup>175</sup> [http://money.rediff.com/money/jsp/p\\_1.jsp?companyCode=10610003](http://money.rediff.com/money/jsp/p_1.jsp?companyCode=10610003) & 2.3.c.Competitors

Freudenberg employment structure shows a difference between the share of employees dedicated to seals and share of expenses allocated to them. This is due to the low level of production employees' wages, according to previous observation made in this section.<sup>176 177</sup> In response to shortage of skilled labour, Freudenberg Dichtungs- und Schwingungstechnik KG (seals and vibration control technology) set up the Young People Program meant especially for young professionals, and complementing the direct career start.<sup>178</sup> Federal Mogul response to market shortage of skilled labour is easy to recognize in its strong career promotion. The company runs attractive rewarding, benefits, training and career policies.<sup>179</sup> SKF opted for a more company environment and culture promotion, emphasizing respect of employee rights, safe and good working conditions, continuous development of skills and competencies.<sup>180</sup>

### 2.8.3. Financial sources

The financial sources of the gasket and seals industry point out the provenance of the market actors' profit. Most of them register income generated from their sales, as well as from currency exchange rates as those actors are mainly global long established companies. The financial sources in this way, is dependant from the customers' financial health. The overview provided by the previously made 2.2. *Customer Analysis* enables a quick understanding of that aspect. It shows that there is currently no threat of financial sourcing failure. Moreover the relative stable financial health of the main actors of the market let presage of a continuing financial stability and wealth on the gasket and seals industry. However, some cases have shown financial instability risk at a company level. Main reasons for that are related to poor management or ineffective budget attribution, and when a financial vicious cycle is entered only rapid reactivity can prevent from complete bankruptcy (cf. FM case).



Focusing now on analysed competitors, it is possible to draw an estimation of financial sources of each company. Whereas Freudenberg and SKF can rely on their income for future financing Federal Mogul is meeting financial difficulties. Further sources of finance are quite marginal (except credit) but can still have relative significance on investment capacity and risk.<sup>181 182 183 184</sup>

<sup>176</sup> [get\\_blob.php?name=3250678241105452354e](http://www.freudenberg.com/ecomaXL/index.php?site=FCO_EN_career_theory_and_practice_young_people_programm)<sup>176</sup>\_group\_profile.pdf

<sup>177</sup> [get\\_blog.php?name=2007\\_GB06\\_E.pdf](http://www.freudenberg.com/ecomaXL/index.php?site=FCO_EN_career_theory_and_practice_young_people_programm)

<sup>178</sup> [http://www.jobbankusa.com/employment\\_jobs\\_career/federal-mogul.html](http://www.jobbankusa.com/employment_jobs_career/federal-mogul.html) 41000 people & holidays

<sup>179</sup> [http://www.manta.com/coms2/dnbcompany\\_kffgx](http://www.manta.com/coms2/dnbcompany_kffgx)

<sup>180</sup> <http://www.skf.com/portal/skf/home/sustainability?contentId=509017&lang=en>

<sup>181</sup> [www.freudenberg.com/ecomaXL/get\\_blob.php?name=Freudenberg\\_GB\\_2005\\_E\\_complete.pdf](http://www.freudenberg.com/ecomaXL/get_blob.php?name=Freudenberg_GB_2005_E_complete.pdf)

<sup>182</sup> [http://www.transnationale.org/companies/skf\\_group.php](http://www.transnationale.org/companies/skf_group.php)

	Freudenberg	Federal Mogul	SKF
<b>Total sales</b>	€ 5,1 billion	US\$ 5,5 billion	US\$ 4,77 billion
<b>Income/Loss</b>	€ 0,22 billion	US\$ -0,19 billion	US\$ 0,49 billion
<b>%</b>	4,31%	-3,45%	10,27%
<b>Add. Financial sources</b>	Discontinuation of systematic depreciation of goodwill, return on capital & exchange rates benefits Operating activity, investing activities, financing activities cash flows	<i>Financial delinquency status acquired in 2007 (lack of financial sources)</i> <sup>185</sup> Equity share capital (5.2%), Reserves & surplus (14.8%), Secured loans (67.7%), Unsecured loans (12.3%)	Return on capital
<b>Financial capacity improvement strategy</b>	Improved working capital management, prudent housekeeping and strong cash flow from operating activities	Building up own equity, restructuring to best cost production, enhancing productivity and reducing overall workforce	Track record of cost cutting and efficiency improvements as well as the successful reduction in capital employed through outsourcing efforts and tight working capital management

#### 2.8.4. Knowledge

The knowledge that gasket and seals industry operating companies have in terms of the MESO Environmental Variables can be used to each company's own advantage. Knowing the buyer behaviour of customers as well as its specific needs is important for companies in order to survive in the industry.

What is important to notice here is the power attributed to gasket and seals manufacturers as compared to their customers. As it has already been stated earlier, there is a clear lack of transparency surrounding this industry in terms of market share, strategic planning and pricing policies. The knowledge the industry has is obviously purposely dissimulated to retain knowledge and keep their power position in sales relationships. Knowledge is therefore accepted to belong to one of the strongest mean companies have to "strengthen their competitive edge in a global environment". Main protected knowledge within the industry includes the products themselves, pricing policies, market repartition and positioning, investment structure.

#### 2.8.5. Authorities, public bodies & groups

Due to the wideness of product nature in the gasket & seals industry, there are a large number of organisations working on many levels to insure all the different aspects of the industry are coordinated in terms of security, quality level, processes and norms. Each country has its own

<sup>183</sup> [http://www.reportbuyer.com/automotive/company\\_reports\\_automotive/premium\\_company\\_profile\\_federal\\_mogul\\_corporation.html](http://www.reportbuyer.com/automotive/company_reports_automotive/premium_company_profile_federal_mogul_corporation.html)

<sup>184</sup> [http://goliath.ecnext.com/coms2/gi\\_0199-5635130/Freudenberg-reports-financial-status-financial.html#abstract](http://goliath.ecnext.com/coms2/gi_0199-5635130/Freudenberg-reports-financial-status-financial.html#abstract) & [http://www.transnationale.org/companies/federal\\_mogul.php](http://www.transnationale.org/companies/federal_mogul.php)

<sup>185</sup> <http://money.rediff.com/money/jsp/balancesheet.jsp?companyCode=10610003>

organisations, public bodies and groups which work to ensure industry standards are met and maintained, and that all new innovations and advancements are in accordance with requirements. Those regulation are mainly set up by local governments or unions (EU's IPPC directive 96/61/EU - Gaskets and seals significantly fugitive emissions reduction<sup>186</sup>) but there is a clear trend toward international standards setting.

### 2.8.6. Industry organization

Whereas national, regional and governmental politically established bodies have a direct say on industry regulation, this is not true of industry organisations which are establish by coalitions or outside parties. Even though because of the stated need of international regulation, their work and recognition is gaining weight. Three professional organizations are associated with the gasket and seal market.

(i) *Gasket Fabricators Association* = gasket cutters and industry suppliers who come together to discuss problems within the industry and to develop possible solutions to those problems. The organization also develops industry standards (2/year technical handbook as well as a quarterly newsletter).

(ii) *Fluid Sealing Association* = International trade association founded in 1933. Its membership is most heavily concentrated in North America, but also includes a number of companies in Europe, Asia and South America. Now as international trade grows throughout the world and creates a need for universally accepted standards, this authority has become international in scope.<sup>187 188</sup>

(iii) *European Sealing Association* = European equivalence of FSA established in 1992. The ESA has more than 40 Member Companies, representing over 85% of the fluid sealing industry in Europe. It has been established to work towards the harmonisation of appropriate standards, legislation, development of sealing technology and environmental protection.<sup>189 190</sup> All those organizations provide guidelines for safe seal usage among others.<sup>191</sup>

In addition, it is also possible to refer to ISO and DIN which provide world standards also for this industry.<sup>192</sup>

### 2.8.7. General publics

Centre for Research into Environment and Health, Aberystwyth, Wales & World Health Organization, Geneva, Switzerland are examples of general publics having some influence over the gasket and seals industry.<sup>193</sup> However general publics have less power than industry organisations. They are active in industry research and have a more public front. Cooperation

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<sup>186</sup> <http://www.engineerlive.com/european-process-engineer/interview-opinion/14229/gaskets-and-seals-significantly-reduce-fugitive-emissions.html>

<sup>187</sup> <http://www.fluidsealing.com/index.html>

<sup>188</sup> <http://www.referenceforbusiness.com/industries/Rubber-Miscellaneous-Plastics/Gaskets-Packing-Sealing-Devices.html>

<sup>189</sup> <http://www.europeansealing.com/>

<sup>190</sup> [http://www.sciencedirect.com/science?\\_ob=ArticleURL&\\_udi=B6VJJ-4DKTT84-P&\\_user=10&\\_rdoc=1&\\_fmt=&\\_orig=search&\\_sort=d&view=c&\\_acct=C000050221&\\_version=1&\\_urlVersion=0&\\_userid=10&md5=aa0fc1615f6e8da3f1bcd5773fffe1dd](http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VJJ-4DKTT84-P&_user=10&_rdoc=1&_fmt=&_orig=search&_sort=d&view=c&_acct=C000050221&_version=1&_urlVersion=0&_userid=10&md5=aa0fc1615f6e8da3f1bcd5773fffe1dd)

<sup>191</sup> <http://www.fluidsealing.com/pubimg/SafeSealUsage.pdf>

<sup>192</sup> See also 2.9.2. of the analysis

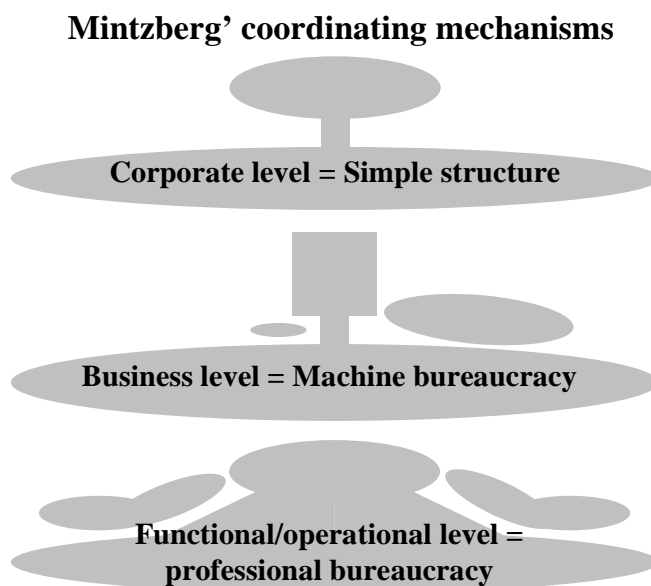
<sup>193</sup> <http://www.bvsde.paho.org/bvsacd/who/asses.pdf>

with these parties is essential in both meeting consumer standards and ensuring that the public gets both an accurate and positive picture of what the industry is doing. In the gasket and seals industry the relation to general publics is less important than that from its customers.

### 2.8.8. Additional issues

The most urging issue within the MESO environment refers to the lack of international standards unification. Providing the up-coming expected market growth through Asian development, worldwide approved regulation and legislation have to be introduced.

Further issue is related to actors' behaviour and can be explained through their history. As with many other industries since the late 1990s, mergers are common among gasket and seal industry leaders. Both Freudenberg-NOK and Niantic Seal closed big deals. Niantic and Sealing Devices Inc. of Lancaster, New York created a joint venture for sealing distribution and elastomeric parts fabrication. Mergers of this kind are expected to continue in the next decade.<sup>194</sup>



*From Marketing Management Approach, Syllabus IBMS  
HES 2001, Lucas Wams  
According to Mintzberg' coordinating mechanisms*

In this kind of environment companies are more likely to build mixed organizational configurations (in reference to Mintzberg' organizational configurations framework).<sup>195</sup> Corporate level decisions are operated through "simple structure" configuration, applying direct supervision coordinating mechanism. In this kind of downstream vertical relationship, the key part is the strategic apex (=top management). On a business level, observed global companies have developed detailed processes to expand the activity. They coordinate therefore operation through a "machine bureaucracy" structure configuration. Here the key aspect is the "techno structure" (analysts that design systems and processes). On a functional level, the sector analysis leads us to the

conclusion that the companies operate in professional bureaucracy structures due to the high requirements related to the production process. The major aspect to consider is then the operating core. On the operational level, adhocracy structure is likely to fail. Here again professional bureaucracy structure is required.<sup>196</sup>

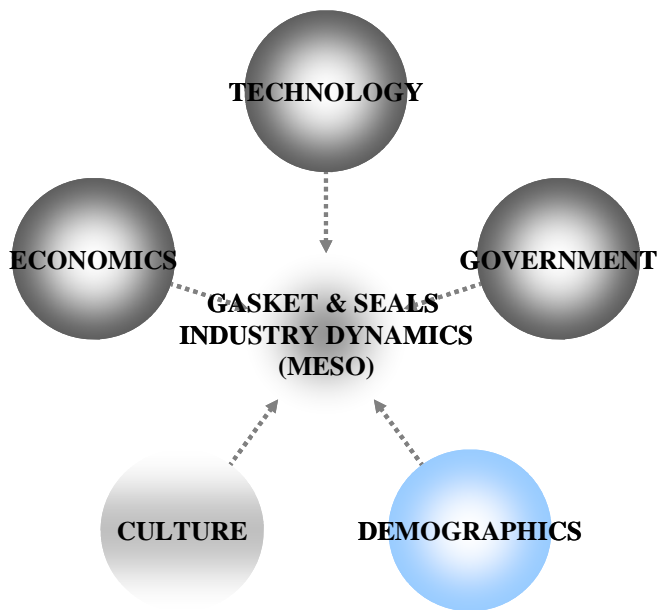
Providing all the points that have been raised in this section, please refer to following overview of the MESO analysis.

<sup>194</sup> <http://www.referenceforbusiness.com/industries/Rubber-Miscellaneous-Plastics/Gaskets-Packing-Sealing-Devices.html>

<sup>195</sup> [http://en.wikipedia.org/wiki/Henry\\_Mintzberg](http://en.wikipedia.org/wiki/Henry_Mintzberg)

<sup>196</sup> From Marketing Management Approach, Syllabus IBMS HES 2001, Lucas Wams

## Dimensions of environmental analysis



= Most relevant

### TECHNOLOGY

Profitable continuing maturing of gasket & seals market  
No direct threat of innovation or new technology entry

### ECONOMICS

Related to geographical clusters' economic health (US, EU, Japan + china good and stable economic health)  
Long established wealthy firms  
Beneficial currency valuation (in most cases)

### GOVERNMENT

National & local regulations but belong to industry usages

### DEMOGRAPHICS

China continuous demographic growth (as well as other Asian, South American and African countries) already has and will have in a short future an strong impact on gasket and seals market, in terms of demand, production volume, pricing policy and probably innovation.

*From Marketing Management Approach, Syllabus IBMS HES 2001, Lucas Wams*

## 2.9. MACRO Environmental Variables (T.R.E.N.D.S)

### 2.9.1. Technological variables (phases, innovativeness, expectations)

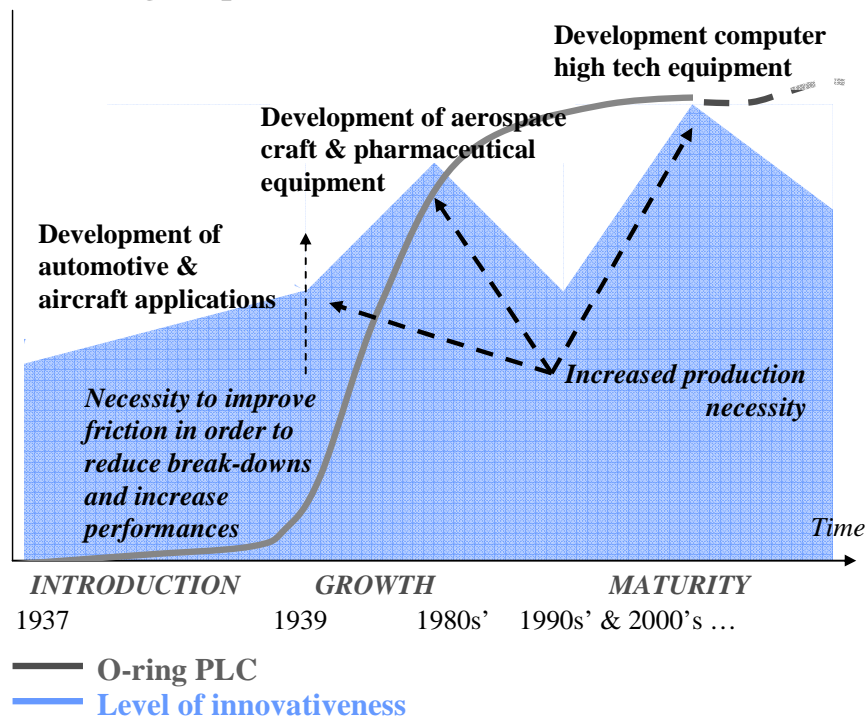
According to the overview of the different technological phases, there is a remarkable correlation between increased innovativeness phases and product demand growth.

The technological improvements and different innovations in the equipment industry are commonly followed by massive production phases in which equipment need is increasing.

The main macro-economic technological trends that have been influencing the studied market mirror the historical industrial development.

Expectations in terms of technological evolution are relatively limited as no real innovation is forecasted in a short term basis. However it is plausible to expect an increase demand for gasket and seals in case of technological innovation.

## Technological phases & innovativeness



### 2.9.2. Rules & Regulations, Legislations, Laws

#### *International Standards*

International standard is one way of overcoming technical barriers in international commerce caused by differences among technical regulations and standards developed independently and separately by each nation, national standard organization, or company. Differences might be resulting from conflicts in governmental regulations or industry-specific requirements caused by fundamental climatic, geographical, technological, or infrastructural factors, or the stringency of safety requirements that a given standard authority considers appropriate. Technical barriers arise when different groups come together; each with a large user base and a well-established product, when they find out that incompatibility blocks further business. Establishing international standards is one way of preventing or overcoming this problem. Institutes that develop and maintain international standards exist worldwide. For example there are the German Institute DIN, the US-American ANSI, and the ISO. Every industry also has its own standardization institutes, which provide them with information. In the seal industry this would be the GFA (Gasket Fabricators Association) and the FSA (Fluid Sealing Association). Independent testing institutes like the TÜV Rheinland examine and test products to protect the consumers and to find out if the product is safe. The organization that is supervising the whole international trade is the WTO.

#### *Standardization Institutes*

**DIN**, the German institute for standardization, develops norms and standards as a service to industry, the state and society as a whole. As a registered non-profit association, DIN has been based in Berlin since 1917. DIN's primary task is to work closely with its stakeholders to develop consensus-based standards that meet market requirements. Some 26,000 experts contribute their skills and experience to the standardization process. By agreement with the German Federal Government, DIN is the acknowledged national standards body that

represents German interests in European and international standards organizations. Ninety percent of the standards work now carried out by DIN are international in nature.<sup>197</sup>

**The American National Standards Institute** or ANSI is a private non-profit organization that oversees the development of voluntary consensus standards for products, services, processes, systems, and personnel in the United States. The organization also coordinates U.S. standards with international standards so that American products can be used worldwide. ANSI accredits standards that are developed by representatives of standards developing organizations, government agencies, consumer groups, companies, and others. These standards ensure that the characteristics and performance of products are consistent, that people use the same definitions and terms, and that products are tested the same way. ANSI also accredits organizations that carry out product or personnel certification in accordance with requirements defined in international standards. ANSI is also actively engaged in accrediting programs that assess conformance to standards – including globally-recognized cross-sector programs such as the ISO 9000 (quality) and ISO 14000 (environmental) management systems.<sup>198</sup>

**The International Organization for Standardization** (Organisation internationale de normalisation), widely known as ISO, is an international standard-setting body composed of representatives from various national standards organizations. While ISO defines itself as a non-governmental organization, its ability to set standards that often become law, either through treaties or national standards, makes it more powerful than most non-governmental organizations. In practice, ISO acts as a consortium with strong links to governments.<sup>199</sup>

#### *Testing Organisation*

**TÜV Rheinland Group** is an independent consultant, a testing and certification agency which examines and verifies relevant aspects of both technological and process innovations in harmony with humanity, technology and the environment.<sup>200</sup> Many of the TÜV organizations also provide registration to various standards such as, ISO9001:2000 quality management system and ISO/TS16949 automotive quality management system.

#### *Supervising Organization*

**The World Trade Organization (WTO)**, is an international organization designed to supervise and liberalize international trade. The WTO came into being on January 1, 1995, and is the successor to the General Agreement on Tariffs and Trade (GATT), which was created in 1948, and continued to operate for almost five decades as a de facto international organization. The World Trade Organization deals with the rules of trade between nations at a near-global level; it is responsible for negotiating and implementing new trade agreements, and is in charge of policing member countries' adherence to all the WTO agreements, signed by the bulk of the world's trading nations and ratified in their parliaments.<sup>201</sup>

### **2.9.3 Economic situation, and -development (figures)**

USA<sup>202</sup>

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<sup>197</sup> <http://www.din.de/cmd;jsessionid=3C88B5F9E7A84E9551DE00D8DD2F23FA.3?level=tpl-bereich&menuid=47566&cmsareaid=47566&languageid=en>

<sup>198</sup> [http://www.ansi.org/about\\_ansi/overview/overview.aspx?menuid=1](http://www.ansi.org/about_ansi/overview/overview.aspx?menuid=1)

<sup>199</sup> <http://www.iso.org/iso/about.htm>

<sup>200</sup> [http://www.uk.tuv.com/web/about\\_us/index.html](http://www.uk.tuv.com/web/about_us/index.html)

<sup>201</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm4\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm4_e.htm)

<sup>202</sup> <http://www.economist.com/research/backgrounders/displayBackgrounder.cfm?bg=937843>



### *Current situation*

The US has the highest level of output in the world, with GDP valued at US\$13.2trn in 2006. Serious economic imbalances have emerged in recent years, including an overvalued housing market (currently in the process of correction), a low propensity to save and an unprecedented current-account deficit. America's economy is the world's largest (for now) and is a key driver of the global economy, though its impact is often exaggerated. After a long expansion, America's economy looks weak (though unevenly so). Fragile credit markets, a deepening housing bust and soaring oil prices have created a real risk that Americans will slow their spending sharply, dragging the economy down.

### *Predictions/Future*

The most important indicator of America's economic prospects over the next few years is house prices. By borrowing against capital gains on their homes, households have been able to consume more than they earn. Robust consumer spending has boosted GDP growth, but at the cost of a negative personal saving rate, a growing burden of household debt and a huge current-account deficit. Healthy gains in private consumption have helped to keep GDP growth above trend thus far this year. However, the correction in residential construction is likely to accelerate over the near term, and housing wealth could decline which, together with weaker labour market conditions, could lead to lower consumption growth over time. GDP should therefore slow to a pace below potential in 2008 and then recover in 2009, although there are considerable downside risks. Headline inflation has recently moved up, but core inflation seems to have stabilized near 2% and, assuming that energy prices level out, inflationary pressures should remain fairly moderate over the projection period. The current stance of monetary policy, slightly accommodative, seems appropriate, but the federal funds rate should be brought back to neutral when the economy recovers. The room for fiscal manoeuvre is limited, including for widespread support to distressed borrowers, since the slowdown in activity is likely to curb revenues, pushing up the federal government deficit. In addition, the challenge of funding entitlements will become more pressing with the baby-boom generation beginning to retire in 2008.<sup>203</sup>

### *GDP*

After a substantial slowing in 2007, annual average GDP growth will weaken further in 2008, as the housing downturn and the credit crunch take their toll on households and companies. In the main scenario, growth is expected to fall to 0.8% in 2008 and that the economy will experience a recession during the year. The main concern is that consumers will be hit more seriously than currently factored into forecast. Growth will recover only slowly, to 1.4%, in 2009, owing to the lingering effects of the housing downturn and continued bank balance sheet adjustment.<sup>204</sup>

### *Interest rates*

As monetary policy is being eased in the US but will be stable or be tightened in both the EURO zone and Japan, interest rate differentials between the US, Europe and Japan will shrink. This will result in continued weakness of the US dollar against both the EURO and the yen in early 2008. The US dollar should regain some strength against the EURO in 2008-12 but not against the yen. The cyclical downturn will bring the current-account deficit down to around 4% at the end of the decade.

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<sup>203</sup> <http://www.oecd.org/dataoecd/7/29/20209180.pdf>

<sup>204</sup> <http://www.economist.com/countries/USA/profile.cfm?folder=Profile%20Economic%20Data>

## USA

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	2,2	0,8	1,4	2,7	2,5	2,5
Consumer price inflation (av; %)	2,9	2,9	2,0	2,4	2,4	2,4
Exchange rate ¥:US\$ (av)	117.8	104.0	96.0	93.5	91.8	91.8
Exchange rate US\$:€(av)	1,4	1,5	1,3	1,3	1,3	1,3

## India<sup>205</sup>

### *Current situation*

India is the second most populous country in the world, with nearly 1.1bn people in 2006. Its economy is the 12th-largest in the world measured in nominal US dollars, but rises to fifth-largest when measured at purchasing power parity exchange rates. The large (and inefficient) public sector co-exists with a sizeable and diversified private sector. Although business processing, information technology, telecoms and manufacturing have boomed in recent years, India's economy remains mostly agricultural. The caste system limits economic mobility, parts of the country are cut off from the benefits of free trade, and limits on foreign direct investment make growing businesses difficult. Economic reforms, especially labour market reforms, have been slow in coming, and a plan to institute special economic zones has been frozen. Yet even without significant reform, India's economy has performed so well (growing by 9.4% in the fiscal year ending in March 2007) that it may be overheating. By 2025 the country could have more than 580m middle-class consumers, and it was the fifth-biggest carbon emitter in 2004. The Reserve Bank of India must control inflation if growth is to be sustained.<sup>206</sup>

### *Predictions/Future*

Achieving strong and sustainable economic growth will require a significant package of economic reforms. Fiscal deficits will need to be further reduced to make room for private corporate investment. Tariffs should be lowered further and measures taken to reduce the administrative burden on enterprises. At the same time, restrictive labour market policies should be eased so that companies are encouraged to employ staff on a long-term basis, thereby helping to reduce poverty. Improvements in public service delivery are also needed to raise the quality of education and infrastructure.<sup>207</sup>

### *GDP*

The economy grew rapidly in the fiscal year (FY) 2006, expanding by 9.4%. Strong growth was fuelled by a good performance of the agricultural sector and continued strength of industrial output. In the first half of FY 2007, investment remained buoyant, leading to improvements in the supply potential of the economy. With higher interest and exchange rates, output growth is projected to gradually slow to 8.4% by 2009. The current account deficit is likely to widen from 1.1% of GDP in FY 2006 to 2.0% by 2009. Inflation, as measured by the GDP deflator, is expected to ease back somewhat over the projection horizon as increases in food prices moderate.

<sup>205</sup> <http://www.economist.com/countries/India/profile.cfm?folder=Profile-FactSheet>

<sup>206</sup> <http://www.economist.com/research/Backgrounders/displayBackgrounder.cfm?bg=2454949>

<sup>207</sup> <http://www.oecd.org/dataoecd/52/11/36761627.pdf>

## India

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	8,7	7,8	7,2	7,4	7,7	8,0
Consumer price inflation (av; %)	6,4	5,8	5,5	5,2	5,0	5,2
Exchange rate Rs:US\$ (av)	41.3	38.4	36.4	35.5	35.0	34.5
Exchange rate Rs:¥100 (av)	35.1	36.9	37.9	38.0	38.1	37.6

## China<sup>208</sup>

### *Current situation*

China introduced market reforms in the early 1980s; only a third of the economy is now directly state-controlled. Since joining the World Trade Organization in 2001, China has rapidly become an economic force, doubling its share of global manufacturing output and creating a commodity-market boom. In 2004 China became the largest exporter of information and communication technology (ICT) exports. Growth has not necessarily meant greater transparency—the banking sector remains especially murky. A lack of growth in rural areas has also led to large income disparities, and the numbers of labour disputes are increasing. But the growing economy is showing few symptoms of overheating—it may not even be all that export-dependent—and an appreciating yuan should ease tensions with America.

