An Evaluation of Corporate Strategy in the Cordless Power Tool Market

By S. David Kilmetz

The cordless tool market has been growing at rates of roughly 10 percent per year since 1990, the fastest of any portable power tool segment. In fact, the American market is expected to top $400 million this year, and by 2000 is forecast to comprise almost 10 cents of every dollar generated in portable power tool sales. Competition is already quite robust, yet the opportunity for strong revenue growth has invited competitors both large and small to introduce new or revamped cordless products. This in turn has made the overall market very impacted and saturated, and competitors have broadened product lines to maximize profitability and diversify market risk. Today, suppliers are directing their supply side strategies to reaching economies of scope by sharing resources and cost-based activities along the manufacturing value chain.

Cordless power tool design has also changed, being more the cause than the result of competition. Cordless power tools have more power, longer battery lives and weigh less, thereby attracting professional end-users who tend to use the tools more often and who reap the greatest return from these improvements. Furthermore, advancements in design ergonomics have drawn more professionals into the fold while at the same time maintaining the strong consumer base.

In effect, business assumptions about increasing profitability and maintaining market share have shifted the competitive paradigm and displaced former marketing strategies. All but a few competitors as a result have settled on some form of a triumvirate approach. This involves overseas operations, leveraging distribution channels and heavy product promotion.

Building Global Opportunities

One way to increase profitability is to expand internationally and attack new markets. This trend comes on the heels of increasing competition in the United States and Europe, with many manufacturers looking to untapped and high-risk, high-return regions for opportunity. The global market certainly hasn't reached its limits of diminishing returns, and such product development opportunity invites notable rates of turnover.

Cordless tool suppliers are looking to positively effect both sides of the profit equation also by reducing sales, general and administrative expenditures as well as exploiting favorable tax liabilities. China and other nations in the Pacific Rim as well as many countries in South America have become clear and important strategic targets for large cordless tool manufacturers. Robert Bosch, for example, has established a power tool manufacturing plant in China in anticipation of this opportunity.

Manufacturing overseas also provides a competitor the opportunity to gain a foothold in foreign markets. Several such markets are exhibiting high rates of demand for cordless power tools, driven mostly by rising commercial development, disposable incomes and living standards. Furthermore, having tools in finished goods inventory ready for immediate distribution places a company in a distinctly advantageous position. Besides, this effectively decreases a company's exposure to shipping tariffs and interest rate fluctuations, though sometimes not outweighing the volatile but abating political risks.

Not surprisingly, companies looking for solid earnings potential by 2000 will have invested their resources in Asia. This region is expected to exhibit the strongest demand for cordless tools, especially in high return countries like China, Taiwan and Korea; the Japanese market (historically the flagship of this region in the early 1990s) is forecast to remain as the major consumer in the years to come. By the end of the decade, the Asian region is forecast to comprise more than 20 percent of total global cordless market revenue.

Cementing Distribution

In the United States, the home center has been the primary recipient of growth in the cordless tool market. The home center aptly serves both the do-it-yourself end-user as well as the professional since the stores are not extremely specialized. Also, the "low-cost, efficient service" strategy fits perfectly with cordless power tools.

But the success of this has stimulated competition between cordless tool suppliers and helped many, especially smaller, suppliers broaden their customer bases. Though beyond the home center, expanded distribution channels have been the primary reason the market has opened up, despite the domination of the largest, strongest and richest competitors. New suppliers have ventured in to compete and offer some cordless and accessory products, but typically their competitors do not have comparably sized cash flows or product lines to support such extensive operations.

That said, any effective strategy today must focus on securing adequate distribution capacities. Because of the growth in the cordless market, distribution channels are becoming even more impacted and thus valuable. Already, suppliers are experiencing difficulty competing for shelf space in professional distribution houses and retail centers. Many suppliers have in fact expressed concern over lower manufacturing prices, a primary result of increasing pressure from distributors to increase margins.

Accordingly, the market's balance of power is seen to have shifted from suppliers to distributors. Such fierce competition between cordless tool suppliers and the sheer size and weight of distributors now allows distributors, such as large warehouse chains, to buy in larger volumes and, therefore, muscle more of the manufacturer's margin.

In this case, one effective way to gain leverage over one's distributor is to execute a vertically oriented strategy, evidenced by Sears with its acquisition of Orchard Supply Hardware. But a vertical strategy is good only for few firms; other smaller and less cash-rich firms must either diversify product lines to offset the decreasing unit margins from lower manufacturing prices, or look to strengthen customer loyalty to a supplier's specific product brand. Nevertheless, maintaining market position on the home front in the face of sharpening competition is key. It will be dependent on the amount and cost of shelf space with the distributor as well as mind space with the end-user, which subsequently is a function of product promotion.

Powering Product Promotion

A strong advertising campaign positively effects corporate revenue streams and, ultimately, your company's market position. This tactic will provide increased marketability and mind space with the consumer. Many competitors have found this competitive element a crucial facet of the profit equation. Black & Decker's release of the DeWalt line illustrates this principle dearly.

Some time ago, Black & Decker purchased General Electric's line of household consumer electrical products, including blenders, irons and other related products. As Black & Decker marketed these tools along with its lower-end power tool line, many professional contractors began to perceive the power tools in the same light as their brethren from the kitchen: as feeble and unmanly. Company sales began to wane because professional contractors simply preferred to purchase a more macho Milwaukee Electric or Bosch product.

As a competitive strike against the value migration, Black & Decker released a line of professional power tools called DeWalt, an old brand that Black & Decker purchased when the DeWalt company went out of business approximately 15 years ago. When DeWalt was reintroduced under Black & Decker, the name still connoted the quality and durability of the original DeWalt to many professionals. This line reestablished Black & Decker as the premier tool supplier to professionals, and the company was not required to cannibalize its low-end cordless tool line to get there.

Not discounting consumer perception with the DeWalt name, the DeWalt line penetrated the professional contractor market successfully because of Black & Decker's tremendous commitment of capital to promote the line. Advertising was a primary tool for the company, with many advertisements being placed where most professional contractors recreated, including livestock shows and rodeos, county fairs, auto races and boat races. The company even has bright yellow DeWalt Chevy Blazers and, in Europe, Land Rovers promoting the tools from site to site.

Today, other companies are following in the same footsteps. Wagner Power Products Division, in addition to offering a lower manufacturing price to distributors, has released a line of cordless drills for the DIY market that is promoted under a similarly heavy campaign. Ryobi tools uses Tim Allen, the star of the television situation comedy "Home Improvement," to promote its line of portable power tools. Furthermore, Porter Cable promotes its portable power tools on a weekly home hobbyist program on PBS. To get ahead of the game, competitors must generate more interest in and greater loyalty to their lines.

Opportunity in the cordless power tool market is becoming more difficult to realize. Now more than ever, it is a function of timing over resources, and business savvy Calling in the big television guns is only the first step, as the competitive supplier will attack the market first, minimize operating expenses through economics of scope and scale, and firmly command distribution channels by offering distributors incentives (both financial and otherwise). In the end, it's all about boosting competitive capital and staying ahead of the game.

About the Author

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