### *Predictions/Future*

After moderating in the second half of 2006, economic growth has accelerated again and is expected to reach almost 11½ per cent in 2007, leading to a widening of the output gap. The inflation rate is projected to increase to around 4½ per cent in 2007 and stabilize thereafter as weaker food prices are estimated to offset accelerating non-agricultural prices. Despite continued strong export growth, output is likely to slow in 2008 and 2009 as imports accelerate. Nonetheless, the current account surplus is projected to rise from around \$350 billion in 2007 to over \$500 billion in 2009, passing from 11¼ to 11¾ per cent of GDP. The balance of risks suggests that some tightening of macroeconomic policies is needed to reduce overheating, help ease inflation and calm equity markets. Rebalancing growth away from net exports continues to be a key concern, implying that a faster appreciation of the currency should be part of this tightening. There is also scope to redirect public spending to meet pressing social needs.<sup>209</sup>

### *GDP*

Real GDP growth is forecast to slow but will remain impressive, easing from 11.4% in 2007 to 8.4% in 2012. The domestic demand is expected to strengthen over the period, as consumption is boosted by strong wage growth, offsetting deterioration in the contribution of net exports to growth. Downside risks are posed by the threat of a loss of consumer confidence, although the government has room to increase its spending sharply.<sup>210</sup>

<sup>208</sup> <http://www.economist.com/research/backgrounders/displayBackgrounder.cfm?bg=747710>

<sup>209</sup> <http://www.oecd.org/dataoecd/52/10/36761580.pdf>

<sup>210</sup> <http://www.economist.com/countries/China/profile.cfm?folder=Profile%20Economic%20Data>

## China

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth (%)	11,4	9,8	9,0	9,0	8,6	8,4
Consumer price inflation (%; av)	4,8	4,5	3,9	3,7	3,8	3,8
Exchange rate Rmb:US\$ (av)	7,61	7,05	6,77	6,50	6,25	6,03
Exchange rate Rmb:¥100 (av)	6,46	6,78	7,05	6,95	6,81	6,57

## Europe

### *Current situation*

Economic growth in the European Union is set to stay at a robust pace in 2007 with growth seen at 2.7% in the EU and 2.4% in the Eurozone in the European Commission's interim forecast. The Commission said that 2006 was a remarkable year, with growth driven by domestic demand thanks to an improved labor market situation (3 million jobs created of which 2 million in the Eurozone). On the inflation front, while higher energy costs pushed up consumer prices to 2.2% last year in both the EU and the Eurozone, inflation is expected to decline to 1.8% in 2007 in the Eurozone (2.0% in the EU).

### *GDP<sup>211</sup>*

The GDP of the European Union is forecasted to be US\$17,6 trillion in 2008. The GDP growth rate in 2006 was 3.1%. Economic growth reached 2.7% in the Eurozone and 2.9% in the EU in 2006, up from 1.4% and 1.7% respectively in 2005. This was the highest growth in both areas since 2000. Higher oil prices kept consumer price inflation at 2.2% in 2006 for both the Eurozone and the EU, unchanged from 2005. But core inflation (excluding energy and unprocessed food prices) remained steady at around 1.5%. Looking ahead, GDP growth is set to continue at a relatively brisk pace, though moderating to 2.4% in the Eurozone and 2.7% in the EU. This is still 0.3 percentage points higher than projected in the Commission services' autumn 2006 forecast. And inflation is seen lower at 1.8% in the Eurozone and 2.0% in the EU. This is the third interim forecast of the Commission's Economic and Monetary Affairs Directorate General. It updates the economic outlook for France, Germany, Italy, Poland, Spain, United Kingdom and, for the first time, the Netherlands. Together, these seven countries account for more than 80% of the EU's GDP.

### *Predictions/Future*

#### EURO Area

The expansion has continued but at a slower pace than in 2006. Higher interest rates, a stronger EURO and tighter credit conditions are all damping activity. But the outlook remains relatively good, with growth projected to return to its potential rate following some slight near-term weakening. Rising employment and a moderate upturn in wage growth will underpin household incomes and consumption. Inflation has veered up due to a sharp rise in energy and food prices but is expected to decelerate to below 2%. With risks to activity on the downside and inflation likely to slow, further increases in interest rates are not needed at this point. The recent improvement in the fiscal position is welcome but governments need to maintain the momentum and aim for budget balance or better. Strengthening the internal market in the European Union would improve Europe's long-term growth prospects and make

<sup>211</sup> [http://www.finfacts.com/irelandbusinessnews/publish/article\\_10009114.shtml](http://www.finfacts.com/irelandbusinessnews/publish/article_10009114.shtml)

the monetary union run more smoothly. The fragmented system of financial supervision may need to be rethought.<sup>212</sup> To sum up, in China and India great growth potentials exist.

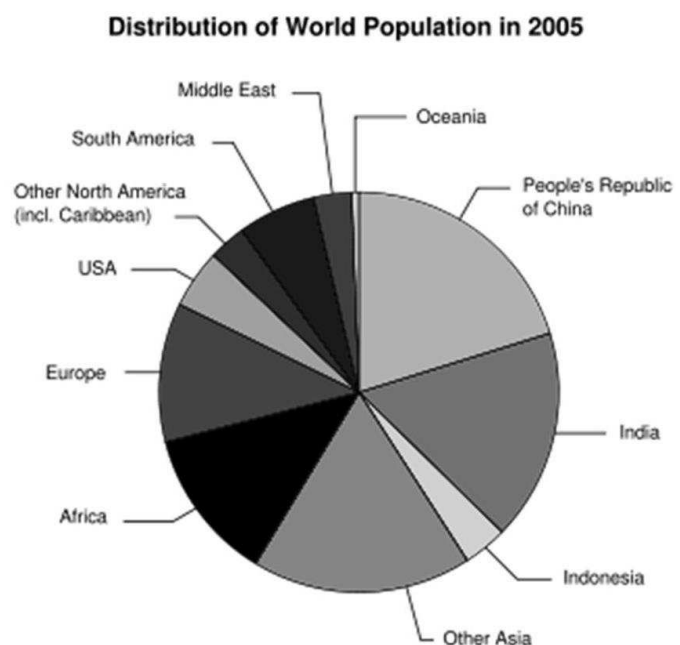
#### 2.9.4. Natural/ Geographical circumstances

The seal industry is not dependent on the natural and geographical circumstances. The reason is that seals can be produced everywhere in the world because the basic material for the production can be manufactured nowadays synthetically. Synthetic rubbers are made by the polymerization of a single monomer or a mixture of monomers to produce polymers so that there is no need to be close to the raw material. The major commercial source of natural rubber latex is actually the Para rubber tree. This is largely because it responds to wounding by producing more latex. Producers of rubber are Brazil, Colombo, Indonesia, Singapore, Liberia, Nigeria and British Malaya. Malaya is the biggest producer of rubber.

#### 2.9.5. Demographical aspects and -developments

China, with 1.32 billion (about 20% of world population) and India, with 1.12 billion (about 17%) are the most populated countries in the world followed by the United States of America with a population of 300 million.<sup>213</sup>

Approximately 4.3 billion people live in the 15 most populated countries; these are representing roughly two-thirds of the world's population. If added together, all nations in the European Union, with 494 million people – about 7.3% of world's population in 2006 – would be third in the list of the most populated countries in the world.



#### *Population Trends*

The population of India is going to grow by 1,5%, China 0,6%, United States of America 1,0% and the population of Europe is going to grow only by 0.16%.<sup>214</sup>

#### 2.9.6. Social/Cultural aspects and -developments

The seal and gasket market in this case is a B2B market so that it is not really affected by the social and cultural aspects and development as it would be if it was a B2C market. Anyhow seals play a very important role in everybody's life. But people are not aware of it most of the

<sup>212</sup> <http://www.oecd.org/dataoecd/2/29/22545260.pdf>

<sup>213</sup> <http://earthfacts.net/category/people/>

<sup>214</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>

time. Seals can be found almost everywhere. For example in cars, airplanes but also in everyday life products like coffee machines or washing machines.

However, cultural behaviour in terms of buying habits and living style influence directly the market of gasket and seals industry customers in terms of sale volumes. Current situation can be described as increasingly consuming population and expecting growth with China and generally speaking Asian development. On the other hand emerging programs targeting environmental care could design a new form of consumers which could have influence over many industrial sectors of activity. Even though, the actual conjuncture as well as emerging governments' behaviour and rededications let's expect no radical change in the cultural behaviour of populations.

### 2.9.7. Other trends and/or expectations

#### *CO2 reduction*

In the seal industry, as in all other industries the movement goes towards CO2 reduction. Every company in the industry tries to contribute to emission reduction. This is done through improvement of the products, through further improved production and through efficient utilization of raw materials. Industries worldwide start to contribute to an environmentally friendly production and product.

#### *Reengineering of products*

The industry is not only focusing on product development of new products but also on reengineering of products. The trend is to try to upgrade already existing products even if they were already upgrading once. The industries worldwide try to find new solutions for existing problems.

### 2.9.8. Additional issues

	+	-
<b>T</b>	Global technology development influences the market in terms of production volumes	No major innovation forecasted in a short term run
<b>R</b>	Not many, mostly standards which have to be followed	Bureaucracy, National & International Standards
<b>E</b>	Emerging markets in China and India	Maturing market in Europe and the USA
<b>N</b>	Not dependent because of synthetic production of raw materials	Transportation cost of raw materials
<b>D</b>	Emerging markets China and India account for around 37% of total population in the world	Population is shrinking in Europe
<b>S</b>	Increasingly growing consumer population & trend toward over-consumption (=short LCP)	Environmental care awareness

The Macro environmental variables provide in general favourable conditions for the industry of gasket and seals, but the main issue for the short term is raised by increasing price of raw materials especially oil. And this aspect is likely to get more importance with the problems of shortage. Transportation cost will influence the future product prices.

### 3. INTERNAL ANALYSIS

The previous external analysis enables good background knowledge of ERIKS' markets. The internal analysis will focus integrally on ERIKS.

#### 3.1. Introduction on resources

##### 3.1.1. Financial resources: capital structure, ratio analysis

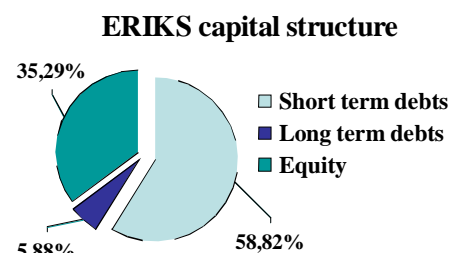
The aim of this part is to find out the way ERIKS finances its assets, in other words the percentage of equity, debt or hybrid securities. ERIKS' capital structure refers to the composition of its liabilities.<sup>215</sup> It is how a firm finances its overall operations and growth by using different sources of funds.<sup>216</sup>

##### *Capital structure*

(From the annual report 2006 p.5-6<sup>217</sup>) The ERIKS group always aimed to obtain financing resources without having to provide guarantees in order to remain strong and flexible and to be able to respond quickly to opportunities in the market.<sup>218</sup> The financing should be arranged in such a way that the net debt (EBITDA) ratio always remains below 2.5.<sup>219</sup>

Main operation of the year 2006 was the acquisition of Wyko as well as four other companies. The financing of the acquisitions came from ERIKS' own available banking facilities. The acquisition of Wyko was initially financed with a bridge facility (estimated interest rate to be between 12 and 15%<sup>220</sup>) to supplement the firm's credit facilities. After payment of the purchase price ERIKS had €320 Mio in outstanding facilities (a €220 Mio bridge loan and about €100 Mio in existing facilities) and an existing mortgage of €20 Mio. Following those changes, the group decided to set a new financing plan for the next three years (2007-2009).

Currently, the group is being refinanced by a new 5-year €200 Mio credit facility, the current €20 Mio mortgage is to be continued, and €121.5 Mio net revenue from equity offering<sup>221</sup>. New 2,432,693 (+30.3%) shares have then issued in January 2007 representing a gross value of €126.5 Mio. The previously drawn up "long-range" growth model shows that ERIKS is able to finance its targeted growth.<sup>222</sup> The final phase of refinancing was achieved in May 2007 with the repayment finalization of the bridge loan which enabled ERIKS to plan on calling new syndicated credit facility in the amount of €200 Mio. Of this amount, roughly € 100 to € 120 million will be used. The financial scope is therefore approximately € 80 to € 100 million. The "syndicated credit facility" has a term of 5 years with the sole obligation that



<sup>215</sup> [http://en.wikipedia.org/wiki/Capital\\_structure](http://en.wikipedia.org/wiki/Capital_structure)

<sup>216</sup> <http://www.investopedia.com/terms/c/capitalstructure.asp>

<sup>217</sup> ERIKS Annual Report 2006

<sup>218</sup> <http://ERIKS.com/en/ava/ERIKS%20group%20nv%20-%20Minutes%20General%20Meeting%20of%20Stockholders%20May%202007.pdf>

<sup>219</sup> <http://ERIKS.com/en/ava/ERIKS%20group%20nv%20-%20Minutes%20General%20Meeting%20of%20Shareholders%2013%20November%202006.pdf>

<sup>220</sup> [http://en.wikipedia.org/wiki/Bridge\\_loan](http://en.wikipedia.org/wiki/Bridge_loan)

<sup>221</sup> <http://ERIKS.com/en/press-releases/2007/ERIKS%20group%20nv%20-%20Financial%20results%202006.pdf>

<sup>222</sup> <http://ERIKS.com/en/about-ERIKS/swot-analysis/internal-analysis/>

€ 50 million of the € 200 million must be repaid in 10 half-yearly instalments (€ 0.5 million every six months). A short-term interest rate has been agreed with the bank. ERIKS has itself already covered much of its financial need in terms of interest for the medium term by means of Interest Rate Swaps. Given the growth targets and taking into account the cash flow, ERIKS has sufficient funds available for further acquisitions for the coming 4 to 5 years.<sup>223</sup>

Following is a brief overview of the refinancing structure of ERIKS following 2006 acquisitions.

(in *ŪMio*)

Re-financing overview of ERIKS (2006 -2007)			(in <i>ŪMio</i> )	
New 5-years credit facility	200	58,82%	<b>Equity offering revenue</b>	
Current mortgage continued	20	5,88%	2,432,693 shares of <i>Ū</i> 52.00	126.5
Equity offering	120	35,29%	Projected cost of equity offering	5.0
<b>TOTAL</b>	<b>340</b>	<b>100%</b>	<b>Net revenue from equity offering</b>	<b>121.5</b>

From that information, it is possible to provide with an analysis of ERIKS' capital structure.

#### Ratio and ratio analysis

Ratios (in <i>ŪMio</i> )	
<b>Debts to total financing</b>	<b>64,30%</b>
<b>Equity to total financing</b>	<b>35,29%</b>
Net income 2006	27.763
Total assets 2006	596.242
<b>ROA-Return on Assets</b>	<b>4,66%</b>
Total interest expenses	3,07
Total loans	200
<b>Rate of interest of loan</b>	<b>1,54%</b>
Net income 2006	27,763
Shareholders' equity 2006	148,91
<b>ROE-Return on Equity</b>	<b>18,64%</b>

First, ERIKS is being 35.29% equity financed and 64.70% debt financed. The firm's ROA being higher than the rate of interest of the loans, the ROE is then higher than if ERIKS had not borrowed money. As opposed to all-equity firms also described as unlevered groups, ERIKS is a levered firm which means that it is made up of ownership equity and debt. Leverage allows greater potential returns to the investor than otherwise would have been available. The financial leverage of ERIKS can be calculated thanks to the debt to equity ratio.

The debt to equity ratio of ERIKS shows particularly clear that the group is mainly

financed by debts and the reason for that has just been explained and justified in the previous paragraph.

This debt-to-equity ratio also has influence on the value of the firm according to Modigliani-Miller theorem. But it is no relevant information for this part of the analysis because ERIKS is not planning any venture or fusion and it also has a wealthy enough financial state to not forecast that kind of strategy.<sup>224</sup> Even so, it is possible

Ratios (in <i>ŪMio</i> )	
Total liabilities	447,332
Equity	148,91
<b>Debt to equity ratio</b>	<b>300,40%</b>
Total liabilities	447,332
Total assets	596,242
<b>Debt to value ratio</b>	<b>75,03%</b>
Total assets 2006	596,242
Equity	148,91
<b>(DuPont formula) Gearing</b>	<b>400,40%</b>

<sup>223</sup> <http://ERIKS.com/en/ava/ERIKS%20group%20nv%20-%20Minutes%20General%20Meeting%20of%20Stockholders%20May%202007.pdf>

<sup>224</sup> [http://en.wikipedia.org/wiki/Leverage\\_%28finance%29](http://en.wikipedia.org/wiki/Leverage_%28finance%29)



to further investigate according to DuPont analysis. The DuPont Identity requires that leverages be measured in terms of total assets divided by shareholders equity which is referred to as gearing.

Ratios (in ŪMio)	
Long term debt 2006	20
Shareholders equity + LTD	148,91 + 20
<b>Capital structure ratio</b>	<b>11,84%</b>

From all those statement it is possible to say that there is tax benefit of debt for ERIKS that is more important relatively to the cost of financing with debt and thanks to its awareness about that, the group is optimizing its overall value by focusing on its trade-off and choosing the financing

repartition between debt and equity taking on the same time increased risks<sup>225</sup>. The capital structure ratio emphasizes on the level of risk taken by the company.<sup>226</sup> The 11.84% CS ratio shows that ERIKS is having relatively low level of secured loans.<sup>227</sup>

RATIOS		
Net sales 2006 (p6 annual report)		543,313
Total assets (p98)	(/)	596,242
Long term investment (p100)	(-)	209,556
Intangible assets (p100)	(-)	0,757
<b>Turnover of Total Operating Assets</b>		<b>140,78%</b>
Net sales 2006 (p6 annual report)		543,313
Tangible Net Worth	(/)	
Owners' equity		148,91
Intangible assets (p100)	(-)	0,757
<b>Net Sales to Tangible Net Worth</b>		<b>366,72%</b>
Gross margin		
Net sales		543,313
Cost of goods sold	(-)	402,34
Net sales 2006 (p6 annual report)	(/)	543,313
<b>Gross margin on net sales</b>		<b>25,95%</b>
Operating income		43,788
Net sales	(/)	543,313
<b>Operating income to net sales ratio</b>		<b>8,06%</b>
EBITA		44,5
Tangible Net Worth	(/)	148,153
<b>Net operating rate of return</b>		<b>30,04%</b>
Operating income		43,788
	(/)	
Fixed assets		285,957
Net working capital (p104)	(+)	51,853
<b>Management rate of return</b>		<b>12,96%</b>
Current assets		310,285
Current liabilities (Repayment obligations on loans 2006)	(/)	221,661
<b>Current ratio</b>		<b>139,98%</b>
Net sales 2006 (p6 annual report)		543,313
Net working capital (p104)	(/)	51,853
<b>Working capital turnover</b>		<b>1047,79%</b>

Current liabilities		221,661
Tangible Net Worth	(/)	148,153
<b>Current debt to Net Worth</b>		<b>149,62%</b>
Long term debt		66,032
Net working capital (p104)	(/)	51,853
<b>Funded debt to net working capital</b>		<b>127,34%</b>
Net working capital (p104)		50,853
Total assets (p98)	(/)	596,242
<b>Working capital to total assets</b>		<b>8,53%</b>
Retained earnings		143,067
Total assets (p98)	(/)	596,242
<b>Retained earnings to total assets</b>		<b>23,99%</b>
EBITA		44,5
Total assets (p98)	(/)	596,242
<b>EBITA to total assets</b>		<b>7,46%</b>
Net sales		543,313
Total assets (p98)	(/)	596,242
<b>Sales to total assets</b>		<b>91,12%</b>
Cash flow		
Net income 2006		27,763
Depreciation	(+)	6,458
Total debt	(/)	447,332
<b>Cash flow to debt</b>		<b>7,65%</b>
Current assets		310,285
Total debt	(/)	447,332
<b>Current assets to total debt</b>		<b>69,36%</b>
Shareholders equity		148,91
Total assets (p98)	(/)	596,242
<b>Stockholders' equity ratio</b>		<b>24,97%</b>

The turnover of Total Operating Assets or sales to investment in total operating assets tracks over-investment in operating assets.

ERIKS forecasted sales increase due to the 2006 acquisitions will necessitate more operating assets at some point and according to this ratio 140.78%, the firm had good financial planning

<sup>225</sup> <http://www.investopedia.com/terms/c/capitalstructure.asp>

<sup>226</sup> Trade-off theory of capital structure, [http://en.wikipedia.org/wiki/Modigliani-Miller\\_theorem](http://en.wikipedia.org/wiki/Modigliani-Miller_theorem)

<sup>227</sup> [http://www.bizwiz.ca/leverage\\_ratio\\_calculation\\_formulas/capital\\_structure\\_ratio.html](http://www.bizwiz.ca/leverage_ratio_calculation_formulas/capital_structure_ratio.html)

of that aspect. Concerning the net sales to tangible Net worth, it is there obvious that there high yields on the investments (366.72%). The gross margin on net sales evolution over the years helps examining the company's policy relating to credit extension and the obtained 25.95% in 2006 (more than 27% 2005) shows that ERIKS investment have had impact over its profitability (short term view). The net operating rate of return is influenced by the financing methods of the firm. The incredibly high working capital turnover indicates that the business requires additional funds to support its financial structure. ERIKS answered this particular need thanks to its new financing facility as well as the issue of new shares. The current to Net worth ratio shows that ERIKS' debts exceed its invested capital. The expected increase in sales should limit that aspect.<sup>228</sup>

*ERIKS annual report ratios*

EBITA % of sales	8,10%
EBITA % of av. net capital invested	23%
Interest coverage ratio	11,70%
Net result % of shareholders equity	18,60%

Official ratio of ERIKS focus on EBITA returns and offers a very positive financial overview of the company's results.

### 3.1.2. Human resources: management, workforce

*Management*

ERIKS' management is composed of the Executive Board<sup>229</sup>, the Supervisory board<sup>230</sup> and the Shareholders.

The Executive Board and Supervisory Board of ERIKS group nv. attach great importance to good corporate governance. For many years the group has formally and informally maintained a clear dividing line between the responsibilities of the Executive Board and those of the Supervisory Board. Reporting to shareholders and other stakeholders is as open as possible. Recommendations put forward by shareholders are always examined and acted upon constructively, insofar as they promote the group's continuity and take into account the interests of all stakeholders. As regards the control exercisable by shareholders, the board has followed developments in society and amendments made to corporate law. Shareholders currently holding ordinary shares have full voting rights and are directly involved in approving policy and strategy, appointing the members of the Executive Board and the Supervisory Board, adopting the financial statements, approving the policy on dividends and approving the policy on the Executive Board's remuneration.<sup>231</sup>

The Executive Board starts from the assumption that the company is a long-term collaborative partnership of various parties involved. For that reason, the Executive Board of ERIKS group nv. has a duty to weigh up the interests of all parties involved (the stakeholders). But main considerations will always be the continuity of the enterprise and the creation of stockholder value.

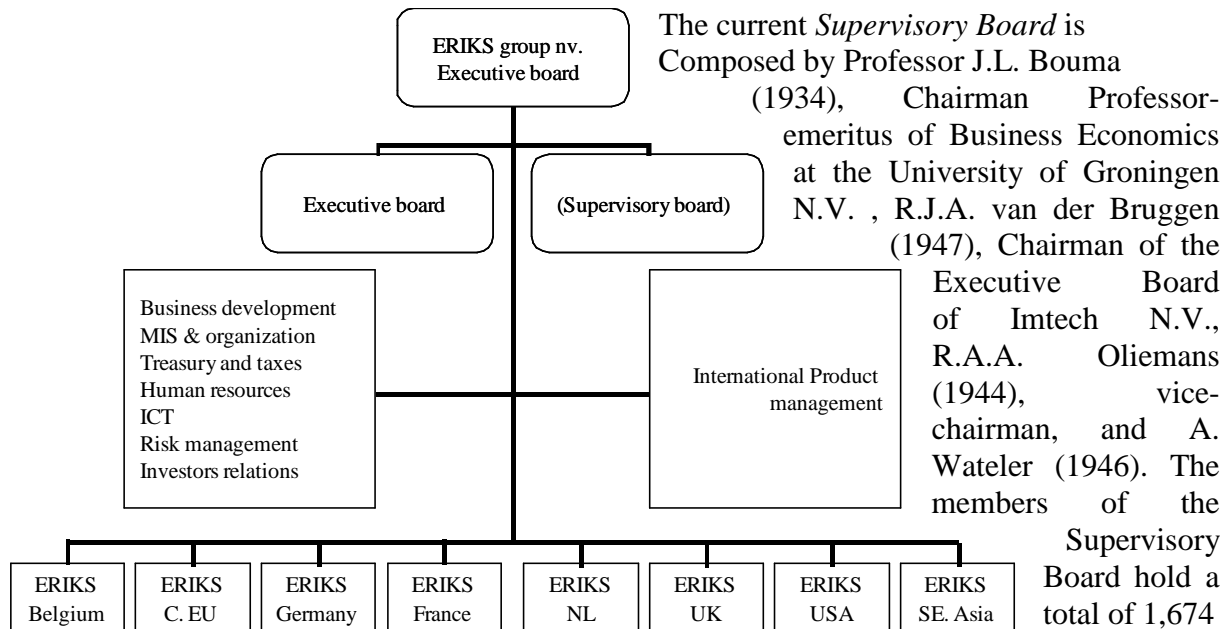
<sup>228</sup> [http://www.courses.psu.edu/comm/comm488\\_amh13/488acctg/sld002.htm](http://www.courses.psu.edu/comm/comm488_amh13/488acctg/sld002.htm) & <http://www.businessstools.org/analysis/analysis.html> & <http://ERIKS.com/en/press-releases/2007/ERIKS%20group%20nv%20-%20Financial%20results%202006.pdf> & <http://ERIKS.com/en/press-releases/2008/ERIKS%20group%20nv%20-%20Financial%20results%202007%20ERIKS%20group.pdf>

<sup>229</sup> <http://ERIKS.com/en/corporate-governance/executive-board/members/#tab-6541>

<sup>230</sup> <http://ERIKS.com/en/corporate-governance/supervisory-board/members/>

<sup>231</sup> <http://annualreports.ERIKSgroup.com/en/annual-report-2006/corporate-governance/>

The current *Executive Board* is composed of J. van der Zouw, chairman and CEO, J.G. de Boer (1953), CFO, M.T.A. Beckers (1951), M. Dixon (1964), H.J. Maier (1960), and B. Wilson (1955). The Executive Board holds a total of 8,772 shares in ERIKS group nv by way of long-term investment. No options on ERIKS group nv shares have been awarded to the members of the Executive Board.<sup>232</sup>



shares in ERIKS group nv by way of long-term investment. No options on ERIKS group nv shares have been awarded to the members of the Supervisory Board. All members of the Supervisory Board receive fixed annual remuneration unrelated to the results of ERIKS group nv. None of the members of the Supervisory Board has any other business relationships with the ERIKS group from which they might be able to obtain personal benefit. According to provision III.2.2. of the Dutch corporate governance code, all Supervisory Board members with the exception of Mr Wateler are independent.

In 2006, as the acquisitions in Britain and Poland had significantly increased the ERIKS group's market area and in order to be able to manage the anticipated further growth in Britain and Central Europe properly from an organisational point of view, the group decided to form the ERIKS UK and ERIKS Central Europe clusters.

To ensure proper support and integration of the acquired companies and clusters, the number of employees at head office (ERIKS group nv) and the number of International Product Managers (IPMs) increased. The members of the Executive Board of ERIKS group nv are intensively involved in defining, detailing and following up the strategy in the ERIKS groups' various clusters and companies. In order to be able to continue to apply this management style, the company needed to expand the Executive Board. On the recommendation of the Supervisory Board, the shareholders at the Extraordinary General Meeting of Shareholders approved the appointment of Bill Wilson and Mark Dixon to the Executive Board on 13 November 2006. Mr Wilson and Mr Dixon are primarily responsible for the activities of the ERIKS UK cluster and European Account Management. They are also jointly responsible for International Product Management. (ERIKS Annual report 2006 p.6) Further operational management is defined by cluster.<sup>233</sup>

<sup>232</sup> <http://annualreports.ERIKSgroup.com/en/annual-report-2006/boards/>

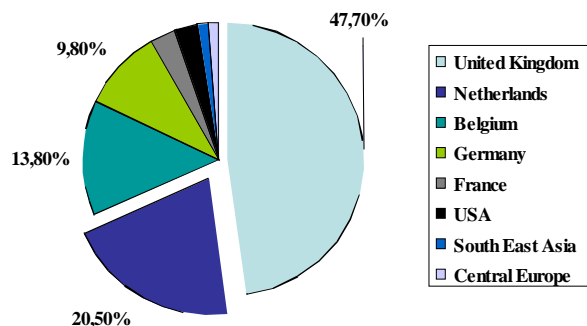
<sup>233</sup> <http://annualreports.ERIKSgroup.com/en/annual-report-2006/report-by-the-executive-board/review-of-2006/>

## Workforce

The decisive factor in a company's success is the quality of the organization and the employees. The EUR 543.3 million 2006 sales were achieved with an average workforce of 2,434 people.<sup>234</sup> ERIKS has a high-quality, professional workforce.<sup>235</sup> At the end of 2006 the work force was divided as followed, with a clear dominance of UK as a result of the acquisition of Wyko.

ERIKS Belgium 600	ERIKS C. EU 46	ERIKS Germany 428	ERIKS France 127	ERIKS NL 888	ERIKS UK 2073	ERIKS USA 117	ERIKS SE. Asia 62	=	4341
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**Workforce repartition by cluster**



The ERIKS group is highly dependent on its employees.<sup>236</sup> The ingredients for a good relationship between the ERIKS group and its employees are a clear strategy with achievable but challenging targets, open and honest labor relations and competitive employment benefits packages. The Human Resources policy agreed at group level is translated into concrete plans of action at cluster level. In this context it is important to keep employees properly informed of the company's strategy.

The Executive Board of ERIKS group nv and the management teams of the clusters and local companies devote considerable attention to communicating the group's strategy and its implementation and progress. By creating and implementing these structures and plans, the employees can obtain a clear picture of what is expected of them. It allows them to play an active part in making the company grow.

All ERIKS companies have career counseling and training programs in place to increase their level of know-how (the six knowhow domains), and employees are assisted in their careers through means including function reviews and coaching discussions.

To realize synergy, the International Product Managers (IPMs) work continuously in tandem with the product managers of the group companies on harmonizing and modernizing the range of products, applications, know-how, promotion, suppliers and procurement. Each year they rationalize the ranges of various product groups and, where necessary, adapt them to the new markets that the group will enter. The IPMs also play a crucial role in developing and maintaining the level of know-how. As a result of the expansion of the ERIKS group, the number of IPMs will increase. The management exercised by the IPMs has been intensified, and they now agree targets with each other. The coordination of purchase at cluster and group level will continue to be a priority for ERIKS.

<sup>234</sup> <http://ERIKS.com/en/about-ERIKS/profile/>

<sup>235</sup> <http://ERIKS.com/en/about-ERIKS/swot-analysis/internal-analysis/> & <http://www.werkenbijERIKS.nl/index.php?id=11>

<sup>236</sup> <http://ERIKS.com/en/ava/ERIKS%20group%20nv%20Minutes%20General%20Meeting%20of%20Stock%20holders%20May%202007.pdf>

There is also cooperation in supporting activities, such as publicity, telematics, logistics and financing. The guidelines and standards drawn up for structuring the technical ICT infrastructure and security aspects are being amended. Projects for the structuring of physical logistics are being tackled jointly and know-how is being exchanged. The financing of group companies is arranged entirely at central level. ERIKS group nv has defined guidelines and the group companies receive the financial resources they need.<sup>237</sup>

Because ERIKS considers its workforce as its most valuable asset, the company provides them with attractive benefits. The group operates a number of pension and pre-pension plans, all of which comply with local laws and regulations. Some examples of current schemes are defined contribution plan and defined benefit plan, Jubilee benefits and other provisions. As part of our human resources policy ERIKS also maintains contact with schools and training institutions. The purpose of this contact is to contribute to the technical content of educational courses.<sup>238</sup>

To sum up, ERIKS' management and workforce' structures are built according to the company' policies. It is very important for ERIKS and its employees to have transparency over the management and the whole structure.

### **3.1.3. Technology: know-how, expertise, innovative capacity**

#### *Technology*

ERIKS' technologies focus on 8 core activities that are Sealing technology, Power transmission, Flow technology, Industrial plastics, Tools and Maintenance products, Electromechanical services and Condition monitoring, Tolerance rings and Tire technology, Technical and logistics services. (Annual report 2006 p.4)

(i) Sealing technology is divided into O-rings, Dynamic sealing elements, Pioneer Weston sealing Technologies, Flange gaskets and rubber technology.

(ii) Power transmission is divided into Hydraulic hoses and accessories, Hydraulic components and systems, Pneumatics, Bearings, Mechanical transmission, Electrical transmission, and Mechatronica concept.

(iii) Flow technology is divided into valves, Instrumentation, industrial hoses and accessories, and plastic piping.

(iv) Industrial plastics are divided into plastics for injection molding and plastic semi-finished products.

(v) Tools and Maintenance products are divided into on the one side tools such as hand tools, cutting tool, clamping tools, measuring tools, abrasives, welding and soldering tools, safety equipment, electrical tools, pneumatic tools, hydraulic tools, metal working machines, workshop furniture, and special tools; and on the other side maintenance products like lubricants, mechanical fasteners, chemical fasteners, and workshop equipment.

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<sup>237</sup> <http://ERIKS.com/en/press-releases/2007/ERIKS%20group%20nv%20-%20Financial%20results%202006.pdf>

<sup>238</sup> <http://ERIKS.com/en/about-ERIKS/social-responsibility/#tab-6687>

(vi) Electrical and Mechanical Engineering Services are divided into AC electric motors from fractional to 13.8kv, DC motor repairs, HV/LV generator & alternator, HV & LV transformers, HV & LV switchgear, AC, DC and traction coil, lifting magnets, stepper, AC/DC brushed and brushless, servomotors, commutator and slip rings, specialist coils, demagnetizers manufacture and repair, electrical plant maintenance and fault finding, plant relocation, and work undertaken in ERIKS workshops or on customer's site for electrical services; general machining services, fabrications, specialist bearings, gearbox refurbishment, gear cutting, pump refurbishment, reverse engineering of obsolete parts, metal spraying, spiral welding, plant maintenance and fault finding including skilled labor for on-site cover, and dynamic balancing, on-site and in-works for mechanical services; and thermography, vibration analysis, laser alignment, relay protection testing, on-site dynamic balancing, oil analysis, current spectrum analysis, ultrasonic surveys, partial discharge analysis and critical plant management for predictive maintenance.

(vii) Technical and logistics services are divided into assembly of (hydraulic) hoses and couplings, testing, certification and repair of hoses, customized pneumatics, design and manufacture of electrical transmissions, machining of plastics, punching, water jetting and kitting of seals, conversion of valves, mechanical seals revision, machining of special seals, design of complete hydraulic systems, manufacture of cylinders and generator sets, manufacture of high-pressure couplings, and special technology companies for technical services; and a flexible supply channel for logistic services.

(viii) Specialist technology comprises four leading engineering firms serving niche, global markets, these businesses design, manufacture and supply highly engineered tolerance rings, specialist bearings, precision tooling for tire production and standard and customized mechanical seals. WYKO benefits from Specialist Technology's strong engineering culture and OEM relationships. Those technologies are divided into Revolve Bearings, WYKO Tire Technology, Pioneer Weston Sealing Technologies.

### *Know-How*

For each of this technological division, the group is active and performing on 6 knows how domains which are Market, Product, Application, Customizing, Logistics processes and Infrastructure optimization know-how.<sup>239</sup> Know-how is increasingly becoming an ERIKS' product. Application engineers increasingly act as co-engineers in the development of new products and new applications among the customers. Know-how and innovation are the key words for further development of the ERIKS group.<sup>240</sup>

(i) Market know how- As a result of the close relationship ERIKS has developed with its customers, it has built up outstanding market know-how. This know-how also benefits procurement activities, enabling to offer new products and services proactively and promptly in response to the changing needs of the market.



<sup>239</sup> <http://ERIKS.com/en/products-and-services/six-know-how-domains/>

<sup>240</sup> <http://ERIKS.com/en/press-releases/2007/ERIKS%20group%20nv%20-%20Financial%20results%202006.pdf>


(ii) Product know-how- ERIKS has an in-depth knowledge of its products and their properties. They share this knowledge with their customers through technical documentation, electronic media and personal contacts.

product

positive for ERIKS

...that is inevitable and substantial

...not very special, but adds up to a complete know-how



Product know-how

(iii) Application know how- ERIKS can understand present applications and requirements for its customers' developing concepts and translate them into practical product choices, translate customers' reliability and cost issues into adapted designs and alternative product choices (product development), and brainstorm with customers about the design and maintenance of new products and systems (research and development).


application

positive for ERIKS

...Easy-order-system®

...hard to substitute if the degree of individualization is high

...integrated business solutions upgrade ERIKS from a standard industrial supplier to a complex solution provider



Application know-how

(iv) Customizing know how- ERIKS can translate its customers' ideas into new product specifications and either supply the appropriate products itself or through third parties. It also offers maintenance facilities and services for components and systems.


customizing

positive for ERIKS

...providing add-on services to their products

...forward vertical intergation

...providing valueable service and at the same time evaluate products in "real life tests"



Product processing know-how (customising)

(v) Logistics processes know how- ERIKS is able to analyze logistics processes and tailor them to meet its customers' expectations. Its logistics concepts can be adapted quickly and easily for integration with those of its customers - from identifying customers' needs through to payment - both for the administrative side and the physical side of the process. By offering solutions ranging from supplying individual components to providing complete, integrated on-site systems, the group is able to optimize its customers' procurement activities.


logistics processes

positive for ERIKS

...logistical optimalization for supply chain

...forward vertical intergation, thus "reason why ERIKS"

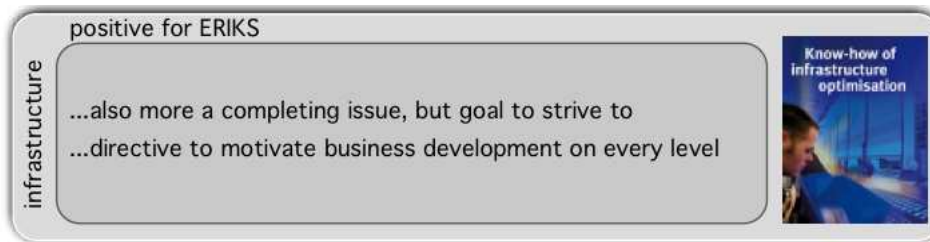
...providing additional logistical processes brings value to the overall product and therefore higher prices can be achieved



Know-how of logistics processes

(vi) Infrastructure optimization know-how- ERIKS has efficiently-structured, state-of-the art production facilities, an optimized logistics infrastructure and efficient, controllable ICT systems.



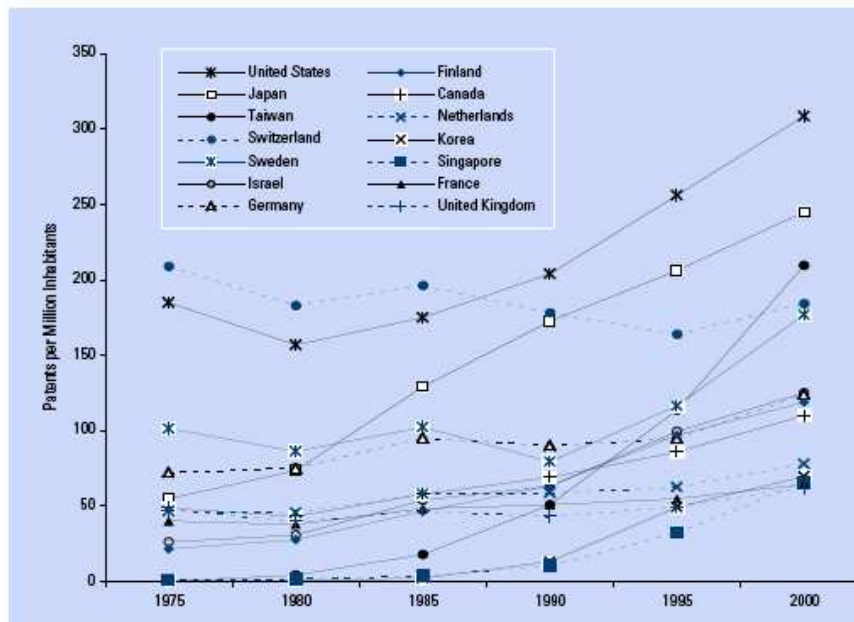


### Expertise

The ERIKS group uses its expertise to advise on, support and sell those products that equipment factories need to build their machines and installations economically and successfully.<sup>241</sup> It is related to the know-how of the company and the extent to which it is able to provide services as described in the previous part.

### Innovative capacity

Figure 1: International patents per capita, leading countries, 1975–2000



The concept of innovative capacity has been first introduced by Prof Suarez-Villa in 1990. It is a measurement of the level of innovation and the potential for innovation within a country or in an economic activity.<sup>242</sup>

First considering ERIKS clusters and providing the information of the following graph stemming from [http://www.isc.hbs.edu/Innov\\_9211.pdf](http://www.isc.hbs.edu/Innov_9211.pdf), it is

possible to say that ERIKS operating areas have high innovative capacity which enable the company to benefit from the local dynamics of innovation.

Most innovative operating clusters of ERIKS are USA, Germany, the Netherlands, France and United Kingdom.

Considering now the innovativeness of ERIKS group itself, it appears that innovation is one of the company's main strategic issues. Within the 2006 annual report, ERIKS points out the strengthening of product management, the expansion of the products and services range and the entering into new market segments and growth of market share. The ongoing innovation in the range of products and improvements in product and application know-how are resulting in a marketing mix that will set it apart from local competitors and fulfil the market's requirements.<sup>243</sup> Another aspect to consider is the fact that ERIKS is not able to compete on a

<sup>241</sup> <http://ERIKS.com/en/products-and-services/power-transmissions/pneumatics/>

















































<sup>242</sup> <http://www.innovativecapacity.com/innovativecapacity.htm>


<sup>243</sup> <http://ERIKS.com/en/about-ERIKS/swot-analysis/internal-analysis/>



low wage cost level because it does not have them. Therefore ERIKS has to compete on the basis of know-how, technology, talent, innovation and productivity.<sup>244</sup>

About patents, a question answered during ERIKS' general meeting<sup>245</sup> let think that the group has a limited portfolio of industrial property rights. As the company operates as a co-developer and service provider, the customer remains the owner of any patent. Still ERIKS has a number of small assemblies of its own such as Elmeq Bv of Schoonhoven which develops and assembles electrical transmissions.

	Sealing technology	Power transmission	Flow technology	Industrial plastics	Tools and Maintenance products	Electro-mechanical services and Condition monitoring	Tolerance rings and Tire technology	Technical and logistics services
Market know how								
Product know how								
Application know how								
Customizing know how								
Logistics processes know how								
Infrastructure optimization know-how								

 = high innovative capacity

To sum up, thanks to the technology it provides and the know-how and expertise surrounding them, ERIKS is an innovative company with high development capacity from which it does not directly benefit in terms of patent and property but in terms of services provided.

### 3.1.4. Production: capacity, occupancy rate, make-or-buy

ERIKS has state-of-the art production facilities.<sup>246</sup> This is what ERIKS quotes about itself. Even if ERIKS strives to managerial transparency as stated before, this is an issue where information about is lacking. However, due to convincing financial ratios (please refer to part 3.1.1.) we can assume, that the production facilities of ERIKS are in fact working rather economical and efficient.

Also here the information available is not sufficient to give profound results. Nevertheless, due to several movements in direction of vertical and horizontal integration, the make-or-buy question can be almost certainly answered with “make”. The customer’s orientated strive towards service differentiation gives ERIKS the possibility to use that also for internal needs.

<sup>244</sup> <http://ERIKS.com/en/ava/ERIKS%20group%20nv%20-%20Minutes%20General%20Meeting%20of%20Stockholders%20May%202007.pdf>

<sup>245</sup> <http://ERIKS.com/en/ava/ERIKS%20group%20nv%20-%20Minutes%20General%20Meeting%20of%20Stockholders%20May%202006.pdf>

<sup>246</sup> <http://ERIKS.com/en/about-us/six-know-how-domains/know-how-to-optimize-the-infrastructure/>

An example would be logistical distribution. Instead of seeking a strong and experienced partner for group wide distribution, ERIKS builds up “buy & build” wise its own distribution network and integrates therefore forwards and backwards (supply or delivery) vertically.

### 3.1.5. Organization: 7S, key parts, (de)centralization

As already explained in the part about human resources, the organization of the group is a real key factor of success for ERIKS. Providing the expansion strategy the firm is opting for, transparency and staff awareness of the structure is needed to perform well and optimize the results.

#### *McKinsey 7-S Model*<sup>247</sup>

(i) Shared values will be described in more details in the following 3.1.6. part.

(ii) Structure will be described in this part in the sub category (de) centralization.

(iii) ERIKS strategy focuses mainly on expansion both organic and through acquisitions. Further analysis will be detailed in the 3.2 part of this report.<sup>248</sup>

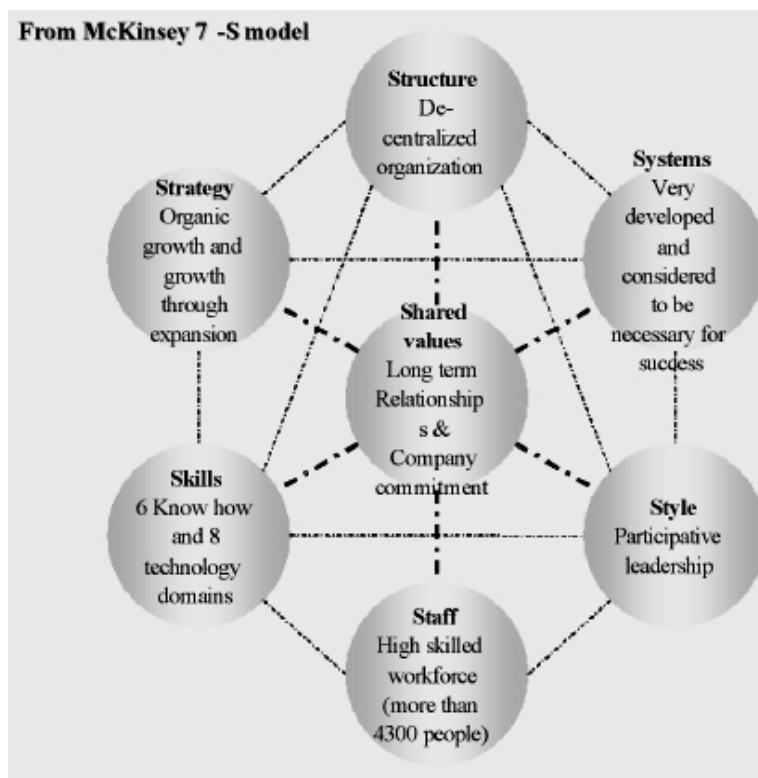
(iv) Systems refer to all the procedures, processes and routines that characterize how important work is done. You can refer to the part about human resources for example. It takes into consideration ERIKS hiring, promotion, and performance appraisal systems as well as its information system.

(v) Skills refer to the know-how and technologic domains of ERIKS which have been detailed earlier in the analysis.

(vi) Style refers to the style of leadership the company is promoting within its structure. As it will be stated in the next part, ERIKS has a decentralized organization with a participative style of leadership. The involvement and commitment of the workforce is a key factor of success for ERIKS.

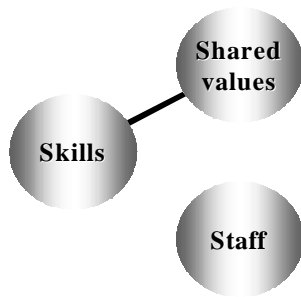
(vii) Staff has been described in the part related to workforce.

#### *Key parts*



<sup>247</sup> [http://www.valuebasedmanagement.net/methods\\_7S.html](http://www.valuebasedmanagement.net/methods_7S.html)

<sup>248</sup> <http://ERIKS.com/en/about-ERIKS/strategy/#tab-6550>



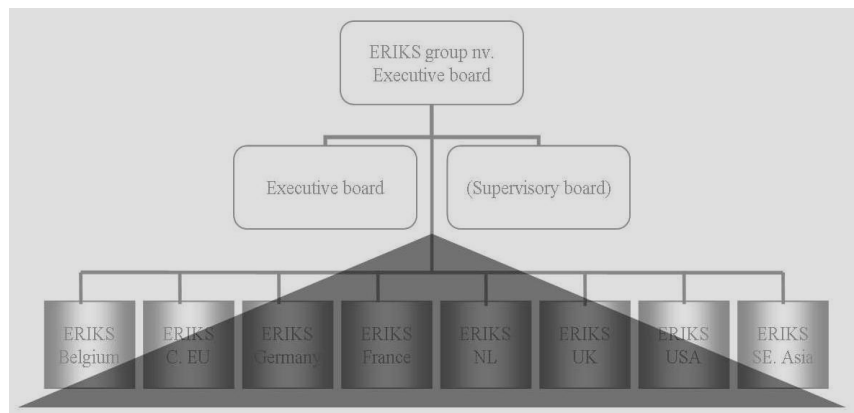
According to McKinsey 7-S model analysis and the previous statements made, it appears that the key aspects of ERIKS success are the company's culture and shared values, its skills emphasized by the 6 know how domains and its staff which the company highly value.

Even so, all the other dimensions seem relevant in ERIKS' policy. Providing the information we have from the external analysis, it seems necessary for the group to compete on every level of the organization so as being able to have international relevance and competitive advantages.

### *(De) Centralization*

ERIKS' decentralized organizational structure gives the flexibility, inventiveness and quality it need to serve its customers properly and act as a partner to manufacturers.

The ERIKS group has been divided into clusters in order to control the envisaged organic growth and growth through acquisitions. By cluster ERIKS' group has a flat organizational structure.<sup>249</sup> The company structure enables it to run delegating decision making policies down to the lower levels of the organization. There are fewer tiers, a wider span of control and a bottom to top flow of decision making and ideas. The top executives delegate much of their authority to lower tiers and as a correlation the group runs less rigid policies.<sup>250</sup>



### **3.1.6. Shared value: culture, mentality**

The ERIKS group has a corporate culture that aims at realizing attainable goals announced clearly beforehand to those directly involved. Transparency in verbal and written communication characterizes the ERIKS organization. Change in its widest sense is a fact of life in modern business. The management of the companies must succeed in controlling those changes. The informal organization of the ERIKS group and the short lines of communication between management and employees guarantee uniform values that the employees of the ERIKS group seek to apply.<sup>251</sup>

The code of conduct, agreed with the works councils, sets out the basic principles of the norms and values of the ERIKS group. The company requires all employees to comply with the code and encourage them to report to management immediately (through a whistle-blowing procedure) any breach or suspected breach of the code or other rules in force at the ERIKS group. Employees are not blamed if the ERIKS group fails to win contracts because of

<sup>249</sup> [http://ERIKS.com/en/ava/ERIKS\\_group\\_nv\\_-\\_Minutes\\_General\\_Meeting\\_of\\_Stockholders\\_May\\_2006.pdf](http://ERIKS.com/en/ava/ERIKS_group_nv_-_Minutes_General_Meeting_of_Stockholders_May_2006.pdf)

<sup>250</sup> [http://en.wikipedia.org/wiki/Decentralization#Organizational\\_Theory](http://en.wikipedia.org/wiki/Decentralization#Organizational_Theory)

<sup>251</sup> <http://ERIKS.com/en/about-ERIKS/social-responsibility/#tab-6684>

adherence to the code of conduct. Similarly, information provided to management about suspected or actual violations of the code of conduct will not have any adverse consequences for the employee who supplied the information. Failure to observe the code of conduct is regarded as a violation of business integrity. Neither group management nor local management received any notifications of violations in the year 2007.<sup>252</sup>

As a supplier of a high-quality range of technical components, the ERIKS group is obliged to conduct a sound environmental policy. Both in its own operational management and in product development, the ERIKS group remains constantly aware of environmental aspects and their influence on the environment. New insights, changing social standards and environmental laws are monitored closely. The related group companies collect and dispose of various waste streams, like paper, oil and residual materials, in a responsible manner. As a group, ERIKS responds actively to existing and future regulations in our relationships with manufacturers and customers with regard to the development of products. For almost all its product groups, it develops new products, under its own brand name and in consultation with the manufacturers, with a view to avoiding emissions and leaks in the process industry. ERIKS' employees are able to draw customers' attention to alternative solutions.<sup>253</sup>

The management of the companies of the ERIKS group is encouraged to sit on technical interest organizations and to contribute to local, social and cultural events. The ERIKS' human resources policy includes maintaining contacts with schools and training institutions. The purpose of these contacts is for ERIKS to contribute to the technical content of educational courses.<sup>254</sup>

To sum up, the presence of competent management, and a solid market-oriented corporate culture spread throughout the group's subsidiaries are key factors of success of ERIKS.<sup>255</sup>

### **3.1.7. Legal structure**

ERIKS group nv is the Dutch holding company (a Naamloze Vennootschap) of a group of technical distribution companies and is listed on the Official Market of the Euronext Amsterdam Share Exchange ('Euronext N.V.').<sup>256</sup>

ERIKS was founded in 1939 as a family company and started out in 1940. In 1977 the company was quoted successfully at the Euronext Amsterdam Share Exchange. The ERIKS group nv started out. The ERIKS group nv. expanded into three continents USA, Europe and South-East Asia. A network was built up. In 1994 ERIKS began with the acquisition of companies in Germany, Belgium, Netherlands, Poland and the UK.

Currently the Holding Company consists of over 50 group companies with branches in 13 countries. The Executive Board and Supervisory Board of ERIKS group nv attach great importance to good corporate governance.<sup>257</sup> The holding company acts as a strategic parent company. It performs the role of capital provider, initiator, motivator, implementer, monitor and coordinator of the strategy developed for the ERIKS group. The holding company ensures that added value is created for the group in relation to its individual companies. This means

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<sup>252</sup> <http://ERIKS.com/en/about-ERIKS/social-responsibility/#tab-6685>

<sup>253</sup> <http://ERIKS.com/en/about-ERIKS/social-responsibility/#tab-6686>

<sup>254</sup> <http://ERIKS.com/en/about-ERIKS/social-responsibility/#tab-6687>

<sup>255</sup> <http://ERIKS.com/en/home/search/?q=culture>

<sup>256</sup> <http://ERIKS.com/en/about-ERIKS/profile/>

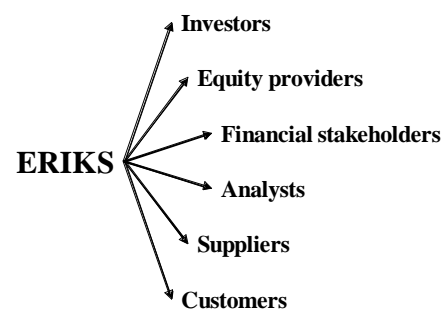
<sup>257</sup> <http://ERIKS.com/en/corporate-governance/corporate-governance-structure-at-ERIKS-group-nv/>

that the management of ERIKS' group nv is intensively involved in defining and detailing the strategy of the various clusters and companies.

### 3.1.8. External resources: relations, connections, networks

The ERIKS group attaches great importance to good communication with *financial stakeholders* and other interested parties such as *investors*, *equity providers* and *analysts* so as to provide a good insight into the group's position in the ever-changing market. Price sensitive information is always disclosed in public announcements. The group explains its strategy, financial results and the latest developments in meetings, both in the Netherlands and abroad, with investors, analysts and financial journalists. Each quarter the group publishes its financial results and comments on them in a conference call with financial analysts and journalists. Transparency and disclosure are aimed at optimizing the share price and create a wider spread of share ownership. Its website contains detailed information about press releases, financial presentations, strategy and corporate governance.<sup>258</sup>

Apart from the wide financial network of ERIKS, the group is also focus on developing national networks in terms of supply and demand and already a 90 000 customer network within its operating areas and a large network of preferred suppliers. It aims at building up partnership-style relationships, preferably long-term, with manufacturers all over the world based on its independent position. The group's size offers many manufacturers the prospect of substantial sales and a large market share.<sup>259</sup> Some of them are Viton(US), RX, IMS, Quadrant(Ch), Minnesota Rubber(US), Fenner, Dunkermotoren, Ensinger, Kalrez, DuPont performance elastomers, Norma, Gore, Simrit, Gates, Eaton, NSK, Futuris one, Flexitubes, Format, Elastoguards, Saint Gobain, Vickers, Timken, Airpel ...



ERIKS' external resources as understood in this part can be summarized as in the attached graph.

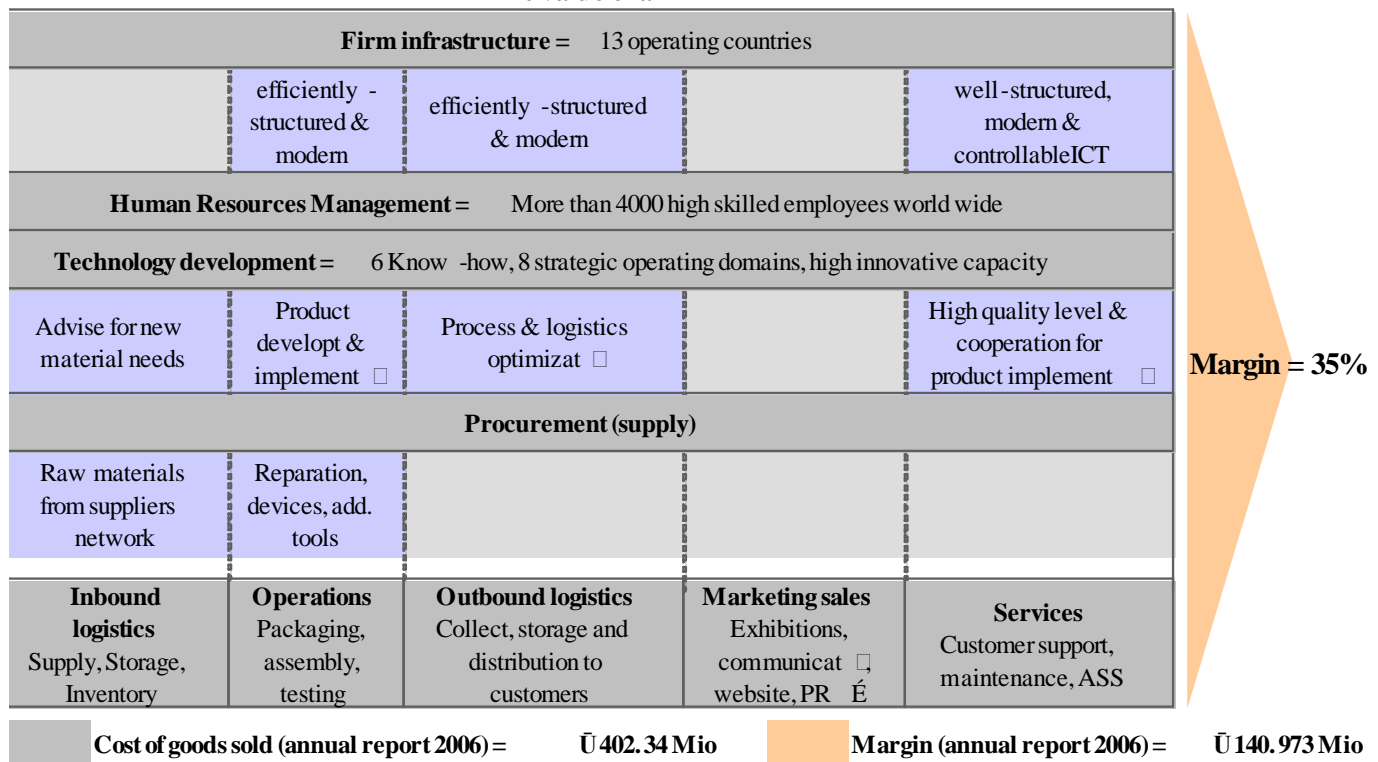
### 3.1.9. ERIKS resources overview: the concept of value chain

From the analysis of this section, it is possible to draw the following ERIKS' value chain according to Porter's theory.

<sup>258</sup> <http://ERIKS.com/en/corporate-governance/>.

<sup>259</sup> <http://ERIKS.com/en/products-and-services/suppliers/>

### The value chain



## 3.1. Current Strategic Policy

### 3.2.1. Target Markets

ERIKS is among our focused competitors the less developed and youngest company. However, as we will see later in the financial analysis, ERIKS provides a strong financial position and uses it to achieve its goal<sup>260</sup> of sales expansion per year both through organic growth (5-7 %) and through acquisitions (7-10 %).

Today ERIKS is situated in several markets and divides itself in eight so called clusters. These clusters represent a geographic region, which gives the individual cluster management the opportunity to react on region specific management needs. We will discuss the clusters and their impact later in the report. To have a overview on ERIKS clusters and therefore the target markets for 2007, please refer to the following graph<sup>261</sup>



Central Europe stands summarized for the branches Poland, Slovakia and Czech Republic. Small but also not to forget is Luxembourg, which is included in the Belgium Cluster. The USA-cluster represents the states Wisconsin, Washington, Oklahoma and Texas. South East Asia stands for Malaysia and Singapore.

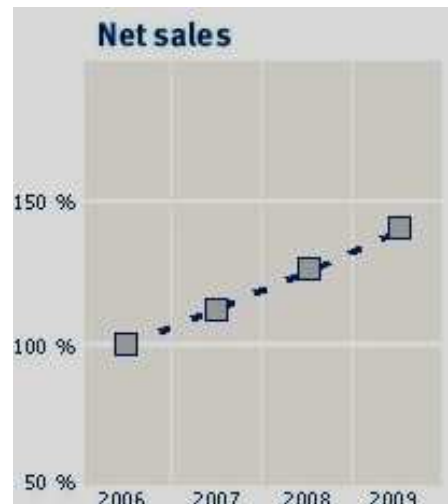
<sup>260</sup> ERIKS, Annual Report 2006

<sup>261</sup> <http://ERIKS.com/en/about-ERIKS/ERIKS-worldwide/>

### 3.2.2. Financial Goals, marketing targets<sup>262</sup>

After achieving market leadership in Europe, ERIKS defined 2006 objectives to strive to in the upcoming three years. The financial goals are defined as followed:

The average sales are targeted to show growth of 10 to 15 percent (2006: 21.1 percent), broadly 5 to 7 percent of which to be achieved through organic growth and the remainder through acquisitions. Assuming proforma sales of about EUR 875 million in 2006, sales in 2009 will exceed EUR 1.1 billion.



Other financial goals:

Key figure	Goal for 2009	Starting point 2006
EBITA as a percentage of net capital invested, including goodwill	at least 15 %	23 %
net debt/EBITA ratio	less than 2.5	3.1
earnings per share	5 to 10 %	23.9 %
Dividend payout, circumstances permitting (result placed at the disposal of the shareholders plus amortisation)	App. 50 %	49.8 %

ERIKS wants to achieve in the upcoming years a consistent image for its customers, to be an innovative, reliable and flexible supplier.

To its manufacturers, the ERIKS group wants to be a reliable, cooperative partner with sufficient market share and volume, serving the entire industrial market based on its extensive technical and logistics know-how. Key marketing objectives are stated<sup>263</sup>:

- to build up leading market positions in Western and Central Europe
- to take a strong market share (in the top 3) in all core activities in its range in all regions where the group has its own branches.
- to offer an extensive range of high-quality mechanical engineering components.
- to possess and offer a high level of know-how so as to be an innovative supplier.
- to have a balanced spread of sales across the main customer types (purchasing profiles) of 'Maintenance' and 'Original Equipment Manufacturers' (OEM) to control its risk profile.

<sup>262</sup> <http://ERIKS.com/en/about-ERIKS/objectives/>

<sup>263</sup> <http://ERIKS.com/en/about-ERIKS/objectives/#tab-6529>

- to expand our current activities in the USA ('buy-build' strategy).
- to maintain our activities in South-east Asia organically.

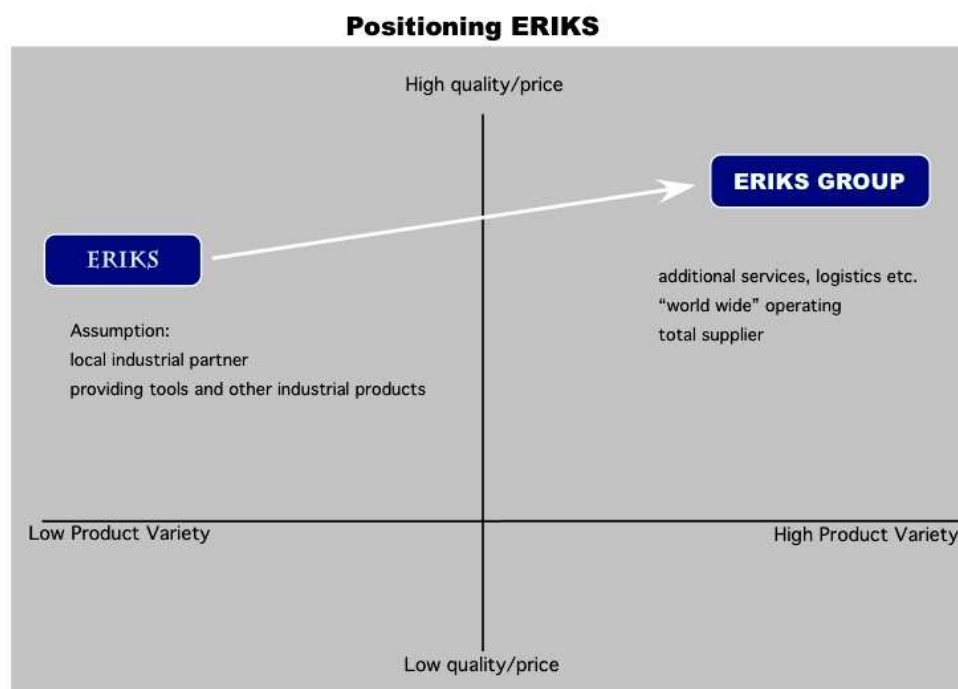
The marketing objectives stated by ERIKS are rather undefined; Market shares are not precisely numbered, relative adjectives are used. This reflects the uncertain development of this market, due to expansion of the market to Far East or other interesting regions. However, ERIKS mentions rather many issues which they want to be achieved. The financial goals are also quite challenging and therefore interesting to follow.

### 3.2.3. Positioning Strategy

Positioning in B2B-industry is different than positioning in B2C-industry. Positioning is in the first place essential to roll out effective campaigns. Customers process advertisement information way better, if they already have a generic image in their head about what the company or brand is about. The consumer's mind reacts to this high volume of advertisement by accepting only what is consistent with prior knowledge or experience<sup>264</sup>.

In industry, advertisement works differently due to the diffusion when advertising in public areas, and secondly customers are not individuals but companies. Therefore positioning has to meet the company's strategy on a slightly different approach. Nevertheless the crucial point of Ries and Trout to have a clear positioning for being successful is not to question.

As we have seen before, competitors try to become un-substitutable by differentiate themselves to a certain extent, that customers are not affected by a competitor's price, or advertisement etc. Certainly, as seen in the competitor analysis, ERIKS was not first mover. However, ERIKS had to reposition after growing to ERIKS Group.



As drawn in the graph, we assume that ERIKS, starting in 1940 was a local industry partner to provide products only. Durability through high quality was the key to success and helped

<sup>264</sup> RIES & TROUT, Positioning: Battle for your Mind, 1981



ERIKS through rough times and later to a good position in rebuilding Europe. Facing growing globalization and alternation of industry demand, ERIKS was not able to compete with the foreign competition in prices and product. The only possible solution was expansion to meet certain levels of economies of scale. Even so, ERIKS had to adapt their product also to meet customer demand. Differentiation is usually on the opposite side of economies of scale, however, differentiation through services and additional, tailor-made solutions brought ERIKS to today's position.

In ERIKS' own words, we find that development in their mission statement<sup>265</sup>: "The ERIKS group aims to develop from a traditional distributor into an industrial service provider in all market segments. "

### 3.2.4. Market Coverage Approach

The common market coverage approaches are<sup>266</sup>

Strategic Approach	Characteristics
<b>single market concentration</b>	focusing on one part of the market
<b>product specialization</b>	making one product for all markets
<b>market specialization</b>	making all products for one market
<b>selective specialization,</b>	making products for multiple niches
<b>full coverage</b>	making a product for every customer

Broadly speaking, the approach ERIKS is using market specialization. ERIKS provides a broad portfolio and thus wants to be capable of every possible demand of an industrial demander. As seen in customer analysis, we are facing different types of customers, which lead us directly to the question, if truly "one" market is focused.

This is doubtable due to very many different characteristics of the markets itself. Also, when looking upon ERIKS expansive development strategy, one could say that already regional differences between the different market ERIKS is operating in, gives us several markets and therefore we are facing product specialization on several market. Nevertheless, in the portfolio analysis will be proven, that it is way more that one product.

Consequently, a different approach to characterize ERIKS regarding market coverage has to be taken.

As we have seen in the financial objectives sector, ERIKS achieves growth through organic growth and acquisitions. Knowing this, we can assume, that once a particular company to acquire is found, which gives ERIKS a good starting position in a particular market, they try to enhance this new clusters position by slowly implementing the entire portfolio, which is successful in all other branches in the other regions.

<sup>265</sup> <http://ERIKS.com/en/about-ERIKS/mission/>

<sup>266</sup> <http://www.marketingpower.com/mg-dictionary-view1822.php>

To conclude, the first broadly speaking assumption is the most suiting one, if you take into account, that ERIKS is highly expansive and this expansions cause in the interim some definition challenges.

### 3.2.5. Generic Competitive Strategy

Crucial to the internal analysis is the definition of the generic competitive approach. Porter defines 3 generic approaches: Cost Leadership, Differentiation and Focus. In addition, he describes the “stuck-in-the-middle”-situation, which is not a favourable option but seen quite often, as a bad example of businesses with a lack of a positive strategic management. This option can be neglected from the beginning, because ERIKS would lack market share and capital investment, which is not the case as proven before.

To position ERIKS, we can already reduce the possible generic approaches, by locking out the “focus” approach. “Focus” would concentrate on a particular buyer group, market segment, product line or geographic market<sup>267</sup>; because of ERIKS’ expansive business development this option can be excluded.

Interesting is to choose between the two remaining approaches, differentiation and cost leadership. Please refer to the table to see in which aspects ERIKS strives to cost leadership.

Aspects required	Regarding ERIKS	Relevance
High relative market share	In Europe, yes,  Industry wide rather small	++
Favourable access to raw materials	Not particularly, good geographical position for reaching all kinds of raw materials (shipments)	-
Efficient scale facilities	In expansion	+
Pursuit of cost reduction	Due to high labour costs in strongest markets (UK, NL, B, GER) not sufficient,  Even so, due to expansion to new markets and synergy usage, cost averagely sink	++
Tight cost and overhead control	Flat organizational structure, control achievable	+
Avoidance of marginal	Long term business	++

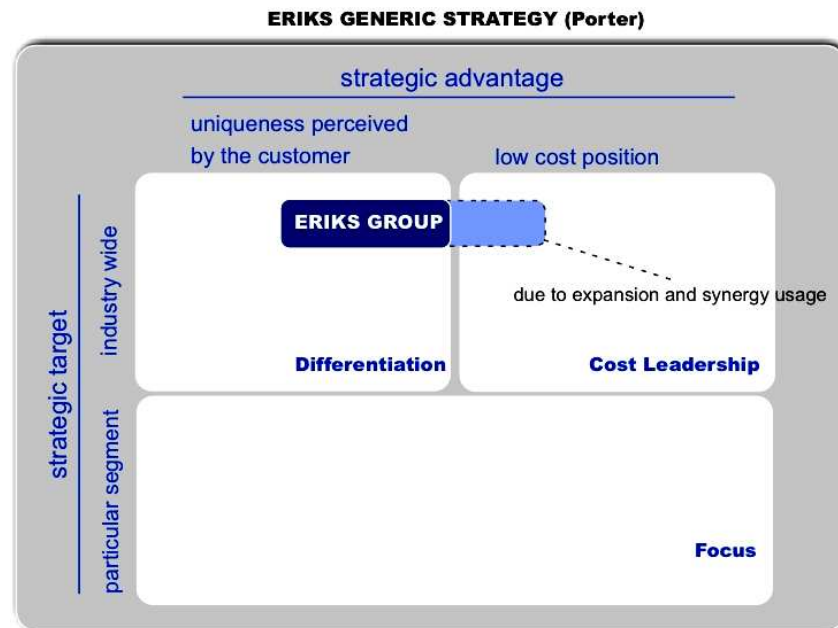
<sup>267</sup> M. PORTER, HES Syllabus 031

customer accounts	relationships and overall supply achieved	
Cost minimization in R&D, service, sales, advertisement	EOS® - Easy order system and corporate advertisement	+

However, due to ERIKS need to fulfil customers' demand on a broader level, we have seen that ERIKS is willing to expand one their business in general and two the depth of their product portfolio, which will be discussed later in this part. Consequently to that, we find even more applying arguments, which show and prove that ERIKS drives a differentiation strategy. Please refer to the table.

Aspects required	Regarding ERIKS	Relevance
Perception of exclusivity	Tailor made industry solutions	++
	Innovation is crucial and carried out by ERIKS.	
Extensive R&D	In Addition ERIKS claims to develop solutions together with customers, to achieve a higher level of exclusiveness	+
Extensive product design	Integrating the 6 know-how – domains results in extremely complex service and product mix	+
High quality materials	Durability, Quality and material excellence has always been ERIKS' values	++
Intensive customer support	As seen in the 6 Know-How Domains, service is on a high level	+

To sum up, it is important to acknowledge, that even if ERIKS shows some points which would lead to the conclusion of a cost leadership strategy, it is in fact a generic differentiation strategy which leads. Please refer to the graph to image the result.



### 3.2.6. Brand- or Corporate Strategy

ERIKS tries to achieve high brand awareness and therefore customer loyalty. The standards set by small high quality providing industry supplier ERIKS 20 years ago, is transferred to their now expanding business to worldwide supplier. ERIKS GROUP is trying to achieve constant and reasonable growth through both, organic and acquisitioned growth. To be successful and using synergies throughout your wide supply network, a strong corporate brand is a necessity.

ERIKS is aware of the strengths in the domestic markets of their acquisitions, but anyhow, as they want to show customer the possibility for a broader type of business relationship, they refer to the brand name and remind the customer on the strong central image of ERIKS.

As examples, please refer to the websites of former major acquisitions (2006)<sup>268</sup>.

		<p>Turpen &amp; Associates<sup>[1]</sup> (USA) for instance shows very openly their bonding to ERIKS, respectively the cluster ERIKS USA.</p> <p>The 2006 major acquisition was WYKO<sup>[2]</sup> (UK). Their corporate website also is branding ERIKS to show their new potential but still under established brand quality</p>

Concluding it can be said, that ERIKS is pushing their corporate strategy, by showing their

<sup>268</sup> ERIKS, Annual Report 2006

brand name as much as possible. However, to not fear or shock customers of their new acquired companies, they effect co-branding on the websites of the new group members.

### 3.2.7. Product Range Strategy

As seen before, ERIKS strives to become total industry supplier for several parts of industries. This is necessary as proven in 2.6. (Pricing Situation) to motivate rather high prices and long relationship contracts. This is inevitable to become hard to substitute and therefore not attackable with price battles.

Thus ERIKS provides a broad range of industrial products and services to reach the level of total supplier and becoming a partner for large industry customers. To give a clearer overview, we have structured ERIKS' product range in regard to the superior category, the "core activity".

Core Activity	Product range
Sealing Technology	<ul style="list-style-type: none"> <li>• O-Rings</li> <li>• Dynamic sealing elements</li> <li>• Pioneer Weston Sealing Technologies</li> <li>• Flange gaskets</li> <li>• Rubber technology</li> </ul>
Power Transmission	<ul style="list-style-type: none"> <li>• Hydraulic hoses and accessories</li> <li>• Hydraulic components and systems</li> <li>• Pneumatics</li> <li>• Bearings</li> <li>• Mechanical transmission</li> <li>• Electrical transmission</li> <li>• Mechatronica concept</li> </ul>
Flow Technology	<ul style="list-style-type: none"> <li>• Valves</li> <li>• Instrumentation</li> <li>• Industrial hoses and accessories</li> <li>• Plastic piping</li> </ul>
Industrial Plastics	<ul style="list-style-type: none"> <li>• Plastics for injection molding</li> <li>• Plastic semi-finished products</li> </ul>
Tools and Maintenance Products	<ul style="list-style-type: none"> <li>• hand tools</li> <li>• cutting tool</li> <li>• clamping tools</li> <li>• measuring tools</li> <li>• abrasives</li> <li>• welding and soldering tools</li> <li>• safety equipment</li> <li>• electrical tools</li> <li>• pneumatic tools</li> <li>• hydraulic tools</li> <li>• metal working machines</li> <li>• workshop furniture</li> <li>• special tools</li> </ul>
Technical and Logistics Services	<ul style="list-style-type: none"> <li>• Technical Services</li> <li>• Logistics Services</li> </ul>

Electrical and Mechanical Engineering Services	<ul style="list-style-type: none"> <li>• Electrical Services</li> <li>• Mechanical Services</li> <li>• Predictive maintenance</li> </ul>
Specialist Technology	<ul style="list-style-type: none"> <li>• Revolve Bearings</li> <li>• WYKO Tire Technology</li> <li>• Pioneer Weston Sealing Technologies</li> </ul>

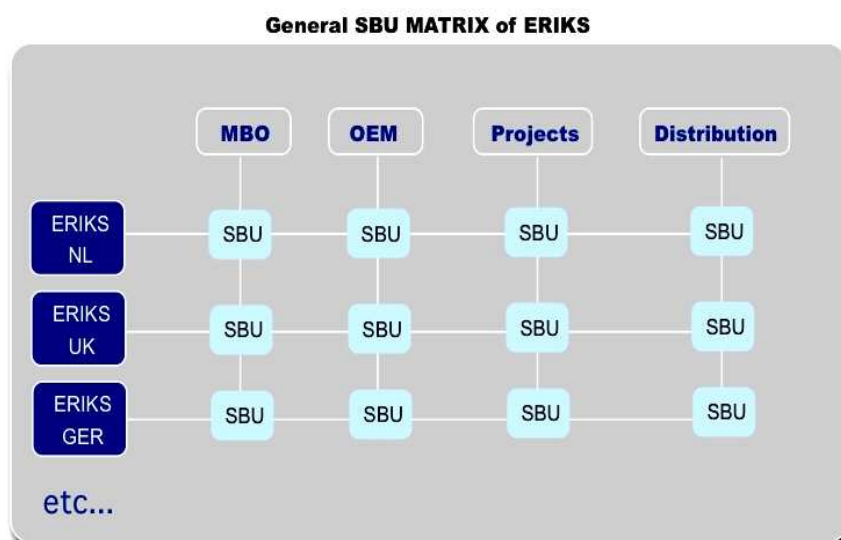
Concerning business development, it is crucial to ERIKS' strategy to reach the same product range on each cluster. Thus the image transfer will attract moving customers and also new customers. By achieving new companies, ERIKS also tries to widen their portfolio, even so, ERIKS is careful by picking potential companies to overtake, as they should not lose the close bond to their core competencies. Consequently, and this is what we see in their own strategy statement, organic growths should be driving at least half of the total growth of the ERIKS group.

### 3.2.8. SBU and Portfolio Analysis

As seen, ERIKS splits its total portfolio into eight core activities. These core activities represent a certain part of industrial needs. Each of them is used by ERIKS to reach specific demands of their customers. For ERIKS, this definition is rather important, due to the cluster structure. Not each of the clusters can provide all eight core activities. Only the Dutch and the Belgium cluster are as of today able to provide the entire portfolio. However, that is a achievable goal where ERIKS is striving towards, to have all clusters at one level and therefore create consistency in their portfolio.

SBUs define their selves as parts of the business, which are differently to manage, due to a different need of customers, different use of products provided etc.

The information given does not provide specific data about SBUs. However, knowing about the centralized strategic management and decentralized cluster structure of ERIKS we can use this as on characteristic and the knowledge about customer groups as the other one. Consequently results a matrix, which gives us a brief overview upon SBU-like structure.



Nonetheless it is important to have in mind, that not each cluster offers all core activities.

### 3.2.9. Additional Issues

What has often been mentioned but not really analysed yet in terms of company's strategy, is the role of the "six know-how domains". What on the first glance seems like an advertisement campaign is in fact a well developed part of ERIKS' current strategy. To have a clearer idea upon the "six know how domains", you can refer to the overview in part 3.1.3.

As mentioned, first we see this concept as a campaign to show the customer a high competence in what ERIKS' is doing. But in fact it plays major roles at the same time and can be considered as a interesting corporate strategy on multiple levels. To see the different impacts of each of the domains, please refer to the following table.

		Level of impact or effect at a strategic level		
Know-how-domain		Impact on customer	Positive internal outcome	Usable for management directives
	MARKET	+	+++	++
	PRODUCT	+++	+	++
	APPLICATION	++	++	+
	CUSTOMIZING	+++	+	+
	LOGISTICS	+	+++	0
	INFRASTRUCTURE	+	+++	+++

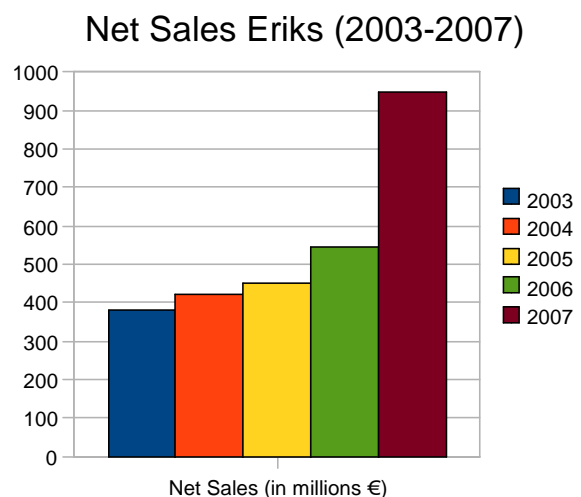
To sum up, ERIKS has created itself a new constitution so to speak. This 6-domain concept provides positive effect to several levels of the industry and will most likely end up as a successful strategy implementation.

### 3.10. Financial Results

#### 3.10.1. Turnover<sup>269</sup>

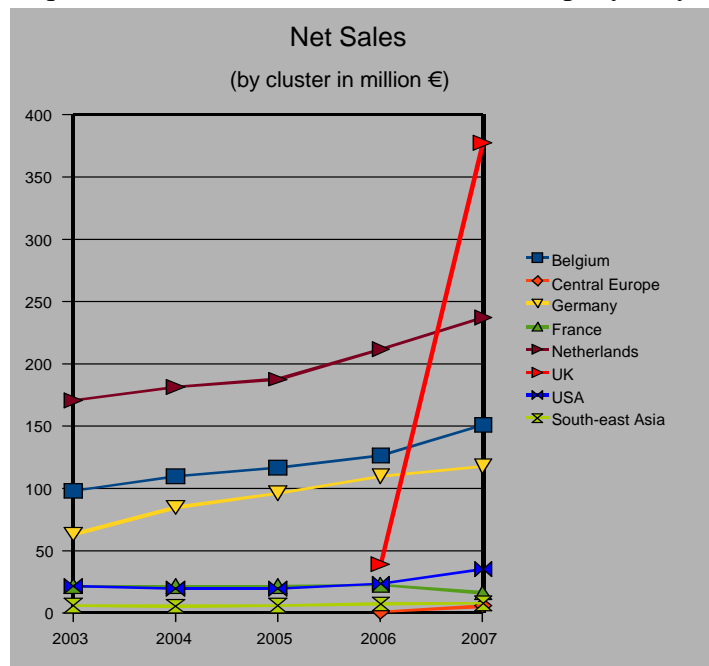
ERIKS recorded revenues of €941.1 million during the fiscal year ended December 2007, an increase of 74.7% over 2006. ERIKS achieved its highest results ever and realized all its financial and commercial objectives. Further specified as follows:

- Increase of € 350.8 million due to acquisitions realized in 2006 and 2007
- Decrease of € 1.8 million due to the disposal of activities
- Decrease of € 2.9 million due to lower currency exchange rates
- Organic growth of € 59.7 million or 11.1 percent.



<sup>269</sup> <http://ERIKS.com/en/press-releases/2008/ERIKS%20group%20nv%20-%20Financial%20results%202007%20ERIKS%20group.pdf>

As it is visible in the graph, ERIKS has experienced in the past five years a continuous growth in Sales. There are two reasons for the increase. First of all, the ERIKS group benefited from increased industrial activities in all countries where the company is present. And secondly the strategy of ERIKS convinced its customers. The key driver of this enormous growth was the acquisition in 2006 of the British company Wyko Holdings Ltd. Mainly due to this



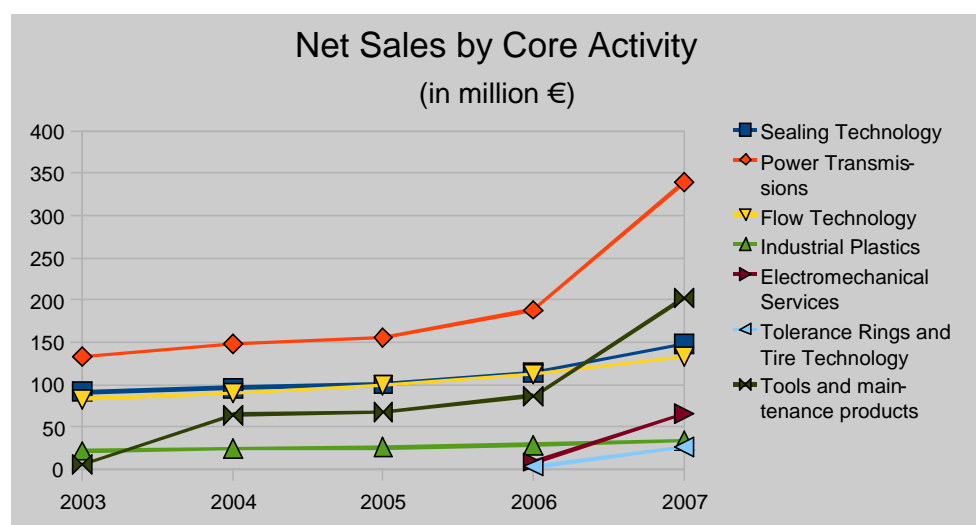
acquisitions major changes have taken place in the breakdown of sales by core activity and by customer group. Wyko significantly strengthened the power transmissions activities of the ERIKS group and a new core activity of electromechanical services and condition monitoring was added.

The sales in the UK cluster increased by 858% between 2006 and 2007.<sup>270</sup> All the other cluster also recorded growth, not as high as the UK cluster between 7,1% in Germany and 11,9 % in the Netherlands and 19,2 in Belgium. USA 50,6% and the South east-

Asia just had growth of 4%. Only the cluster of France recorded a decrease in its sales. The decrease amounted 28,9% compared to 2006. In Western and Central Europe 95% of the ERIKS sales are achieved. These are 905,3 million € in Europe, 35,8 million € in the USA and 8 million € in South-east Asia.

As mentioned earlier in the text, one new core activity was added to the core business of ERIKS. Now ERIKS has 7 core activities, which are Sealing technology, Power transmissions,

Flow technology, Industrial plastics, Electromechanical services and condition monitoring, Tolerance rings and tire technology, Tools and maintenance products. In the following



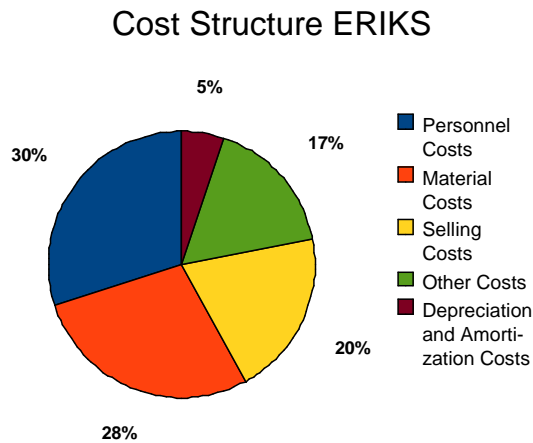
graph it is obvious that the newly added Power Transmissions activity is the biggest strategic

<sup>270</sup>



unit with 339,2 million € sales, which is about 36% of the total sales in 2007. Followed by Tools and maintenance products with 202,2 million € (21% of sales). Sealing technology with 148 million € (16% of sales). Flow technology with 132,6 million € (14% of sales).

### 3.10.2. Costs



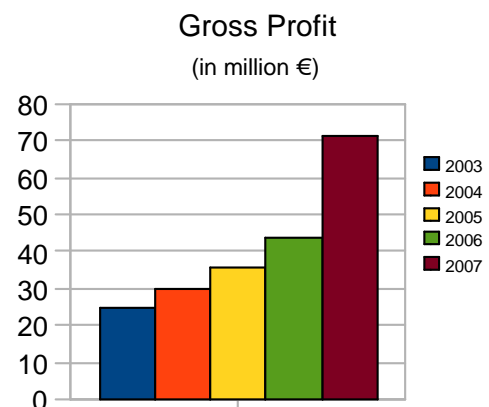
Effectively managing costs plays a key role in the success of firms in industrial markets such as the seals and gaskets industry. Unfortunately there is no precise information given about the costs of the ERIKS group. But we assume, based on our previous research that the most important cost for ERIKS to control are the direct material costs and the labour costs. We assume that around 30% of the total costs are personal costs, followed by the material cost with 28%, selling costs with 20%, depreciation and amortization with 5% and the other cost with 17%.

The following data shows the total costs of ERIKS by region because there is no data available for each cluster. As one can see the costs have risen from 2006 to 2007. The reasons for the rise are not given but they rose in all the regions comparably. The regions with the highest cost are the UK, the Netherlands Belgium and Germany in the year 2007. From 2006 to 2007 the cost in the UK rose enormously. This is due to the earlier mentioned acquisition and its starting up operations in the UK.

	Total costs in million €	
	2007	2006
Belgium	135,841	115,545
Central Europe	4,863	1,216
Germany	106,027	100,877
France	15,668	23,163
Netherlands	209,19	188,248
UK	357,13	38,101
USA	31,42	21,091
South-east Asia	7,38	7,314

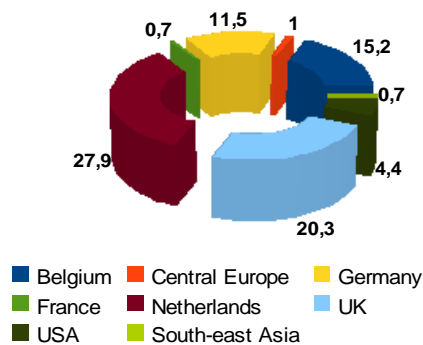
### 3.10.3. Profit

The ERIKS group realized a gross profit of €82.2 million in 2007 compared to the year 2006 it increased by 70.7%. The net profit of ERIKS increased between 2006 and 2007 from €27.8 million up to €43.7 million. This was an increase of 57.4%. Expenses reduced the gross profit by almost 50%. This is due to depreciation, like software with €9.9 million, amortization of intangible assets of €5.2 million, tax which accounted for the biggest proportion of the reduction of the profit by €16.9 million and also because of financial movement of financial instruments which accounted for €10 million. The following graph shows the allocation of the gross profit in the year 2007. The UK region has a gross profit of almost €21 million.



This profit was in the previous year only €1 million so that a major part of the increase in profit of ERIKS is due to the increased profit of the UK region.

**EBITA by Region**  
(in million €)



Furthermore the UK region accounts for almost 25% of the total profit of the ERIKS group. Another very important region for ERIKS is Belgium. The Belgian region accounted for €15.2 million gross margin. The most important region for ERIKS are the Netherlands. The Netherlands account for 34% of the total profit of ERIKS and have a gross profit of €27.9 million. Earlier in the text was mentioned that the

region France had a decrease of sales but this decrease did not have an negative effect on the profit of ERIKS France. On the contrary the gross margin of the region France increased from minus €0.3 million in 2006 to plus €0.7 million in 2007. To sum up all the regions of ERIKS recorded an increase of its profits.

#### 3.10.4. Contribution margin/ratio's (DDP, ROS, ROT, ROI, BEP)

It is only possible to give information about the ratio for the whole ERIKS group because there is no detailed information of the clusters given. As calculated from ERIKS' press release from February 2008, about ERIKS financial results 2007, the key financial ratios using the simple DuPont are the following:

- ROS (Return on Sales), is the net profit of €43,7 million divided by the turnover of €949,1 million, which makes it 4.6% for the entire ERIKS group. Compared with the 5.2% of 2006 it is a decrease of 0.6% points.

- ROT (Rate of Turnover), turnover €949 million divided by total investment €635 million is 1.5. This is an increase of about 67% compared to 2006, when the rate of return was just 0.91. (This shows that ERIKS' increasing ROT implies less expense for a higher net profit.)

- ROI (Return on Investment), multiplication of ROS (4.6%) with ROT (1.5) 6.9%. Although the return on sales has declined by approximately 12% last year the return on investment has increased by 47% due to a huge increase of the rate of turnover (+67%). The higher return on investment in 2007 shows that ERIKS is more profitable than in the year before. The reason for the change of these financial ratios is that total asset increased by 6.5%, while turnover increased by 74.7%<sup>271</sup>

<sup>271</sup>

cp. 3.10.1 Turnover, Acquisition of Wyko, p.128

Key financial figures 2006 - 2007				
	2007	2006		
Total Costs	905,1	515,39		
+				
Profit	43,7	27,91		
=				
Turnover	949,1	543,3		
/				
Investment	634,8	596,2		
			2007	2006
			= Margin	4,6% 5,2%
			x	
			= ROT	1,5 0,91
			=	
			= ROI	6,87% 4,73%

### 3.10.5. Forecasting

ERIKS will continue to develop its twin business model. The twin-business model combines two different models, which allows ERIKS to serve the demand for both the engine construction and the general maintenance efficient and effective. This model will be strengthened in the Netherlands, energetically rolled out in Belgium and steps will be taken in Germany and UK to arrive at structures that enable the introduction of the twin business model. For the realization of this, acquisitions will be realized in the existing but also in new regions. ERIKS will continue its expansion of activities and strengthening its position in the process industry by:

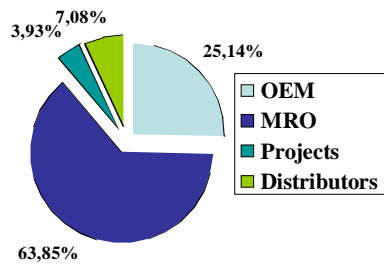
- \* Acquiring companies in Germany, Central Europe, UK and Scandinavia
- \* Expanding the network in the United States.
- \* Realizing synergy with the product groups flange gaskets, valves, instrumentation and industrial hoses in Germany, Central Europe and UK

Industrial activity increased in all regions of the ERIKS group's until now. Order intake remained high at the end of 2007, and continued in the first weeks of 2008. But there are, signs that growth of the global economy will slow down in 2008. This might impact the level of industrial production in the regions in which the ERIKS group operates. But ERIKS is well positioned due to their major acquisitions in the past. Additionally the acquisitions of two new firms in the beginning of 2008 will increase the sales and profit as well in the next year. ERIKS is and was in a very healthy financial position in the past five years and even before that. All the key figures like turnover and profit increased year-by-year as one can see in the text above so that it can be assumed that ERIKS will also continue to grow in the future.

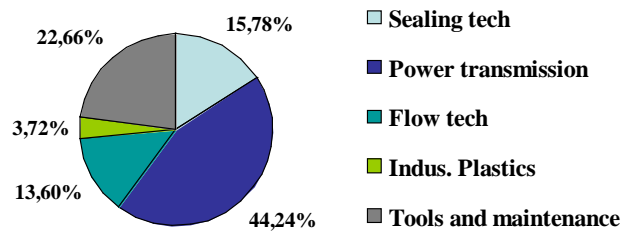
### 3.10.6. Conclusions/Deductions

After the analysis of the financial performance of the ERIKS group, the year 2007 turn out to be a very successful year for the company. ERIKS has a very good and strong financial performance. This performance is due mainly to the inorganic growth of the company as seen in 3.10.1. The investments of 2006 paid out in 2007 through the successful integration of the acquired companies. According to ERIKS press release "was it a fantastic year for the ERIKS group". The ERIKS group achieved its highest results ever and realized all its financial and commercial objectives that it had. According to all the statements made in this part of the analysis and assuming that the repartition of the business domains is similar from one cluster to another, we can provide with the following overview of ERIKS activities' repartition.

**Customer type repartition by sales  
(First quarter 2007 results)**



**Customer type repartition by sales  
(First quarter 2007 results)**



100%	Sealing technology	Power transmission	Flow technology	Industrial plastics	Tools and Maintenance products	
Belgium	2,50%	7,09%	2,09%	0,60%	3,63%	15,91%
Germany	2,04%	5,64%	1,70%	0,05%	2,89%	12,32%
Netherlands	4,06%	11,19%	3,30%	0,95%	5,73%	25,23%
United Kingdom	6,25%	17,25%	5,09%	1,46%	8,83%	38,88%
USA	0,61%	1,67%	0,50%	0,14%	0,86%	3,78%
France	0,27%	0,74%	0,22%	0,06%	0,38%	1,67%
Central Europe	0,10%	0,28%	0,08%	0,02%	0,14%	0,62%
South East Asia	0,13%	0,36%	0,11%	0,03%	0,19%	0,82%
	15,96%	44,22%	13,09%	3,31%	22,65%	

### 3.10.7. Additional Issues

The following are the objective of ERIKS for 2006-2009. There assumptions are that if independent, organic development and normal growth in economic activity will continue then the financial targets for the next three years are:

- Average sales growth of 10 to 15 percent (2006: 21.1 percent), broadly 5 to 7 percent of which to be achieved through organic growth and the remainder through acquisitions.
- Assuming pro-forma sales of about EUR 875 million in 2006, sales in 2009 will exceed EUR 1.1 billion.
- An operating result (EBITA) as a percentage of net capital invested, including goodwill, of at least 15 percent (2006: 23.0 percent).
- A net debt/EBITA ratio of less than 2.5 (end 2006: 3.1).
- An interest coverage ratio of over 6.
- An average rise in earnings per share of 5 to 10 percent (2006: 23.9 percent).
- A dividend payout, circumstances permitting, of approximately 50 percent of the result placed at the disposal of the shareholders plus amortization (2006: 49.8 percent).

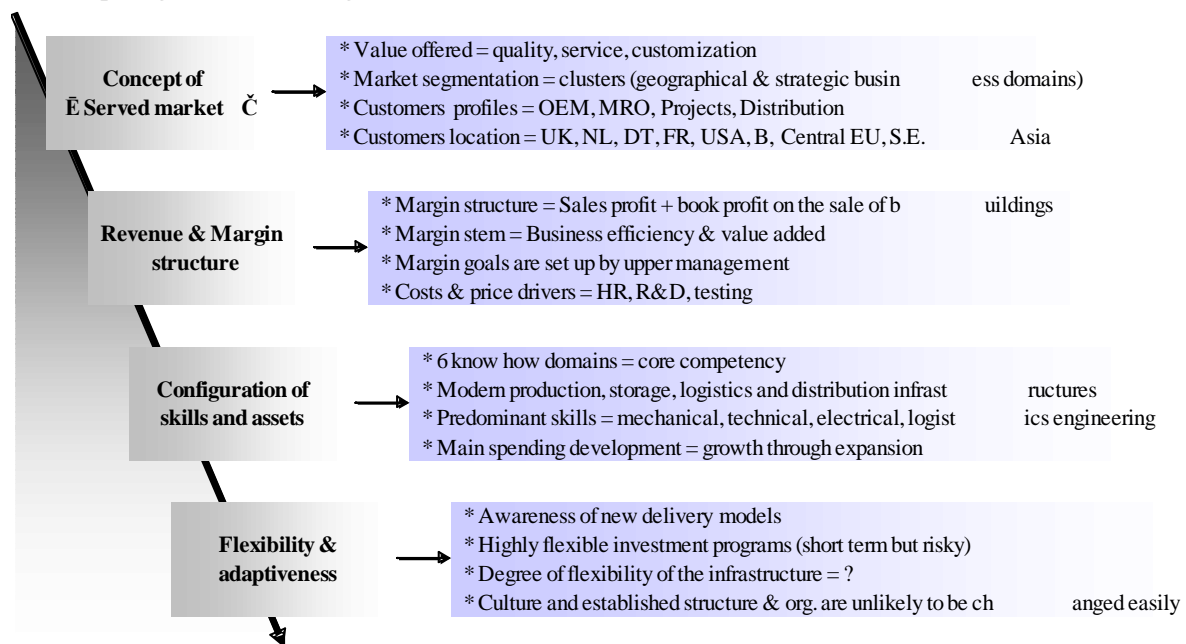
At this moment it looks like ERIKS is going to achieve its objectives until 2009 and maybe even achieve higher results.

### 3.13. Overall audit situation (helicopter view)

#### 3.13.1. Likelihood of targets being met

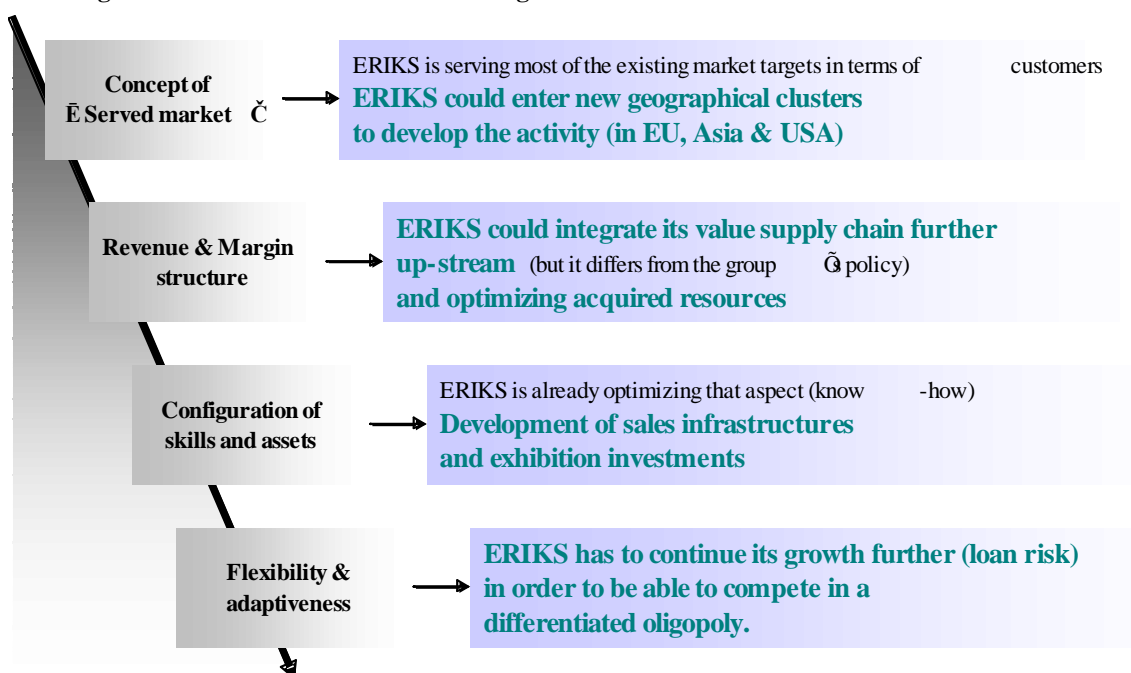
The first step to get into the audit of ERIKS is to start from a clear overview of the all situation. From Marketing & Management approach syllabus IBMS, from Mr. Wams, It is possible to provide the following insight on ERIKS.

##### Decomposing the economic engine



But this graph only provides with a limited view of the company. In the audit part, it will be question to emphasize on the critical aspects the company's is likely to meet.

##### Finding the limits of the current economic engine



The strategy ERIKS has followed in the last years is going to be continued because of the success it has shown.

For the year 2007, main emphasize will be given at strengthening market position and achieving organic growth in each cluster. The objective is to become European market leader. This should be achieved by a time taking process starting from the Netherlands and the Belgium clusters to switch to European supply. This will be achieved through reaching of others strategic goals referring first to the integration of newly acquired firms. As previously stated in the part related to the company's culture, ERIKS aims at building a strong company culture through established organisation. Regarding that the group needs to get those firms involved in the corporate strategy to optimize the acquisitions. On a second time, ERIKS will focus on the expansion of its activities through further planned acquisitions (in Germany, Central Europe and Britain and maybe Scandinavia) and extended network within the USA.

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## Marketing targets<sup>273</sup>

Driven by a highly developed group identity, the ERIKS group is striving to achieve the following objectives.

### *Place*

Throughout Easy Order System it is easy to open distribution channels where ERIKS is situated. Thus it is only a matter of capability of delivery, which is important to redefine channels. Following *Place*-targets should be achieved:

(i) Building up leading market positions in Western and Central Europe. (ii) Building up leading market positions in Western and Central Europe. (iii) Taking a strong market share (in the top 3) in all core activities in its range in all regions where the group has its own branches. (iv) Expanding current activities in the USA ('buy-build' strategy). (v) Maintaining activities in South-east Asia organically.

### *Promotion*

As stated before, corporate branding plays a major role in ERIKS' strategy. Therefore the group is eager to reach a strong corporate image. *Promotion*-targets are defined as followed:

(i) To its customers, the ERIKS group wants to be the innovative, reliable and flexible supplier of choice in line with the defined mission. (ii) To its manufacturers, the ERIKS group wants to be a reliable, cooperative partner with sufficient market share and volume, serving the entire industrial market based on its extensive technical and logistics know-how. (iii) to have a balanced spread of sales across the main customer types (purchasing profiles) of 'Maintenance' and 'Original Equipment Manufacturers' (OEM) to control its risk profile.

### *Price*

There are no specific targets defined concerning the price. However, it is obvious, that ERIKS carries on the development of their value adding services. This is the only possible strategy to defend product margins and stay competitive.

### *Product*

As mentioned in the *Price* part, the product is ERIKS' key to success. As seen in the generic strategy approach, differentiation is their only possibility to motivate high prices and

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<sup>272</sup> ERIKS Annual Report 2006 p. 59

<sup>273</sup> <http://ERIKS.com/en/about-ERIKS/objectives/#tab-6532>

consequently generate cashflows to invest in business development. Hence, following *Product*-targets have been defined:

- (i) Offering an extensive range of high-quality mechanical engineering components. (ii) Possessing and offering a high level of know-how so as to be an innovative supplier.

### *People*

ERIKS itself considers their employees as their most valuable asset. To support and challenge the workforce, ERIKS constantly strives to a inspiring relationship between management and employees. Defined goals regarding *people*:

- (i) Included in the annual report, maintaining communication with the employees and developing maintenance of career counseling programs belong to the corporate strategic goals. (as well as communication with investors)

## **Financial targets<sup>274</sup>**

Assuming independent, organic development and normal growth in economic activity, ERIKS' financial targets for the next three years are (2007-2009).

- (i) Average sales growth of 10 to 15 percent (2006: 21.1 percent), broadly 5 to 7 percent of which to be achieved through organic growth and the remainder through acquisitions. Assuming proforma sales of about EUR 875 million in 2006, sales in 2009 will exceed EUR 1.1 billion. (ii) An operating result (EBITA) as a percentage of net capital invested, including goodwill, of at least 15 percent (2006: 23.0 percent). (iii) A net debt/EBITA ratio of less than 2.5 (end 2006: 3.1). (iv) An interest coverage ratio of over 6. (v) An average rise in earnings per share of 5 to 10 percent (2006: 23.9 percent). (vi) A dividend payout, circumstances permitting, of approximately 50 percent of the result placed at the disposal of the shareholders plus amortization (2006: 49.8 percent).

The ERIKS group's international profile was strengthened considerably last year. The company achieved the best results ever. With €949,1 million of sales in 2007 ERIKS is getting closer to its financial target which they want to achieve by 2009. The Target is to achieve more than one billion by 2009. Compared to 2006 the sales rose by 74.7% and the profit rose also enormously by 70.7%. ERIKS was and still is a very profitable firm. In the up come year ERIKS will continue with acquisitions in Europe and will expand the existing network. The acquisitions in Europe will be expanded to the north, to Scandinavia. These will be achieved through new acquisitions. All in all ERIKS financial situation is very healthy.

## **Strategy to achieve fixed targets**

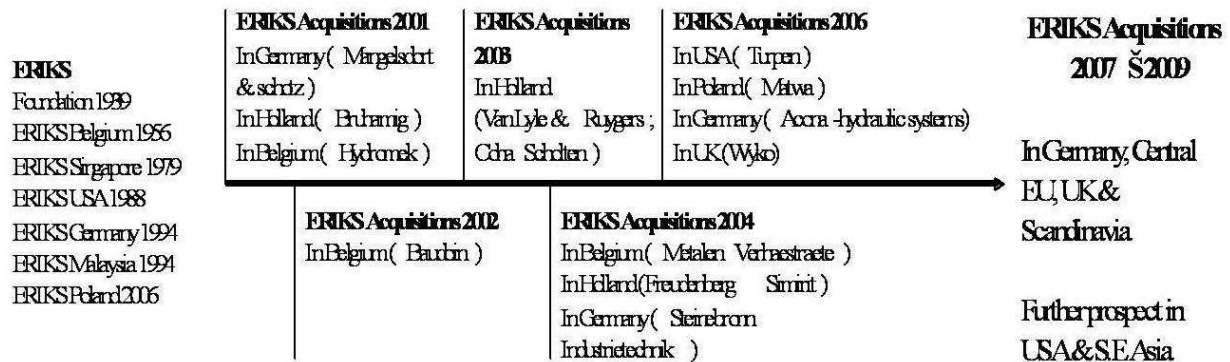
The objectives fixed are meant to be achieved thanks to the continually growing range of products and services. The portfolio of the group supported by the high level of know how (6 Know-how please refer to 3.1.3. of the analysis) play a considerable role in ERIKS' success. Another advantage that will enable ERIKS to meet those goals is its total supplier status. Moreover, the new commercial concept introduced (with 2 business models for OEM & MRO markets) should provide the company with a better knowledge of its customers helping to respond better to their specific needs. Also the increase of productivity and profitability forecasted are meant to be achieved via the effective commercial services ERIKS offers and its logistics know-how.

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<sup>274</sup> See ref. 60



## Past, recent, current developments



## Likelihood of targets being met overview

		Likelihood of target being met	
Targets	Quote (- ;=;+)	Reasons	
<u>* For the year 2007</u>			
New firms integration	(++)	Established processes & experience + Long term relationships & local networks	
Market position strengthening	(=)	strengthening ERIKS markets position belongs more to long terms objectives as the impact is less likely to be seen within only one year	
Activity expansion			
<i>in Europe</i>	(++)	New acquisitions enables a very strong position on EU markets	
<i>in USA</i>	(=)	Observable expansion thanks to highly developed network but still limited by distance and market differences	
<i>in South East Asia</i>	(=)	Currently only few expansion foreseen and to achieve by organic growth	
<u>* For the period 2007-2009</u>			
MARKETING			
Place			
Activity expansion & maintain		Same reasons as observed on the short term analysis above	
<i>in Europe</i>	(++)		
<i>in USA</i>	(+)		
<i>in South East Asia</i>	(+)		
Promotion			
reliable & flexible supplier image	(+)	Already built this image for years. Long term establishment continues to benefit the group's image	
reliable & cooperative partner image	(+)		
Balance customer's sales	(-)	The differences of shares of each customers segment tends to show that balancing those sales will take time and probably more than 3 years	
Product			
Range widening	(=)	Ranges continue to widen but only with minor implementations or customizations	



<b>Portfolio widening</b>	(-)	This seems difficult as long as ERIKS won't have stabilize its positions + lack of know how
<b>People</b>		
<b>Employees commitment through relationships</b>	(++)	With the strong emphasize given on employees, ERIKS should achieve the related goals
<b>FINANCIAL</b>		
<b>10 to 15% average sales growth</b>	(+)	As the increase of growth in the past years was mainly due to acquisitions, the sales growth ratio is likely to increase more slowly in the next years
<b>from which 5 to 7% organic growth</b>	(+)	further organic growth should be achieved thanks to the company know how and established integration processes
<b>&amp; 5 to 10% acquisition</b>	(=)	but further acquisitions remains risky due to the high level of risk of the capital structure but also because of increased structure complexity in terms of management
<b>2009 sales &gt; € 1,1 Billion</b>	(+)	the entered markets and expansion policies provide the firm with the necessary means to achieve that goal
<b>EBITA / Net capital invested at least worth 15%</b>	(+)	Limiting debt is necessary for the firms' stabilization of activities: therefore a progressive decrease of debt is a wide policy to run
<b>Interest coverage ratio &gt; 6</b>	(+)	It has been declining over the last periods, but due to the fact, that ERIKS is financing more investments out of own resources, this number is likely to stay above 6
<b>5 to 10% rise in earnings per share</b>	(+)	This also likely to happen as a result of increased value of the firm through acquisitions
<b>50% of result at disposal of shareholders + amt</b>	(=)	Due to previous achievements of this figure it is likely to assume, that also this financial goal will be reached. However, we do not have specific forecasting possibilities to say that certainly

## 4. SWOT – ANALYSIS

To generate a broad overview upon ERIKS' strategic options, results of the internal and external analysis have to be reviewed and measured. The internal analysis provided several aspects of ERIKS' performance; those are referred to as STRENGTHS and WEAKNESSES. On the other hand, the external analysis gives us environmental issues which affect ERIKS from outside; those are considered to be OPPORTUNITIES and THREATS.

### 4.1. Aspects to consider from Internal Analysis

#### 4.1.1. STRENGTHS

##### *Domestic position*

To begin with, ERIKS has a very strong domestic position. This provides a secure basis for geographical expansion and increase of local and international market share, and gives the possibility to copy successful concepts to other markets and segments.

##### *Image*

ERIKS achieved a well-known image in the global industry worldwide. At least in the markets ERIKS is operating in, the corporate name is positively recognized. This brand awareness is important to create further "re-buy" and thus brand loyalty and helps improve customer retention as well as attractiveness for potential ones.

##### *Flat organizational structure*

Regarding the broad scope of ERIKS, it is still operating with an effective flat and therefore flexible organizational structure. ERIKS Holding is in charge of corporate level decisions while each cluster penetrates its own individual markets, itself responsible for business, functional and operational level decisions.

##### *Resources*

The financial resources of ERIKS are strong. Flexibility for new acquisitions is needed for quick movements on the market. The listing on the public stock market gives the company a solid financial basis and enables it to issue new shares in case of capital increase requirement. Moreover its strong relationships with financial partners (banks mostly) gives ERIKS a strong competitive advantage in terms of activity expansion.

Also important to mention is a strong workforce, who is - compared to the competitors - rather small, even so, averagely everybody seems highly dedicated to the company and thus productive. ERIKS' strong company culture is an important competitive mean.

##### *Modern infrastructure*

Due to the relative young history and constant development, ERIKS has a modern infrastructure, which works highly efficient. As compared to long established firms which infrastructure improvement requires high investments and deep organizational changes, ERIKS benefits from its up-to-date infrastructure in terms of flexibility and productivity in the worldwide competition.

##### *Core activities*

ERIKS' performance in each core activity, as they defined them, is strong. Each cluster covers a different set of core activities. Main focus is to always offer one core activity in its

whole and most preferable all core activities in one cluster. The 6 Know-how domains secure their strong positioning as differentiated total supplier for industry.

### *Core Competencies*

The core competency of the ERIKS group, as Prahalad and Hamel defined it<sup>275</sup> as not easy to copy, provides enhanced perception of use to the customer and opens up significant chances to enter new market, is not easy to define. But giving the historical ground of ERIKS, the providing of high quality industrial machinery parts is in fact relatively easy to copy. The interaction of different core activities, to develop a complete solution for a customer, is the only strength of ERIKS that might be considered as a core competency. Profound experience, a high level of know-how (6 know how domains) and the capability to have it all in-house, this is what meets most the classical definition.

### *Distinctive Competencies*

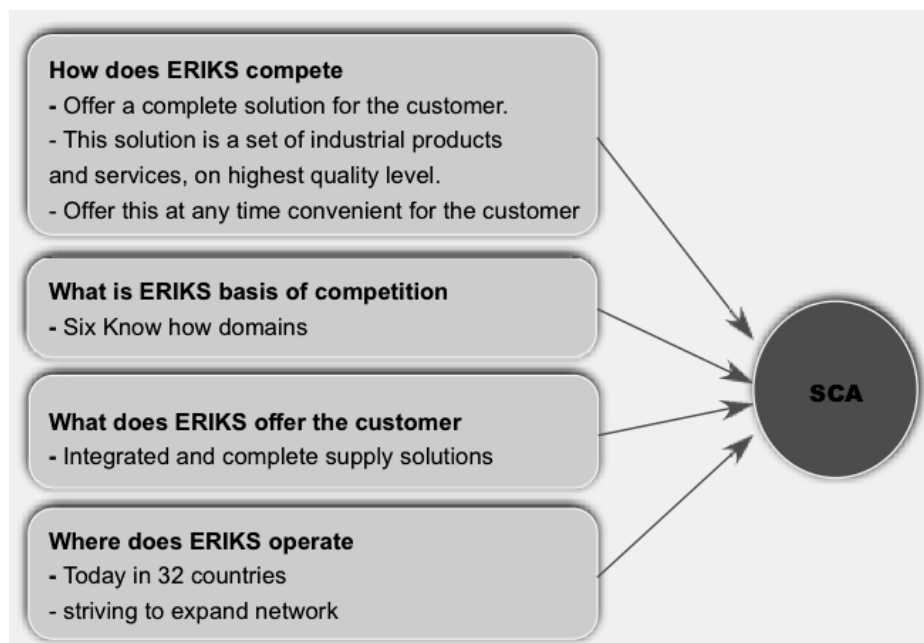
The distinctive competence is defined as a set of assets and competencies<sup>276</sup>, which allows the company an advantage on a certain market. This is exactly what ERIKS provides as 6 Know-How domains. What also could be seen as a core competency is in on the other hand their distinctive competence, which gives them competitive advantage on several markets.

### *Competitive Advantages*

ERIKS is highly innovative. Especially in their strongest markets, innovations are mostly used to provide excellent service. Transfer of know-how might also be a competitive advantage. Wherever customers show new demand for a product or service, it is rather likely that ERIKS is already providing it elsewhere, consequently the transfer of the know-how is quickly possible.

### *Sustainable Competitive Advantages*

A sustainable competitive advantage<sup>277</sup> in ERIKS' regard can be displayed as below:



<sup>275</sup> [http://www.12manage.com/methods\\_corecompetence\\_de.html](http://www.12manage.com/methods_corecompetence_de.html)

<sup>276</sup> <http://www.referenceforbusiness.com/encyclopedia/Dev-Eco/Distinctive-Competence.html>

<sup>277</sup> D. AAKER, Strategic Market Management, 2007

### **4.1.2. WEAKNESSES**

#### *Shortcomings*

Shortcoming in what ERIKS is providing to its customers is not really obvious; however there are some weaknesses, which will be pointed out in the next point.

#### *Market share*

First weakness of ERIKS is the relative low market share regarding global scope. Because of the oligopolistic context and providing the expansion strategy of the group, gaining weight first on national markets and in a further step worldwide should be regarded as one of the most important goal to achieve. Moreover increasing competition which has been observed throughout the external analysis will not enable weak actors to survive.

#### *Core competency*

Worth to mention, that ERIKS lacks a solid core competency such as for instance sealing technology that no one does better than ERIKS. As seen above, only the set of core activities maybe considered as a core competency which limits the impact in terms of competitive advantage.

#### *Lack of low cost facilities*

Another weakness resulting out of the internal analysis is the lack of low cost production facilities. However this might result from strategic decisions taken on a corporate level, it represents a dangerous disadvantage when competing internationally.

#### *Cost of capital*

Due to several huge investments for acquisitions, ERIKS has to face grand costs of capital which is reflected in their financial overview (please refer to 3.10.). Concretely this means a high level of debt which could be threatening in case of direct threat of offensive venture.

## **4.2. Aspects to consider from External Analysis**

### **4.2.1. OPPORTUNITIES**

#### *Key Customer Motivators*

As seen in 2.2.6 of this report, KCMs in this business area are generally what ERIKS strives towards. Pre-and post-sales effectiveness, ease of doing business, product quality, overall reliability, performance in selected areas.

Being a key factor of success in this activity, customers' satisfaction has to be approached in terms of customer's segmentation. Expectancy by cluster differs according to own activity interest. Whereas OEM will attribute more importance to product quality and reliability, MRO will focus on lead times. Distributors will be more likely to look for price to volume advantages. However there is a clear tendency showing that long established relationship often are more important than product & service comparative advantages.

#### *Critical Success Requirements*

##### *Strategic Strengths*

Innovation is a critical success factor in this market (as seen in 2.1.10). Different forms of innovation are seen, such as product innovation, service innovation, process innovation etc.

##### *Flexibility of production*

Also a strategic strength in this market is to be able to adapt your production process to your actual demand. Adaptation is also necessary to differentiate your products according to customers' needs.

#### *Service vs. low-cost*

Customers seem to be willing to pay a higher price for integrated services, thus price sensitivity in ERIKS' area is lower.

#### *Competitors' weaknesses*

As seen in the competitor analysis (2.3.), ERIKS' competitors have weaknesses also. A crucial one could be a lack of clear positioning of the companies due to unstructured diversification as well as high level of investment.

#### *New Markets*

New emerging markets such as China or India provide opportunities for market development.

### **4.2.2. THREATS**

#### *Competitors' Strengths*

High global market shares are seen at ERIKS' strongest competitors. These companies have a well-established customer base which is not likely to change significantly or rapidly. Their movements affect this market on heavy levels and could change the business environment tremendously. Moreover, their long establishment enable them a good knowledge of markets even on a local basis as well as of their customers' expectations.

#### *Low-cost competitors*

On the other hand, low cost product competitors offer some products only, but on a way lower price level. However, these companies lack service, and additional augmented areas ERIKS has to offer. Even though potential demand forecasted on growing Asian market could opt for lower prices in order to increase its production capacity better than preferring quality and service.

#### *Meso / Macro Environmental Aspects*

The differentiated oligopolistic market in which ERIKS is operating has a very high level of competitiveness but it differs from the classical product and services competitive level. Competition occurs at a global effectiveness and efficiency corporate level. Therefore the awareness of macro environmental variables and related issues is essential to compete and to create value from market opportunities. As there is a relative low innovativeness on that market, main opportunities will come from emergence of newly industrial countries. Environmental aspects and resources are likely to deeply transform the worldwide industry; however that kind of radical change is not likely to occur from one day to the other.

#### *Threat of being copied*

In industrial markets the threat of being copied is crucial. It is hard to be innovative on only product level, thus this threat is inevitable. Uniqueness of service and strategic differentiation is therefore a necessary competitive mean.

#### *Hazard Areas and Risks*

On the one hand market development is an opportunity, but on the other hand it requires high investment and careful planning. Those two aspects result to a high risk which is enhanced the more unpredictable factors come into play.

### 4.3. Comprehensive SWOT-Matrix

		S		W		O		T		Importance		
		maj	min	min	maj	maj	min	min	maj	H	M	L
<b>Domestic position</b>		X								X		
	<i>Organic growth</i>		X							X		
	<i>Acquisition</i>	X								X		
<b>Image</b>		X								X		
	<i>Reputation for service</i>	X								X		
	<i>Familiarity with market</i>		X							X		
	<i>Reputation for quality</i>		X								X	
<b>Flat organizational structure</b>		X									X	
<b>Resources</b>		X								X		
	<i>Financial</i>	X								X		
	<i>Human Resources</i>	X								X		
<b>Modern infrastructure</b>		X								X		
<b>Core activities</b>			X							X		
<b>Core competencies</b>		X								X		
<b>Distinctive competencies</b>			X							X		
<b>Competitive advantages</b>			X							X		
<b>Sustainable CA</b>			X							X		
<b>Shortcomings</b>				X							X	
<b>Market share</b>					X					X		
<b>Relative lack of core competencies</b>					X						X	
<b>Lack of low cost facilities</b>					X					X		
<b>Costs of capital</b>				X							X	
<b>KCM</b>						X				X		
	<i>Quality</i>					X				X		
	<i>Reliability</i>					X				X		
	<i>Service</i>					X				X		
	<i>short lead times</i>					X					X	
<b>CSR</b>						X				X		
	<i>Strategic strengths</i>					X				X		
	<i>Innovativeness</i>					X				X		
	<i>Flexibility of production</i>					X				X		
<b>Service vs. low cost</b>							X				X	
<b>Competitors' weaknesses</b>							X				X	
	<i>Unclear positioning</i>						X				X	
	<i>High investment level</i>					X				X		
<b>New markets in Asia</b>						X				X		
<b>Competitors' strengths</b>								X		X		

<b>Long establishment</b>								X			X	
<b>Market share</b>								X			X	
<b>Low cost competitors</b>								X				X
<b>Meso / Macro - high competition</b>									X	X		
<b>Threat of being copied</b>								X			X	
<b>Investment risk</b>									X	X		

This comprehensive SWOT enables to build the following table which points out most important aspects.

<b>Strengths</b>	<b>Weaknesses</b>
Domestic Position	
Image	
Flat org. Structure	
Financial resources	
Human resources	
Modern infrastructure	
Core activities	Shortcomings
Core competencies	Market share
Distinctive Competencies	Lack of solid core competency
Competitive Advantages	Lack of low cost facilities
SCA	
Critical Success Requirements	
<b>Opportunities</b>	<b>Threats</b>
KCM	Low-cost compet.
CSR	Meso / Macro Env. Aspects
Comp. weaknesses	Investment risk
	New entrants
New Markets	Me-too competitors

#### 4.4. First impression of SWOT

The broad and brief overview upon all aspects of the internal and external analysis provides a strong image of ERIKS, especially from organizational point of view. ERIKS' strive to full service provider meets customer demand and should be building up quickly on a broader level, meaning, every cluster should have the entire portfolio soon, to strengthen ERIKS' position in the relevant markets. However, there are significant points, which could lead to problems. For instance the lack of a concrete core competency is a weakness that opposes threats of being copied and therefore could cause high managerial challenges. Also, the weak market share on global scope shows that the competitors are better established and consequently put ERIKS in the position of the attacker.

Even so, we might conclude, that the first impression of the SWOT-Analysis reflects a challenging business environment, where ERIKS is well equipped to work on doable issues.

## 5. CONFRONTATION MATRIX

Complete TOWS used to build focus TOWS analysis

		Threats					Opportunities					
		Competitors' Strengths	Low-cost competitors	Meso / Macro Environ Aspects	Threat of new entrants	Hazard Areas and Risks	KCM	Critical success requirements	Flexibility of production	Service vs. low-cost	Competitors' weaknesses	Market development
Weaknesses	Cost of capital	-	-	-		-		+	+	+		+
	Lack of low cost facilities	-	--	--	--			+	-	+		-
	Lack of Core comp.	--		--	--	-	-	-		-		-
	Market share	--		--	--	-	-		-	-	--	-
	Shortcomings	-	-	-	-	-		-		-	-	-
Strengths	Domestic position	+	+	+	+	++	++	++	+	+	+	
	Image	+	++	+	+	+	++	++	+	++	+	+
	Organization	+	+	++			+	+	+	+	+	+
	Resources		+		-	-	+	+	++	+		++
	Modern infra.	+	+	+	+	+	+	+	++	+	+	+
	Core activities	+	+	+	+		++	++	+	+	++	++
	Core Comp.	+	++	+	+		++	++	+	+	++	++
	Distinctive Comp.	++	++	+	+		+	+		+	+	++
	Comp.Adv.	++	++	++	+		+	+		+	++	++
	Sust.Comp. Adv.	++	++	++	+	+	++	++		+	++	++

### 5.1. Confrontation

SWOT

ERIKS

		External analysis						
		Threats			Opportunities			
		Meso / Macro Env. Aspects	Low-cost compet.	Threat of new entrants	KCM	Service vs. low-cost	Market Development (Asia)	
Internal Analysis	Weaknesses	Little Market share	--	-	--	-	-	--
		Lack of solid core competency	--	-	--	-	-	-
		Lack of low cost facilities	--	--	--		+	-
	Strengths	Organization	++	+	+	+	+	++
		Innovativeness	++	++	+	++	++	
		Image	+	++	+	+	++	++

#### 5.1.1. S confronting O = win quadrant



		Opportunities		
		KCM	Service vs. low cost	Market Development (Asia)
Strengths	Organization	+	+	++
	Innovativeness	++	++	
	Image	+	++	++

The customers perceive high importance in what ERIKS provides as strengths. Therefore convincing relationships evolve and this is crucial for ERIKS' long-term success. Their approach against low-cost is differentiation and innovation; a substantial competitive distinction, which keeps customers loyal even on higher price. The most important opportunity for ERIKS is the development of markets, as competitors that are strong in Western markets are on the edge to start also. Due to Ansoff's model of market development, innovation plays a minor role in it, however, it will contribute to ERIKS' image and therefore it is indirectly contributing to their success in emerging markets.

To conclude we can say that ERIKS "Maxi-maxi" strategy effectively uses its resources to answer the observed market opportunities.

### 5.1.2. S confronting T = battle field

		Threats		
		Meso / Macro Env. Aspects	Low-cost compet.	Threat of new entrants
Strengths	Organization	++	+	+
	Innovativeness	++	++	+
	Image	+	++	+

ERIKS' cluster structure provides important flexibility on several regions. Reactions to Meso/macro-environmental developments are easy possible and this also gives the company the possibility to act individually to defend against the mentioned threats. Innovation as a key-success factor in this business environment grants strong position against threats. ERIKS' innovative level could be enhanced even more. ERIKS' strong corporate image defends them especially against low-cost competitors. As seen before, mobility barriers are rare in this market, thus entrants could enter crosswise and therefore also have a strong image.

To conclude it is possible to point out the fact that on direct MESO environment level, ERIKS correctly uses its strengths to fight most dangerous market threats but on a MACRO environmental level, ERIKS' strengths are unlikely to be sufficient to compete on a global level. The "maxi-mini" strategy tends to only reduce threats from direct competition.

### 5.1.3. W confronting O = improve present operations

		Opportunities		
		KCM	Service vs. low cost	Market Development (Asia)
Weaknesses	Little Market share	-	-	--
	Lack of solid core competency	-	-	-
	Lack of low cost facilities		+	-

The little market share of ERIKS reduces the regional scope and is one of the crucial points to work on. The lack of solid core competency is of course a weakness, which could lead to client-hopping, even so, if ERIKS develops their 6 know-how domains as a bundle to be a core competency, this will show true strengths in the positioning service vs. low-cost. In this context, the lack of low cost facilities proves their position on integrated service orientated solutions and can be regarded as positive. However, a cheaper production is mostly good to achieve. The market development requires economies of scale; nevertheless is the opportunity of entering new markets at the same time providing investment chances in low cost production.

To conclude the “mini-maxi” strategy of ERIKS should focus on using market opportunities to minimize weaknesses. The competitive strategy observed by ERIKS tends to try to implement weak aspects of the group by taking market opportunities.

### 5.1.4. W confronting T = avoidance zone

		Threats		
		Meso / Macro Env. Aspects	Low-cost compet.	Threat of new entrants
Weaknesses	Little Market share	--	-	--
	Lack of solid core competency	--	-	--
	Lack of low cost facilities	--	--	--

ERIKS’ little market share makes them very attackable on all aspects. Low cost competitors operate mostly regional which grants a slight relief for globally operating competitors in this business. As mentioned before, having no possibility to produce on a low cost level reduces possibilities to play with margins. Low cost competitors and new entrants can only be dangerous, if they do something better than you or to a cheaper price. Thus, the lack of a solid core competency makes ERIKS weak in this aspect and underlines its strive to differentiation.

To conclude ERIKS is not facing a “mini-mini” strategy but on a global level it should focus on minimizing both its weaknesses and market threats.

## **5.2. Deductions and/or Conclusions**

After looking on all aspects more in depth, it is important to assess and measure the different confrontations to further deduct the right strategic choices.

Until now, the most suitable strategy seems to fit more with a maxi-maxi strategy, in which ERIKS would continue to utilize its resources to take advantage of market opportunities and support a continuous growth.

### **5.2.1. Assessment of opportunities**

ERIKS' opportunities are challenging. In between Europe ERIKS meets the Key Customer Motivators (KCM) on a high level. ERIKS' development should further orientate on the KCMs to stay close to today's requirements of industry and continue its development within Europe. Further growth should be achieved both by organic growth thanks to the strong establishment and image and the good knowledge of local markets, and acquisitions thanks to strong capital development and high level of investment.

On a long-term basis, crucial for ERIKS is the development in Asia. Missing this would leave a heavy hole on a global scope and would make ERIKS highly attackable in one or two decades. Strong product development driven by complete offering of the 8 core activities and innovation in the saturated markets and market development in emerging markets will be substantial for ERIKS' future.

### **5.2.2. Appraising of strengths**

As mentioned before, ERIKS directed itself correct by striving to differentiation. The image as integrated solution provider in accordance with the 6-Know-how domains proves a strong competitive position. The company's possibility to manage each cluster to a certain extend independently makes the group flexible and agile, which is very important for successful developments in each market.

Innovation has been carried out at ERIKS more on an internal level, which granted strong solutions for the customers. However, innovativeness at ERIKS could be even higher to also have the advertising effect of being one of the most innovative companies on the market. Innovation is the only key to evolve the 6-Know-how domains to being a core competency; hard to copy, high percipience of use significant chance to enter new markets.

ERIKS competitive and development strategy make an effective use of the company strengths to continue growing. Optimization of resources and integration of acquired companies should be the most worked through challenges.

### **5.2.3. Improvements of performance**

The grabbing of opportunities ERIKS has, is crucial to improve present performance. This lies primarily in the fact that little market share and lack of low cost production facilities are major points that reduce overall performance. Both can be improved by entering emerging markets. If ERIKS manages to enter strongly in e.g. China and India their market share will increase. Their resources to enter steep are sufficient and should be exploited. Once having established in those countries, production facilities could be used also to cover other markets production, consequently the overall productions costs would fall which increases margins.

Nonetheless, ERIKS' main focus has to stay on differentiation, because this is their only way to differentiate against low cost competitors.

#### **5.2.4. Identification of niches**

In this industrial business environment ERIKS is operating in, it is not easy to find a niche in which the company could establish themselves as a sole and powerful player. Also here innovation could help. While investing in R&D, especially how ERIKS does that in co-operation with their customers, niches could be identified and exploited.

Even if this identification is not commonly in industry, it is important to keep seeking for it. Due to the mentioned lack of a solid core competency, a new niche in which ERIKS could enter would be substantial to domestic position and also important if entering new markets, which is definitely achievable for ERIKS.

Considering the current situation of the group and the knowledge acquired on the market, specific niches could be identified on a geographical cluster level or through customer segmentation level. Potential opportunities could be expected in terms of specific uncovered need or climatic / geographical requirement.

#### **5.3. Identification of key problems**

The key-problems, resulting out of the SWOT-Analysis are the following.

##### **5.3.1. Short term issues**

- \* ERIKS globally seen small position weakens further development and must be eagerly confronted, also to extend production capacity.
- \* For further and rapid expansion within Europe both good integration of acquired firms and assessment of financial facilities are challenges to meet previously to meet final goal on short term basis (European leader).
- \* ERIKS differentiating strategy lead them to ignore cost aspects and therefore makes the group attackable for low cost provider.

##### **5.3.2. Long term issues**

- \* ERIKS has to find their core competency, if not, competitors will choose the same way to provide integrated solutions, which is in fact not hard to copy.
- \* In order to compete on a global level, ERIKS should significantly increase its operating area and its customer base. Both image' strive and capital increase are needed and a strong defined strategy should be built in order to involve the whole structure in further developments.
- \* On the same basis, both product range widening and portfolio enlargement are necessary. A good and deep research on market is therefore a requirement. ERIKS should focus on complementary products and vertical backward and horizontal integration.

##### **5.3.3. Additional issues**

\* ERIKS is well known in their original markets, even so, they are not widely recognized in submarkets which are by now not to ignore at all. What ERIKS achieved by striving to differentiation is a huge level of know how which easily could be offered to new markets in domestic positions.

\* One of the most important challenge for ERIKS considering markets conditions and in order to gain international weight is to develop efficient and effective network targeted locally on a geographical cluster basis. Partnerships and exclusive arrangements and contracts belong to a winner strategy. Therefore an accurate appraisal of local usages and the building of reliable and long lasting relationships are necessary.

\* On a financial basis, ERIKS effort should strive on adding value to company shares, in other words maximizing shareholders value in order to be able to continue issue share to follow ERIKS' growth strategy.

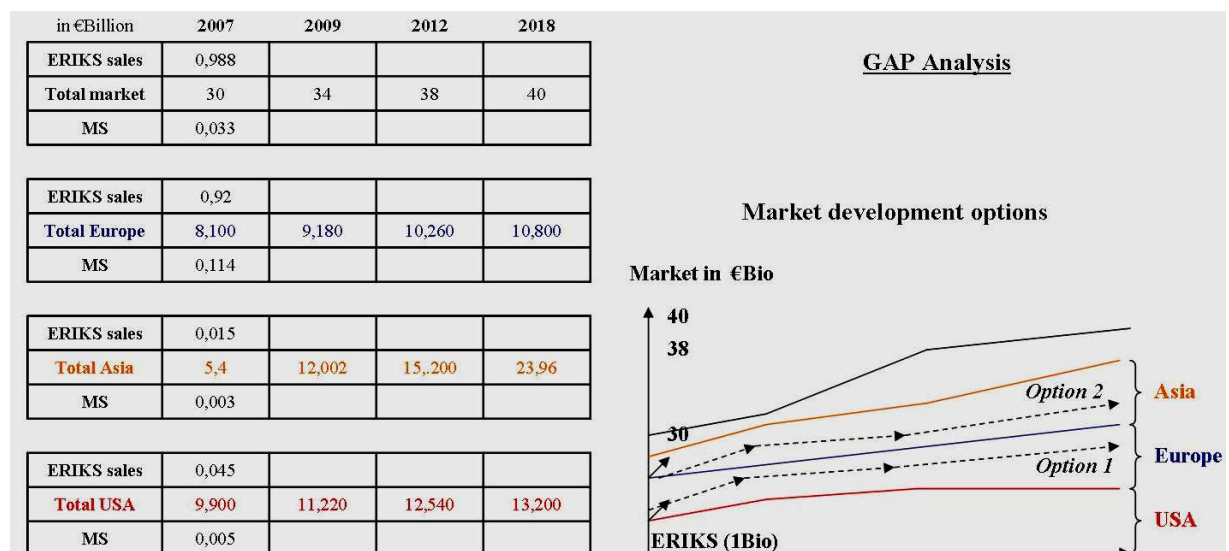
## 6. Strategic options and choice

### 6.1. Delineation of Strategic Options

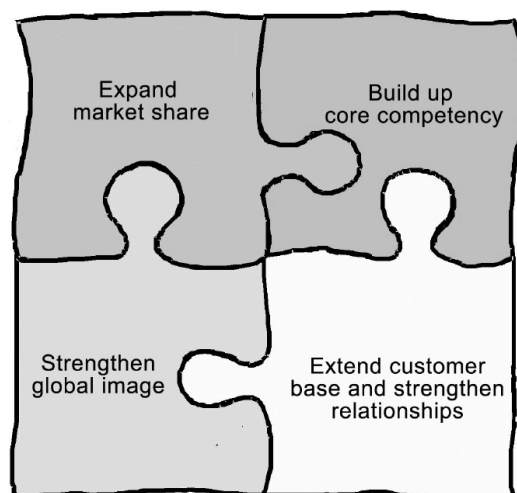
The entire part STRATEGIC OPTIONS & CHOICE will present three different strategic decisions that will help approaching key problems as they have been resulting in part 5 of this report. All strategic options will have both, description of practical implementation and theoretical motivation. For this purpose each option will be presented by starting with the brief review of the theoretical fit into of marketing strategies as they have been also approached earlier in this report.

#### 6.1.1. GAP analysis

Interesting for now is the GAP-analysis, which shows us to which (maximal) extent does ERIKS the potential to grow and in this way gives us some more information about possible strategic implementation.



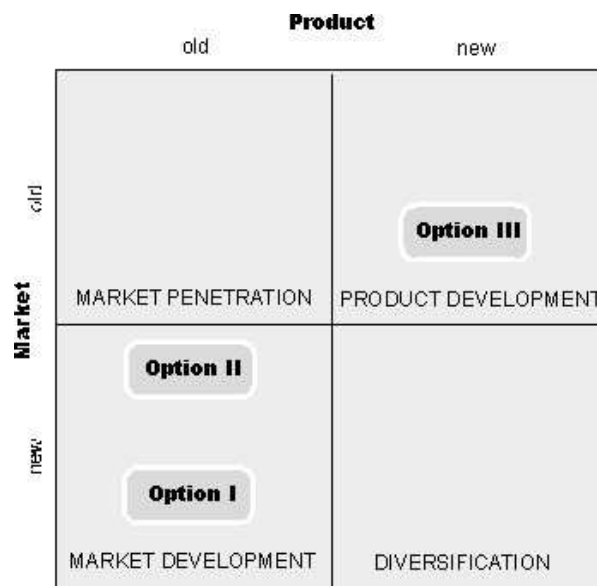
The key-problems which where deducted from the TOWS-Analysis can be graphically shown as a puzzle. Our strategic options approach these key problems in different ways. Each option will show, which parts of the combination of all key problems are approached.



### 6.1.2. Ansoff analysis

As Ansoff defines his “Intensive Growth Strategy”, there are four relevant growth strategies. Diversification will not secure stable company growth, nor would it expand market share in existing markets, nor is it in ERIKS’ case covered by a solid financial situation, as financial resources are meant to be used for secure growth strategies. Consequently, diversification is not achievable on the short term.

Regarding our key problems, the market penetration strategy is not likely to help ERIKS approaching these issues. Even so, market penetration always secures important cash-flows and will be carried on in all three strategic options. However, market penetration is not applicable for ERIKS as a growth strategy and thus, ERIKS will focus on either Market Development, or Product Development.



Integrative growth strategies have been covered in detail in part 2.5.5. for the O-ring production. In the broader view upon ERIKS group, vertical integration (downwards) is seen in terms of provided service solutions such as maintenance, set up at the customer’s plant, therefore distribution to it etc. Upwards vertical integration is hard to achieve in ERIKS particular business. ERIKS is far ahead and has no longer a manufactured product which would need a specific constant material flow, which an upward vertical integration would affect.

Horizontal integration is already carried out by ERIKS; by aligning all clusters towards a certain balanced level. Goal is to achieve a total and complete portfolio in each of the clusters to provide everywhere the same service.

To conclude, integrative growth already exists and will be continued as stated in the ERIKS’ annual report. Vertical is to a certain extent exposed. Option three is partially touching this, please refer to option three to see to which level.

### 6.1.3. Porter analysis

Porter’s generic strategies have been covered in 3.2.5 in this report. We do strongly advise ERIKS to keep on this track as we have seen that their striving towards differentiation is their only way to distinguish against competitors, especially out of the low cost area. As also

pointed out earlier in this report, focusing on differentiation does not allow ERIKS to ignore cost issues. Nevertheless, this has been included in the key problems and therefore will be approached by the strategic options.

#### **6.1.4. Kotler analysis**

Kotler defines 4 possible competitive positions. To define which ERIKS is possessing is not simple. ERIKS strives towards market leadership, which is seen in their expansive corporate behaviour, which, in theory, enhances profitability. However, due to ERIKS positioning as provider of integrated industry solutions they are operating in several markets. In some of those they indeed can be considered as market leader, though in others they are more the market follower, who attacks the leader directly. ERIKS uses here its differentiated portfolio that is highly value-perceived by customers with more than a single product demand.

Anyhow, this description leads to the conclusion, that the competitive positioning, as Porter defines it, is not major while ERIKS differentiates and expands.

### **6.2. Strategic options: 3 alternatives**

#### **A. Geographical market development – Focus on existing markets (Option 1)**

##### **6.2.A.1. Theoretical fit**

As mentioned in the previous section, ERIKS' current objectives are oriented towards intensification of European market coverage with market leadership as main corporate goal. Therefore different types of strategies have been applied such as horizontal integration supported by organic growth. Both ERIKS 2007 annual report and key problems identified in the previous part point out the fact that the group should continue and implement its strategy that has proved successful until now. In this option we believe that growth on foreign markets (outside Europe) should only be achieved after having strengthened European position and achieve solid leadership position in each core activity.

##### **6.2.A.2. Description**

###### *Strategic ways*

In order to achieve the group's main strategic objective and become European leader in all its core activities, ERIKS should follow its current strategy of organic growth and acquisition.

We already know that borrowing capacity is shortening. As there has already been two capital raises through share issuing in the last years, it is necessary to increase profit to maintain further growth. In parallel maintaining the existing mature market and developing new acquired ones should not be overlooked.

Even so, on middle and long term basis, it will be necessary to forecast further acquisitions to sustain a competitive growth. Therefore, relationships with investors and especially banks should be maintained. A 2.5% loan interest (Simple) will be assumed in further calculations.



ERIKS 2007 (in Mio €)	Sealing tech.	Power transm <sup>2</sup>	Flow tech.	Ind. plastics	Tools & Maint. Prod.	Other activities	Costs	Sales
United Kingdom	6,25%	17,25%	5,09%	1,46%	8,83%	64,88%	38,88%	357,130
Netherlands	4,06%	11,19%	3,30%	0,95%	5,73%		25,23%	209,190
Belgium	2,50%	7,09%	2,09%	0,60%	3,63%		15,91%	135,841
Germany	2,04%	5,64%	1,70%	0,05%	2,89%		12,32%	106,027
USA	0,61%	1,67%	0,50%	0,14%	0,86%		3,78%	31,420
France	0,27%	0,74%	0,22%	0,06%	0,38%		1,67%	15,668
South East Asia	0,13%	0,36%	0,11%	0,03%	0,19%		0,82%	7,580
Central Europe	0,10%	0,28%	0,08%	0,02%	0,14%		0,62%	4,841
Others	0,77%					0,50%	0,77%	
	5,65%	15,78%	4,70%	0,90%	8,09%	64,88%	100,00%	
Costs	49,025	136,923	40,782	7,809	70,197	562,962	867,697	
Sales	55,822	155,906	46,436	8,892	79,929	641,014		988,000

That's why we decided to opt for progressive implementation of the current strategy. The previous table enables the overview of ERIKS' current situation.

From that point, it is possible to build up a geographical development strategy focused on European position strengthening and expanding. In a first step, it will be question to maintain existing mature and rentable markets and develop new acquired ones and potentially growing ones. In a second step, the group should look toward further acquisitions in strategic cluster areas. The following table gives an overview of objectives fixed for ERIKS' group.

In order to achieve those goals some further researches especially in terms of acquisition should be led. Likewise it is necessary to have a progressive approach in term of timing in order to both strengthen position and achieve sustainable development. Some more precise information will be given in the following description by cluster of the strategic process.

		Short term = 1 to 3 years	Middle run = 3 to 5 years	Long term = 5 to 10 years
Western Europe	NL	Maintaining		
	Be(ne)lux			
	UK	Optimizing + 8 core activities implementation	Maintaining + Organic growth	
	Germany	Optimizing + 8 core activities implementation + Organic growth	Organic growth	Maintaining + Organic growth
	France			
Eastern Europe	Spain		Prospection for acquisition	Optimizing + 8 core activities implementation
	Poland	Organic growth + 8 core activities implementation + Prospection for acquisition	Maintaining + Organic growth	
	Slovakia			
	CZ Rep			
Northern Europe	Romania	Prospection for acquisition	Optimizing + 8 core activities implementation	Maintaining + Organic growth
	Scandinavia		Prospection for acquisition	Optimizing + 8 core activities implementation
USA		Maintaining + network development		Maintaining + network development + Organic growth
South East Asia	Malaysia	Maintaining + Organic growth		Maintaining + Organic growth + Prospection for acquisition
	Singapore			

### Short term (2-3 years)

Researches have showed that on a short term basis, ERIKS should focus on optimizing its existing market and target organic growth. Then potential rapid growth opportunities have been identified in Eastern Europe, therefore investments should be first concentrated in that

specific area. It seems unavoidable to further acquire significant companies in order to stay competitive. In parallel strengthening ERIKS core competency (8 core activities + 6 know how domains) will also need substantial investments. This last recommendation has been identified as one key factor of success of ERIKS until now and as a key requirement for future growth and expansion.

#### *Middle run (3-5 years)*

On a middle term basis, investment should be supporting the development of each cluster and efforts should be oriented toward making them profitable in order to obtain sufficient basis for covering costs and allowing further investments. In this phase, human resources management through both integration of new staff (and spread of company culture and values) and retention of people can be seen as the key factor of success. As already mentioned before in this report ERIKS' people represents one of its most valuable assets.

#### *Long term (5-10 years)*

On a long term basis, opportunities can mainly been seen in further acquisition and sustained organic growth. However, as growth capacity through expansion will start to be costly and difficult, it seems wise to start looking toward opportunities outside Europe. This last phase will then be the achievement of ERIKS European leadership goal. Investment should there both aloud the last expansion needs and enable to lead market researches in Asia (India) and USA. In other words, we advise the following strategies.

		Short term = 1 to 3 years	Middle run = 3 to 5 years	Long term = 5 to 10 years
Western Europe	NL	PRODUCT SPECIALIZATION		
	Be(ne)lux			
	UK			
	Germany			
	France			
	Spain		GEOGRAPHICAL MARKET DEVELOPMENT	
Eastern Europe	Poland	PRODUCT SPECIALIZATION		
	Slovakia			
	CZ Rep		GEOGRAPHICAL MARKET DEVELOPMENT	
Northern Europe	Scandinavia			GEOGRAPHICAL MARKET DEVELOPMENT
USA				
South East Asia	Malaysia			
	Singapore			

#### *Implementation*

The most important to succeed in following this option is the choice of acquired firms. Markets have already been researched and have proven their high potential. There are still some uncovered needs in most targeted areas, and European acquired image will help faster establishment. However possible opportunities should be looked for as soon as possible.

### **6.2.A.3. Investments**

Investments are required to implement and strengthen ERIKS' core competency, and expand the operating areas by organic growth and acquisition. Forecasted acquisitions regard Poland, Romania, Spain and Scandinavia. Organic growth and strengthening of core competency regard especially UK, German and Fr clusters as well as Polish, CZ and Slovakian clusters.

ERIKS 2007 (in Mio €)	Total estimated market 2009 to 2012 = 38 Billion €							OBJECTIVES 2009			OBJECTIVES 2012			OBJECTIVES 2018					
	Marketing Tech.	Product Program	Finan. Tech.	Adm. Tech.	HR Tech.	Other Tech.	Other Tech.	Sales	Growth / year		MS	Sales	Growth / year		MS	Sales	Growth / year		MS
Netherlands	Total estimated Western Europe market = 5,4 Billion €							259,921	3%	Maintenance of current sales level: customer retention + prospecting	19%	284,023	3%	Maintenance of current sales level: customer retention +	22%	329,260	3%	Maintenance of current sales level: customer retention +	28%
Belgium								159,135	3%			173,891	3%			201,587	3%		
United Kingdom								429,338	7%			511,348	6%			684,300	6%		
Germany								137,813	5%			164,137	6%			230,211	7%		
France								28,09	6%			34,411	7%			50,562	8%		
Spain												4,890				7,068	85%		
Central Europe	Total estimated Eastern Europe market = 3 Billion €							21,52	126%	Implementation of local structure: 6 know how domains and 8 core activities focus + further organic growth + acquisition	0,72%	34,011	83%	Organic growth (existing markets -> Poland, CZ Rep, Slovakia & Romania)	1,40%	68,489	100%	Organic growth (15%) and acquisition (75%) (new market -> Scandinavia + ?)	2,28%
USA	Total estimated US market = 9,9 Billion €							47,741	3%	Maintenance of current operating level + network expansion	0,48%	52,168	3%	Maintenance of current operating level + network expansion	0,53%	66,581	5%	Maintenance of current operating level + network expansion	0,67%
South East Asia	Japan market = 5,1Bio€ Chinese market = 2,4Bio€ Asian market = 5,4Bio€ Others = 1,5Bio€							15,606	2%	Maintenance of current operating level + sustained organic growth		17,555	4%	Maintenance of current operating level + sustained organic growth		22,405	5%	Maintenance of current operating level + sustained organic growth	
Others										Maintenance				Maintenance				Maintenance	
OBJECTIVES 2009 (%)	8,0	13,0	6,0	10,0	10,0	53,0	1 099,164	11,25%		2,89%									
OBJECTIVES 2012 (%)	10,0	12,5	9,0	12,5	12,5	43,0					1 276,435	16,13%		3,36%					
OBJECTIVES 2018 (%)	12,5	12,5	12,5	12,5	12,5	37,5									1 660,463	30,09%		4,37%	

### Poland & Romania

Biggest investors in this industry are worth \$1.5 Billion/year. For ERIKS to become relevant in Poland, it is necessary to base investments at minimum 1/20 of that talking then of a minimum €50 Mio investment. Based on that information we can expect the following investment plan. Romania has been identified as one of the biggest potential market within Eastern Europe. With about 35% of GDP dedicated to industrial production, it seems wise to enter this market as soon as possible. Potential companies to acquire require an average investment of € 35 to 65 Mio. In this strategic option, chosen investments conditions include €50 Mio Poland acquisition at 2.5% in 8 years, and Romania €85 Mio acquisition with 2.5% loan in 8 years.

### Scandinavia

Northern Europe entry belongs to long term goals in ERIKS' strategic development. Therefore, a first 30 to 50 € Mio investment should be enough to start the activity. But a previously made market research is necessary. We know that ERIKS already have potential firms to acquire in mind in that area. The chosen investment represent a €40 000 Sweden acquisition at 2.5% in 10 years.

### Spain

This market seems to belong to further European development as its growth is often associated with French one. Moreover, it is necessary to increase market share in Europe by further geographical market development. Thanks to established facilities in France, market entry in Spain should have minimized costs and eased establishment facilities. The 2.5% 8 years loan attributed for Spain acquisition will end in 2020. That last information enables to draw the following investment forecasts.

ERIKS			2009		2012		2018	
	Costs 2007	Sales 2007	Costs	Sales	Costs	Sales	Costs	Sales
Netherlands	209,190	245,000	221,940	259,921	242,520	284,023	309,520	329,260
Belgium	135,841	150,000	143,220	159,135	156,500	173,891	181,430	201,587
United Kingdom	357,130	375,000	408,880	429,338	397,500	511,348	549,800	684,300
Germany	106,027	125,000	111,300	137,813	147,100	164,137	149,500	230,211
France	15,668	25,000	17,600	28,090	21,570	34,411	31,680	50,562
Spain					6,073	4,890	7,763	7,068
Central Europe	4,841	8,000	5,808	9,680	8,833	14,722	20,431	34,053
Romania			18,061	11,840	34,256	19,289	17,391	34,436
Scandinavia							0,500	
USA	31,420	45,000	33,310	47,741	41,900	52,168	55,470	66,581
South East Asia	7,580	15,000	7,880	15,606	8,740	17,555	11,780	22,405
<b>TOTAL</b>	<b>867,697</b>	<b>988,000</b>	<b>967,999</b>	<b>1 099,164</b>	<b>1 064,992</b>	<b>1 276,434</b>	<b>1 335,265</b>	<b>1 660,463</b>
<b>Profit / Loss</b>	<b>120,303</b>		<b>131,165</b>		<b>211,442</b>		<b>325,198</b>	

Providing the forecasted increase of sales due to 2005-2006 acquisitions and thanks to achieved economy of scales, we can see that at a corporate level, recommended investment can be financially recovered up to 2018 and an interesting profit be achieved for the group.

#### 6.2.A.4. Pay-Back Periods

However at cluster level, some time will be needed to achieve a positive Return on investment.

	2009		2010		2011		2012		2013		2014		2015		2016		2017		2018	
	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales
<b>Central Europe</b>																				
Current	5,808	9,680	6,679	11,132	7,681	12,802	8,833	14,722	10,158	16,930	11,682	19,470	13,434	22,390	15,449	25,749	17,766	29,611	20,431	34,053
Poland																				
Acquisition	0,500		6,250		6,250		6,250		6,250		6,250		6,250		6,250		6,250		6,250	
Interests			0,156		0,156		0,156		0,156		0,156		0,156		0,156		0,156		0,156	
Activity			3,900		4,485		5,113		5,778		6,471		7,183		7,901		8,533		9,130	
Loss			0,500		3,206		5,932		8,061		9,353		9,704		8,637		6,090		1,142	
<b>Total</b>			<b>10,306</b>	<b>7,100</b>	<b>14,097</b>	<b>8,165</b>	<b>17,451</b>	<b>9,390</b>	<b>20,245</b>	<b>10,892</b>	<b>22,230</b>	<b>12,526</b>	<b>23,292</b>	<b>14,655</b>	<b>22,944</b>	<b>16,854</b>	<b>21,029</b>	<b>19,887</b>	<b>16,678</b>	<b>22,870</b>
<b>Romania</b>																				
Acquisition	10,625		10,625		10,625		10,625		10,625		10,625		10,625		10,625		10,625			
Interests	0,266		0,266		0,266		0,266		0,266		0,266		0,266		0,266		0,266			
Activity	6,670		7,604		8,592		9,623		10,778		11,964		13,160		14,476		15,924		17,357	
Loss	0,500		6,221		10,745		13,742		14,968		14,648		12,875		9,835		5,403		0,034	
<b>Total</b>	<b>18,061</b>	<b>11,840</b>	<b>24,716</b>	<b>13,971</b>	<b>30,228</b>	<b>16,486</b>	<b>34,256</b>	<b>19,289</b>	<b>36,637</b>	<b>21,989</b>	<b>37,503</b>	<b>24,628</b>	<b>36,926</b>	<b>27,091</b>	<b>35,203</b>	<b>29,800</b>	<b>32,218</b>	<b>32,184</b>	<b>17,391</b>	<b>34,436</b>
<b>Scandinavi</b>																				
Acquisition																		0,500		0,500
Profit/Loss	-2,849		-12,542		-14,871		-15,329		-14,125		-11,337		-7,129		-1,353		5,061		23,917	
<b>TOTAL</b>	<b>24,369</b>	<b>21,520</b>	<b>37,645</b>	<b>25,103</b>	<b>44,159</b>	<b>29,288</b>	<b>49,339</b>	<b>34,011</b>	<b>53,045</b>	<b>38,919</b>	<b>55,434</b>	<b>44,098</b>	<b>56,610</b>	<b>49,481</b>	<b>56,902</b>	<b>55,548</b>	<b>56,734</b>	<b>61,795</b>	<b>44,572</b>	<b>68,489</b>
<b>Western Europe</b>																				
UK	408,880	429,338	437,502	459,392	459,377	486,955	477,752	516,172	492,084	541,981	506,847	569,080	522,052	597,534	537,714	621,436	548,468	646,293	559,437	685,682
Germany	111,300	137,813	119,091	144,704	125,046	153,386	131,298	162,589	137,863	172,344	144,756	182,685	151,270	184,560	158,077	207,206	164,400	219,638	170,976	230,620
France	17,600	28,090	18,656	29,495	19,775	31,264	20,764	33,140	21,802	35,128	22,892	37,236	24,266	39,656	25,601	42,234	27,009	45,191	28,494	47,902
Current markets	537,780	595,241	575,249	633,590	604,198	671,605	629,814	711,902	651,749	749,454	674,495	789,001	697,588	831,750	721,391	870,876	739,877	911,122	758,908	944,204
Spain																				
Acquisition					0,500		2,500		2,500		2,500		2,500		2,500		2,500		2,500	
Interests							0,063		0,063		0,063		0,063		0,063		0,063		0,063	
Activity							3,010		3,130		3,256		3,386		3,504		3,609		3,718	
Loss							0,500		1,183		1,693		2,017		2,142		1,978		1,482	
<b>Total</b>							<b>6,073</b>	<b>4,890</b>	<b>6,876</b>	<b>5,183</b>	<b>7,512</b>	<b>5,494</b>	<b>7,966</b>	<b>5,824</b>	<b>8,209</b>	<b>6,232</b>	<b>8,150</b>	<b>6,668</b>	<b>7,763</b>	<b>7,068</b>
Profit/Loss	57,461		58,341		67,408		80,905		96,012		112,489		132,020		147,507		169,763		184,601	
<b>TOTAL</b>	<b>537,780</b>	<b>595,241</b>	<b>575,249</b>	<b>633,590</b>	<b>604,198</b>	<b>671,605</b>	<b>635,887</b>	<b>716,792</b>	<b>658,626</b>	<b>754,637</b>	<b>682,007</b>	<b>794,496</b>	<b>705,554</b>	<b>837,574</b>	<b>729,601</b>	<b>877,107</b>	<b>748,027</b>	<b>917,790</b>	<b>766,671</b>	<b>951,272</b>

As seen in the previous table, acquisition in Poland and Romania can financially recover until 2018, while acquisitions in Spain and Scandinavia will require more time, respectively up to 2020 and 2029. Please refer to the following table.



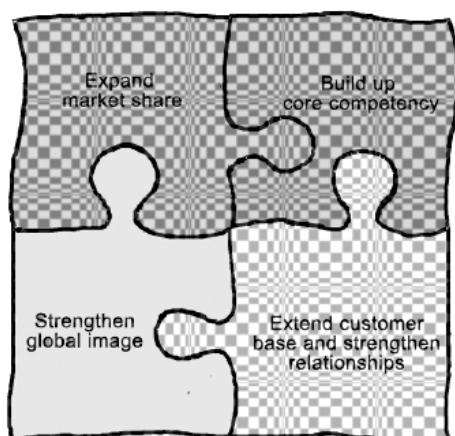
	2019		2020		2021		2022		2023		2024		2025		2026		2027		2028		2029	
	Cost	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Cost	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales	Costs	Sales
<b>Scandinavia</b>																						
Acquisition	5,000		5,000		5,000		5,000		5,000		5,000		5,000		5,000							
Interests	0,125		0,125		0,125		0,125		0,125		0,125		0,125		0,125							
Activity costs	2,410		2,446		2,483		2,532		2,583		2,635		2,688		2,741		2,804		2,877		2,955	
Loss	1,000		3,115		4,833		6,177		7,258		8,061		8,598		8,855		8,826		3,380		-2,373	
Total	8,535	5,420	10,686	5,854	12,440	6,263	13,835	6,577	14,966	6,905	15,821	7,223	16,410	7,555	16,721	7,895	11,630	8,251	6,257	8,630	0,582	9,027
<b>Spain</b>																						
Acquisition	2,500		2,500																			
Interests	0,063		0,063																			
Activity costs	3,829		3,944																			
Loss	0,895		-0,405																			
Total	7,087	7,492	6,102	7,867																		

To sum up, at a corporate level, this strategy will provide with continuous growing profit and significant market share increase. Furthermore, it will both enable ERKS to strengthen its core competency (and competitive advantage) and achieve a for a long time fixed goal, European leadership.

#### 6.2.A.5. Critical Occurrences

The investment planning proposed previously will be successful if the forecasted organic growth and maintain of existing markets occurs. There should be a strong development of ERIKS supported by enormous expansion of ERIKS UK (through WYKO). Current promotion and product innovation budgets should be maintained too. The critical factor of success depends from the availability of interesting firms to acquire on targeted market. Opportunities should be looked for “until last minute”. Even if not mentioned here, self establishment through production plant construction can also be considered though, because of the investment required and the level of quality and service required by the group, this last advice seems to oppose itself to the group’s current need.

#### 6.2.A.6. Motivation



As mentioned throughout this short presentation of the first strategic option, the choice of strategic geographical market development focused on Europe can lead to achieve solutions for key problems identified in the SWOT analysis.

Please refer to the attached graph.

Even if investment required are very important, they are spread over time and have proven to be highly profitable.

### B. Geographical market development – Focus on potential markets (Option 2)

#### 6.2.B.1. Theoretical fit

After analysing all the macro, micro and internal economic factors and producing a SWOT analysis on the research, one of the available strategic options for ERIKS is the geographical market development in South-Asia namely India. ERIKS possesses a good network in Europe. But ERIKS has a relative low market share regarding the global scope. Aside from Europe ERIKS is only present in the US, Singapore and Malaysia. Therefore ERIKS should grow geographical to stay competitive world wide. The best prospects will be India and China present. Due to the fact that a lot of industries are moving to low cost countries, ERIKS should also provide those industries with the products they need locally so that they do not lose these customers to local companies. Most of these companies want to decrease its labor cost but it does not mean that they want to save on the quality and their machinery. So that ERIKS would still be a potential supplier, because of its high quality, for those companies. (Like for example Bosch)

### **6.2.B.2. Description**

Short term:

- Developing a distribution center in India
- Deliver directly to customer without distributor
- Reliable forwarding agencies are needed – to secure delivery
- Use of logistical processes know-how and EOS (Easy-Ordering-System)

Long term:

- Expansion of distribution centre
- Start manufacturing in India

In order to implement this option ERIKS needs to purchase a storage building in India which will be located centrally to be able to reach its customers. Therefore research will be needed to locate the best position for the first storage. The question arises how the products will be delivered to the storage. The answer for this is by the European cluster and the already existing cluster in Singapore and Malaysia. These production facilities already exist so that ERIKS can make use of those, the products only need to be transported to the stock in India. The products can be delivered by sea transport but also if needed by air. Through the EOS (Easy-Ordering-System) and the close relationship with its customers it will be able to keep the prices not too high. The prices will not be so high for the good because ERIKS will not use a distributor but will do the distribution by itself by using its logistical know-how which is one of ERIKS 6 Know-How. ERIKS does not only offer the highest quality level but also a complete solution for its customers. Therefore this is a very convenient for the customers. This is an advantage for ERIKS. ERIKS will deliver not only the product but also the service. Additionally companies which already know ERIKS from Europe will choose ERIKS more likely as their supplier because they know what kind of service they will receive. In contrast the companies do not know the local suppliers and do not know what kind of quality and service will be available and if those suppliers are reliable.

Sales people and engineers are also needed in India to not only offer standardized products but also to be able to respond to special needs of the customer. Those special orders will be transmitted to Europe, Malaysia or Singapore to be produced.

In the beginning ERIKS will have to bring its own engineers to be able to secure the quality and the production flow. Later ERIKS will be able to hire local engineers, who possess

adequate qualification. This will not cause problems, due to the fact of sufficient human resources in India. Thus the newly hired staff will be able to take over the regular work after a short introduction period. The leading positions will be kept by experienced ERIKS employees from Europe.

To offer a reliable delivery service ERIKS will need to find forwarding agencies that are operating country wide. The best way to secure that, ERIKS should choose at least two forwarding companies but better even more at the beginning to be able to avoid delivery problems.

#### *Customers*

How to reach the customers? Some are already known. Because many companies have already set up production branches in India. So ERIKS already knows potential local customers and maybe already has contracts with some of them in other European countries.

#### *Benefits*

(i) India has a growing population of educated people capable of handling high-end knowledge-based work and research. With a huge talent pool, India could emerge as a global hub. With the mushrooming of engineering and technical institutes in India, there will be no shortage of skilled manpower in India. A Confederation of Indian Industry study states that India's transition from a BPO – Business process outsourcing destination, to a KPO – Knowledge process outsourcing, destination is imminent.

(ii) India also gets advantage in terms of cost advantage and more and more companies are turning to India for off shoring KPO work as quality work gets done at cheaper rates.

(iii) India is being chosen as preferred country many companies have already set up production and office branches in India.<sup>278</sup>

India has a large and fairly well developed infrastructure framework extending to all parts of the country. However, certain areas like power, telecommunications, transport etc. need further expansion and modernization.<sup>279</sup>

(iv) India's economic boom will continue.

(v) No minimum capital requirement

(vi) Protecting investors: India performs relatively well on the protecting investors indicator. Regulations provide for relatively high levels of disclosure surrounding transactions involving company insiders and also make it easy to sue in cases of misconduct. But rules on directors' liability for self-dealing are weak in India.

### **6.2.B.3. Investments**

For all the above described plans for the geographical growth in India the following expenses for ERIKS will arise.

<b>Warehouse</b>	10 000 000 €	
<b>Salaries</b>		
<b>Engineers from Europe</b>	125 000,00 €	3 Engineers will stay only for a half a

<sup>278</sup> <http://www.kpoexperts.com/why-india/why-choose-india.htm>

<sup>279</sup> [http://finance.indiamart.com/india\\_business\\_information/infrastructure.html](http://finance.indiamart.com/india_business_information/infrastructure.html)

		year, one will stay whole year
<b>Engineers from India</b>	51 000,00 €	20000 per engineer 4
<b>Warehouse workers</b>	13 000,00 €	Hire people from India, average cost per employee around \$5000 per year
<b>Supporting staff (secretaries, etc.)</b>	9 500,00 €	3
<b>Staff for import/export</b>	13 000,00 €	4
<b>Sales staff</b>	25 000,00 €	8
<b>Research costs</b>		
<b>For location</b>	1 000,00 €	Assign local company
<b>For local forwarding agencies</b>	1 000,00 €	Assign local company
<b>Promotion</b>	40 000,00 €	trade magazines, sales callings, internet portals, etc.
<b>Start up capital</b>	8 000,00 €	
<b>Cost associated with staff</b>	300 000,00 €	Office, cars
<b>Development of stock</b>	500 000,00 €	Machinery, shelves, system
<b>Total start up Investment</b>	<b>11 086 500,00 €</b>	

#### 6.2.B.4. Pay-Back Periods

It is hard to estimate the exact payback period for the investment in the distribution centre in India and due to the fact that we do not know the exact profit margins of ERIKS. But we estimate that it will take ERIKS around 4 years when the investment turns out to be as successful as we expect. In the first two years the cost will be higher than our profits but in the third year the distribution centre will start making profits.

#### 6.2B.5. Critical Occurrences

To start a business in India is aligned with a lot of bureaucracy. The number of procedures before starting a business is 11. Additionally it takes 35 days to start the business. Obtaining licenses to construct a warehouse in India takes around 150 days. So that it might be better to rent or to buy a building.

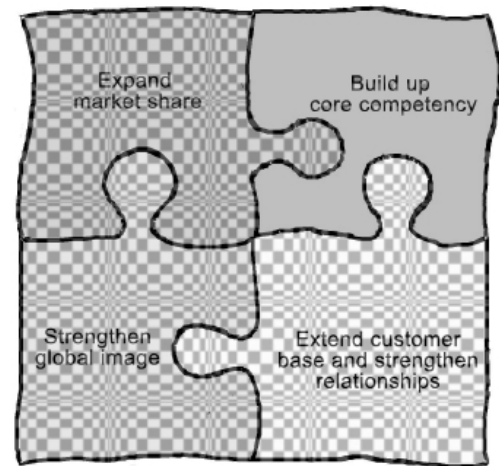
Due to restrictions on term contracts it is not so easy to employ workers. Regulations make it virtually impossible to fire a worker, in particular for companies employing 100 or more employees. Firms must pay 56 weeks of salary in notice, severance and penalties to dismiss a worker. India's labor regulations are also unusually complex. There are currently 47 national laws and 157 state regulations that directly affect labour markets. These are often inconsistent and at times overlapping. As a result it is almost impossible for firms and workers to fully understand their rights and obligations, or for enforcement authorities to ensure compliance.

Exporting goods takes 27 days. Indian exporters submit 10 documents, compared with the regional average of 8 documents. Within India, it is fastest to import and export from Chennai's port—17 days to export and 22 days to import. Calcutta is close behind. There it takes 18 days to export and 22 days to import. Chennai requires the fewest documents—7 to export and 5 to import. Chennai is also among the cheapest Indian cities with which to trade. This must be considered while planning the stock and the delivery times.

#### 6.2.B.6. Motivation



The geographical development in India will need a high investment in the beginning, in the short term. But this investment will offer for ERIKS the chance in the long term to stay competitive and prevent ERIKS from losing those customers which are moving to low cost countries. At least ERIKS will not lose the customers that are moving its production facilities to India. It will help to increase market share outside of Europe and strengthen the global image. It might be difficult in the beginning to get new customers in India but therefore ERIKS will do a lot of promotion and try to get new customers with the help of its sales staff.



### C. ERIKS Consulting (Option 3)

#### 6.2.C.1. Theoretical fit

As seen before, ERIKS is limited regarding product development. Their striving to differentiation and the 6 know-how domains leave little space to introduce a solid new product. At least after looking at the direct competitors (2.3), it is obvious that coming up with a new product in ERIKS' markets is rather difficult.

However, it is important for us to consider product development as a possible growth strategy as shown in the graphical overview above.

#### 6.2.C.2. Description

##### *Idea*

ERIKS achieved through its "6 know-how domains", as proven in (3.1.3) a huge asset of competencies. These competencies are far more than an advertisement campaign as we saw in 3.2.9. This know-how is applied in each customer relation and therefore a by-product to the actual service/product that the customer demands. In other words, the customer buys a product to a rather high price, which is solidly motivated by know how that provides perfect implementation of the achieved.

Crucial to the entire idea is the fact, that the know-how itself can be considered as a product, which can be bought by customers; ERIKS Consulting as a new core activity of the ERIKS group.

##### *Assets*

ERIKS has long experience in industry. Thru achieving the 6 know how domains in combination with their own expansion, ERIKS possesses knowledge about several industry parts, not just their own business environment. This report proves the capability of several dedicated employees of ERIKS, that assessing markets in every particular aspect already is a part of ERIKS' assets.

##### *Market*

ERIKS Consulting will be tested in the Netherlands, which is our domestic market and therefore the customer base and our own experience is peak. ERIKS Consulting provides project based consulting service, which helps customers to analyse, assess and measure market development possibilities for own expansion plans.

### *Demand*

Consultancies are in today's business world upcoming and widely spread. There is high demand for people who provide high professional expertise combined with a crucial helicopter view. This helps customers to achieve management goals, even if the consultancy's price pushes costs.

ERIKS Consulting distinctive competency is build through the particular knowledge of the supplier side. ERIKS itself provides services in the entire industry scope. Therefore competitors are known, prices can be assessed and consequently high quality consulting results.

### *Customers*

As seen, customers are there enough, they just have to be found. 90.000 customers worldwide are convinced about ERIKS. As we have seen in the Customer Analysis (2.2) ERIKS customers perceive high value to long lasting business relationships which is achieved through long established supplier-customer connections. Therefore we can assume that ERIKS' customers have a positive attitude towards the corporate brand.

Consequently, instead of ineffective initiative acquisition of customers, ERIKS Consulting has the possibility to start up with DATABASE MARKETING. This makes the start up way easier and secures first few customers.

### **6.2.C.3. Investments**

Due to the effective DATABASE-Marketing we can assume, that together with the start up advertising and promotional effort, it will be possible to reach six projects in the upcoming three years. Despite start-up investments and full employed project heads, each consulting project will be finance itself on honorary bases.

The limited investments needed for ERIKS Consulting can be spread out as followed. Due to the effective DATABASE-Marketing we can assume, that together with the start up advertising and promotional effort, it will be possible to reach six projects in the upcoming three years. This would cause expenses as followed.

<b>SBU - ERIKS CONSULTING</b>		
<b>Usage</b>	<b>Amount</b>	<b>Details</b>
Office	31.000,00€	Office integrated in ERIKS Headquarters, build up costs for furniture, IT-basis and yearly costs
Start up Promotion		
Event	15.000,00€	Invitation of important customers with expansion possibilities
Brochures and prints	8.000,00€	High quality brochure to communicate portfolio and capabilities of ERIKS Consulting
Internet-Presence	8.000,00€	Design, setup and mainenance for 3 years, cross linked with group HP
Start-up Advertisement		
Google Ad	45.000,00€	3-yearly costs, 5 keywords
Magazin Ad	36.000,00€	3-yearly costs, each month 1 entire page in QUOTE, inclusive content production
Salaries		
General Manager	180.000,00€	regular 60.000 € Salary/year Bonuses are paid project based
Full-Time project leaders	360.000,00€	regular 40.000 € Salary/year Bonuses are paid project based
Secretary	60.000,00€	20.000 salary/year
<b>Total Start up Investment</b>	<b>743.000,00€</b>	

Per each project the needed number of project assistances will be hired on honorary basis. This keeps fixed costs low.

SBU - ERIKS CONSULTING - Example Project		
Usage	Amount	Details
Basic Survey Price	10.000,00€	This secures regain of investment
Salaries		
Projectleader (per day)	1.500,00€	Project leader is responsible for the project
Project assistance (per day)	1.000,00€	at least two aids per project
Travelexpenses	unknown	
Additional (such as prints, inhouse offices etc)	unknown	
<b>Example (Research and Analysis of a possible market entry)</b>		
Time needed in days	45,00	
General Fee	10.000,00€	
Projectleader	67.500,00€	variable costs for ERIKS= 0
Projectassistance	45.000,00€	variable costs for ERIKS= 27.000
Projectassistance	45.000,00€	variable costs for ERIKS= 27.000
Travelexpenses	0,00€	irrelevant, because of 1:1 forwarding
Final Report Printed for Shareholders of the company	8.000,00€	also 1:1 forwarded (here just as example)
	<b>175.500,00€</b>	

#### 6.2.C.4. Pay-Back Periods

Due to project based calculations, it is not easy to forecast an exact payback period. However, to indicate the high profitability of ERIKS Consulting, please refer to the following graph, which shows a simple consulting project and its general costs for the customer.

Returns after 3 years			
	2009	2010	2011
<b>Costs (which are not included in Startup Investments)</b>			
Projectassistant		27.000,00€	27.000,00€
Projectassistant		27.000,00€	27.000,00€
Projectassistant		27.000,00€	27.000,00€
Projectassistant			27.000,00€
Projectassistant			27.000,00€
Projectassistant			27.000,00€
Assumption of bonuses (15% of income/employee, targets have been reached)	27.000,00€	27.000,00€	27.000,00€
Total additional costs	27.000,00€	108.000,00€	189.000,00€
<b>Gains</b>			
Project 1	167.500,00€		
Project 2		167.500,00€	
Project 3		167.500,00€	
Project 4			167.500,00€
Project 5			167.500,00€
Project 6			167.500,00€
Total Revenue	167.500,00€	335.000,00€	502.500,00€
<b>Results</b>			
Start-up expenses lineary	247.666,00€	247.667,00€	247.667,00€
Additional Costs (transferred)	27.000,00€	108.000,00€	189.000,00€
<b>Profit</b>	<b>107.166,00€</b>	<b>20.667,00€</b>	<b>65.833,00€</b>

As impressively seen, the turnover with one single project easily creates high profits and thus a fast ROI.

Based on the assumption to have 6 projects in the first 3 years, we are facing the following returns (all figures are based on a most likely small consulting service and therefore even better if ERIKS Consulting is more successful as expected).

Remarkable is that this simplified model of how ERIKS Consulting is regaining investment after three years is that all employees are calculated on a yearly basis. Nonetheless the

example project is only calculated for 45 days, which is around 2 month. Consequently the remaining time can be used for additional research, at least for the ERIKS Groups' other interest such as own market expansions.

### 6.2.C.5. Critical Occurrences

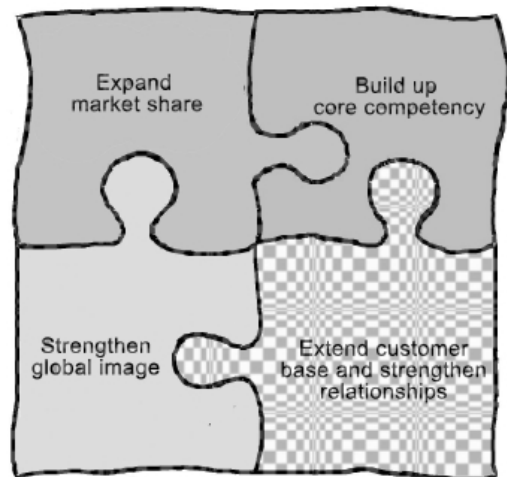
The idea of ERIKS Consulting is based on already existing assets. The new service does neither require major build up investments nor production facilities. ERIKS Consulting business is based on projects and honorary payment. This makes this product development easy to implement and rather likely to be financially successful. However, the level of success is still hard to measure, because it is not easy to forecast actual demand for the project-based performance of ERIKS Consulting.

### 6.2.C.6. Motivation

Regarding the entire scope of ERIKS group today, ERIKS consulting will not meet turnover levels such as other core activities. Also regarding the broad scope of consultancies in this highly competitive market is an indication for an uphill race.

However, due to the little investment needed the quick return and the useful side-effects of an extra research and analyse facility in-house, ERIKS Consulting builds up an interesting investment choice.

As seen in our little puzzle, ERIKS Consulting approaches only one of our key problems. Even so, the cross-selling perspectives, the constant ability to assess interesting markets and the long-term opportunities which ERIKS Consulting offers are obvious.



### 6.3. Comprehensive spreadsheet of strategic options

(€)	STRATEGIC OPTIONS					
	1		2		3	
Strategy	European geo. market dev.		Asian geo. Market dev.		Consulting service dev.	
Starting investment	135 Mio in 2010		12 Mio in 2010		743,000€ in 2009	
Total investment	225 Mio over 19 years		15 Mio over 4 years		1,07 Mio over 3 years	
Expected profit (total)	ST(3y)= 131,165 MT(5y)= 211,442 LT(10y)= 325,198				65,833 in year 3	
Break-even	Invest. Poland= 2018 Invest. Romania= 2018 Invest. Spain= 2020 Invest. Sweden= 2029		2014		2011	
Total MS	2009=2,89% 2012=3,36% 2018=4,37%					
	(+)	(-)	(+)	(-)	(+)	(-)

	Enables strengthening and implementation of core competency and competitive advantage	High investment level	High skilled employees available	Unknown/new market	Low investment level	Success hard to measure
	No loss at corporate level (and shareholder value)	Long break-even time on a cluster level	Strengthen global image	Long transportation time	Quick return	Demand difficult to measure
	Achievement of European strong leadership	Long lasting implementation	No minimum capital required	Risk	Extra research and analysis facilities	Uncertainty surrounding market penetration
	Significant increase of global market share	Low account of Asian and US markets	Increase of global market share	A lot of bureaucracy	No extra facilities needed	Cost of gradual implementation (substantial but still over years not to be overlooked)

## 6.4 Overall Strategic choice

Having now some more distance in front of ERIKS case, providing the results of the SWOT analysis and regarding the three strategic options proposed, we think the best choice to recommend for ERIKS is a mix of all the above options proposed, helping optimizing + points and avoiding – ones. In our opinion, it is the most appropriate and strategic course of action for ERIKS is to proceed with all of the above mentioned options. European geographical development with focus on Romania, Asian geographical development and the consulting development.

### *Motivation*

Through this diversification ERIKS will be facing a lower risk. The combination of these options will offer the best possible conditions for the development of ERIKS. By focusing only on one option for example on the European development, ERIKS would run the risk of losing existing customers which move to Asia. Most likely these customers will try to find a local supplier and not ordering all the way from Europe. A reason for that might be that they would like local advisory service and would not want to wait for a long time when problems arise. On the other hand just focusing on the Asian market might lead to major market share losses in Europe. Due to the fact, that Romania is the biggest potential market within Eastern Europe, with 35% of GDP dedicated to industrial production. The third option offers an opportunity for ERIKS to use its existing know-how without the requirement for high investments and a short pay-back period make this option attractive. To conclude all of these options will provide ERIKS with minimum input for best expected output.

### *Description*

Our recommended strategic option can be financially displayed as following. This is considered as to be the alternative of our recommended strategic options, supported by a worked out external and internal analysis of ERIKS' case. Pay back period have been estimated in previous section.

### *Short term (3 years)*

First, we want to achieve European leadership both through organic growth (in UK, Germany and France clusters) that will be supported by substantial investments in developing the local structures, motivating and training the workforce and implementing ERIKS "8/6" model (that

we have defined more times in this report). In order to sustain the position, it is necessary to apply to geographical market development. As the required organic development investment for that is quite prohibitive, acquisition seems to be the best way to take. As it has been proven earlier, investment in Romania seems to be interesting in terms ROI and Break-even. That's why we recommend looking for potential firms to acquire. There is starting now and growing exponentially an enormous market to cover there. This strategy should be implemented on a short term basis and should start to be profitable directly on a corporate level and up to 2018 locally in Romania.

(i) Specific consideration should be given to the firm acquired. The level of investment represents the budget dedicated to that strategic move. Maybe some repartition could occur, but we recommend looking for a relative strong operating company with sufficient production facilities to fulfil level of production forecasted.

(ii) Another aspect to consider is the growing attractiveness of the country. Since it EU entry, Romania has been welcoming many foreign investments and even if there is a large uncovered gap on that market, competitiveness is likely to increase very rapidly.

#### *Middle term (5 years)*

On a middle term basis, we want to start vertical integration strategy in India (through a distribution centre), in order to enter Asian market without facing the problems identified in the SWOT analysis, that is to say, ERIKS' lack of low cost facilities. Thanks to this strategy, ERIKS will be able to propose its own products to India growing market. Its competitive advantage will be achieved through the avoidance of distributors' margin and the benefits aloud by Malaysia and Singapore plants. Due to the level of investment required this option should be implemented on a middle and long term basis to enable to spread the investment over time. Despite the lack of information about exact ROI break-even, we can make some assumptions that we will use for further financial planning.

(i) The main aspect to look toward here seems to be the speed of implementation of that strategic move. Because of uncertainty related to market penetration speed, it is possible that break-even, occurs in some time at a cluster level. Even so, we have seen that shareholder value is not affected by that located loss. Moreover, on a long term basis, this strategy has proven to be not only profitable but also necessary to survive in the future and not bearing the risk of getting itself acquired.

#### *Short, Middle and Long term (10 years)*

Implemented progressively from now on for the prospection and turned to be a new long term goal for ERIKS, service development in terms of consulting offers many advantages for the firm, both financial and non financial. Moreover the relative low cost of the project, even more if implemented over time, could add some uniqueness to ERIKS' core competency and give more reliability and professionalism to the whole group.

(i) Considerations toward the future for ERIKS are pointing out the increased competitiveness of the market and the need to find a unique competitive advantage that would enable to achieve a sustainable market share.

(ii) As we have seen that ERIKS core competency (8/6) lacks uniqueness, it is necessary to find solution to that problem. But product development is very difficult due to the complexity of the production and the high rivalry. But thanks to its "8/6" model ERIKS is able to provide additional valuable service to its customers, at residual costs for it and benefiting from very high margin.

(iii) Even if the problem here seems to be again the estimation of penetration time, the relative low cost of the strategic move aloud ERIKS some time to test it and implement it. Thanks to its extensive knowledge on logistics and market, it will be no problem to progressively integrate that activity as a new know how domain and core competency, building with it the new ERIKS “9/7”.

### Assessment of financial consequences

ERIKS 2007 (in Mio I)	Total estimated market 2009 to 2012 = 38 Billion I							OBJECTIVES 2009				OBJECTIVES 2012				OBJECTIVES 2018			
	Sealing Tech.	Power Transm. Tech.	Flow Tech.	Ind. Plastics Tech.	Food & Medic. Tech.	Other Tech.	Other Activities	Sales	Costs	Growth / year	MS	Sales	Costs	Growth / year	MS	Sales	Costs	Growth / year	MS
NL	Total estimated Western Europe market = 5,4 Billion I	ERIKS 2009 Sales Costs Growth MS Profit Margin EBITDA EBIT EBT EBTDA																	

To sum up, all those strategic efforts will contribute to (i) build up ERIKS' SCA and unique competitive advantage, (ii) increase global market share and sustain future development in global market, (iii), extend company networks (downward & backward, and horizontally) and customer base, and (iv) strengthen the corporate image (KCM).

## 6.5. Focused strategic choice: Moving into India

We think that the last proposed option could potentially address all the identified important issues of ERIKS. However, implementation of the strategic option is projected to be spread over the next 20 years. Therefore we need to focus on the first strategic move ERIKS will have to make and build a precise marketing plan for it.

### 6.5.1. Motivations for strategic move

Regarding financial projections of the overall strategic options, it seems advisable to make the choice of the first strategic move according to the expected break-even, the level of expected return and the non-financial benefits obtained through it. Shareholder value should also be

taken into account. Comparing now these aspects of the option, it appears that moving entering to India is the most advisable choice right now. Projections show an expected 2014 break-even for a starting €12Mio investment in 2010 and an additional €3Mio investment spread over the 4 following years. But above financial considerations, other aspects support that decision.

First, it has been stated previously in the external analysis that the expected growth on ERIKS' markets will mainly be supported by the Asian markets and especially China's in a first time and India's on a second time. Therefore the entry on those markets and the achievement and strengthening of a relative strong market position there, have been identified as key factor for sustaining the industrial activity and avoiding the increasing risk of take-over. As many actors on ERIKS' market already have massively entered Asian markets, it is urging to follow up before having to face some maturing market phase entering.

In parallel, one major weakness of ERIKS, that has been pointed out through the internal analysis, remains it's very little involvement in the Asian demographics related market growth. ERIKS' presence in Asia is currently limited to Malaysian and Singapore plants, which clearly shows that the main opportunities offered by potential markets growth are not being answered yet. In order to stay competitive as a global manufacturer and supplier, ERIKS has to answer that issue as soon as possible.

To sum up and accordingly to the previous statements, financial projections and expected reach of marketing objectives motivate the choice of concentrating on the Indian move first. On a long term basis, ERIKS should consider implementing the other aspects of the recommended strategic option.

### **6.5.2. Motivations for moving into India**

The necessity of entering the Asian market is not questionable anymore. Further considerations should look toward the targeted market with Asian growing markets. Obviously and as stated in the external analysis, India and China have been pointed out as to be the most growing and growing potential markets. Those countries also are very attractive in terms of investments (vs. foreign investment) for ERIKS due to the extraordinary demographics and economics and the related enormous increase in terms of industrial need.

However the overall analysis that has been led in this case let appear that a move into India is better than China, it could be way more profitable for ERIKS, both financially and strategically.

First of all, ERIKS should consider external factors that will impact the company if taking a strategic move into Asia. The key point here is the competition based strategy. When looking into Asia, it appears that competition is based on aggressive low cost and low price strategy. ERIKS in contrast, and despite its corporate hybrid strategy (both low-cost and diversification), wants to achieve a very high qualitative image for the best prices but not for the lowest prices. Likewise, it belongs to the company policy to offer high level of benefits for its employees and to run high salary policies. That's why it is seems very difficult for ERIKS to easily enter manufacturing markets within Asia and especially in China where minimal cost strategy is absolutely required. As an alternative, the Indian market, which offers similar growth potential over longer time than China, seems to have less requirements in terms of low cost policies. Service is there highly valued and the country development is



way more orientated toward sustainable development than toward rapid development. Even though economic growth rates increase is the way as China's.

The key aspect that should be considered is related to the statements made from the internal analysis. ERIKS wants to achieve a very high qualitative image and compete on qualitative (upper) markets. China's current situation and image will not enable ERIKS to attain that goal. In contrast India can provide the company with the necessary environment maintain its qualitative objectives and even though be competitive. In the proposed strategic option, we addressed that problem by proposing the implementation of ERIKS' French strategy into India. In other words, we think it is advisable to progressively enter that market and only develop distribution facilities in India. This would enable ERIKS to achieve a comparative price competitive advantage, when assuming that ERIKS will be able to sell its high quality device without including the distributor margin (avoidance of manufacturer/distributor transaction > downward vertical integration strategy). Production should be achieved in south East Asian cluster, allowing both costs savings in terms of transportation and boost of the south East Asian cluster's activities.

To sum up, the choice of targeting India to enter the Asian cluster is motivated by many quantitative and qualitative aspects, most of them being the easiness of entrance (as compared to in China), the expected return on investment in financial terms as well as in delays, the maintenance of ERIKS' corporate image and the logistics facilities supporting the process of implementation.



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