RST GmbH: Strategic positioning in a niche market for a German SME

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Dissertation written under the supervision of Professor Nuno Magalhães Guedes.

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Abstract

The Case Study focuses on the positioning of RST GmbH, a German surface technology company, in a changing market environment. RST GmbH faced significant challenges in 2012 which created a need for a change in strategy. Firstly, a high dependency on three major customers with a revenue share of up to 55%. Secondly, RST was dealing with the most significant complaint in its history and thirdly, with the fluctuations in the German economy. These circumstances were reasons for the management to realign RST and question how should the company operate in the future. The key objectives of this Case Study are to recognize the importance of realignment in a company's lifecycle, to understand the positioning within competitive markets, to evaluate the role of customer concentration and to analyze diverse strategies to sustain growth.

This Dissertation includes a Literature Review on topics related to the issues raised by the Case Study. It also offers an analysis of key issues of the Case in the Teaching Notes section to help instructors to prepare for the in-class discussion.

Keywords: Positioning, Strategy, Customer Concentration, Niche Market, SME

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Resumo

O estudo de caso centra-se no posicionamento da RST GmbH, uma empresa alemã de tecnologia de superfícies, em um ambiente de mercado em mudança. A RST GmbH enfrentou desafios significativos em 2012 que criaram a necessidade de uma mudança de estratégia. Em primeiro lugar, uma elevada dependência de três grandes clientes, com uma quota de receitas de até 55%. Em segundo lugar, a RST estava a lidar com a queixa mais significativa da sua história e, em terceiro lugar, com as flutuações da economia alemã. Estas circunstâncias levaram a direção a realinhar a RST e a questionar a forma como a empresa deveria operar no futuro. Os principais objectivos deste Estudo de Caso são reconhecer a importância do realinhamento no ciclo de vida de uma empresa, compreender o posicionamento em mercados competitivos, avaliar o papel da concentração de clientes e analisar diversas estratégias para sustentar o crescimento.

Esta Dissertação inclui uma Revisão da Literatura sobre tópicos relacionados com as questões levantadas pelo Estudo de Caso. Também oferece uma análise de questões-chave do Caso na secção de Notas de Ensino para ajudar os professores a prepararem-se para a discussão em sala de aula.

Palavras-chave: Posicionamento, Estratégia, Concentração de Clientes, Nicho de Mercado, PME

Título: RST GmbH: Posicionamento estratégico em um nicho de mercado para uma PME alemã

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1. Case Study

On the second Monday in October 2013, Thomas and Daniela Schmidt, the managing directors of RST GmbH Real Surface Technology, received several emails with inquiries. Unfortunately, they had to turn down five potential customers with an estimated revenue of € 130,000. This was mainly due to a lack of resources to meet the industry standards and customer requirements. In addition, operations were not optimized for mass production, which was a significant obstacle in meeting the increased demand and caused the company to miss out on business opportunities. Located in Keltern, in southwest Germany (Exhibit 1), RST operated in the surface technology sector. The company provided services in five different production processes such as barrel application, rack application, chemical blackening (browning), electrolytic polishing, and selective surface coating (see Exhibit 2), achieving a total revenue of €1,2 million in 2012 (see Exhibit 3). Despite significant growth over the previous years, Daniela and Thomas shared concerns about the company's future. It had become increasingly clear that meeting the rigorous requirements and standards of the automotive industry for the mass production, where some of its most important clients operated, created various challenges. The market uncertainty and the dependence on a few large customers were also critical variables. In the face of these challenges, Daniela and Thomas were about to meet to discuss ideas on how to acquire potential new customers, reposition the company and expand the business to drive further growth.

1.1. RST

RST started its operations on August 1st, 2001. The company's foundation was grounded on Thomas' passion for entrepreneurship, coupling his technical expertise with his business partner René Sessler's strategic capacities. Daniela was in charge of administrative and other business tasks. In the first year of operation, the revenue distribution among the three different production processes was as follows (see Exhibit 4):

- 25% barrel applications for small parts in large quantities
- 50% rack applications for medium-sized parts in smaller quantities
- 25% browning for large parts in smaller quantities.

One year after the foundation, RST began with the coating of cutlery and gastronomic accessories of its customer WMF Retail, a publicly traded manufacturer of household, gastronomy, and hotel goods. This workflow required in-depth knowledge about decorative processes and a creative and innovative approach, for example to coat only one part, the handle of the knife, in silver and leave the rest uncoated. The standard process had to be rethought for this. The knife blade was coated in an airtight lacquer during pre-treatment, then an edge was cut with a customized, self-invented cutting machine to ensure that all knife handles had the same dipping depth and therefore a coating of the same length (see Exhibit 5). Rapidly, the company became one of the five leading companies in the field of cutlery coating nationwide, benefiting from key competitive factors, such as the specialization in gastronomy sector services, the unique manufacturing process, and a geographical proximity in the south of Germany to the main customers.

Driven by electric customer requirements, namely by RST's largest customer, a leading seal ring manufacturer, which represented 22% of the total revenue (see Exhibit 6). RST implemented the management certification DIN-EN-ISO 9001:2000, a quality certification based on the ISO 9001:2000 standard (Cassel, 2007). It meant that RST had a quality management system in place that complied with international and European quality standards. The certification process was initiated in 2004 and concluded in June 2005 and strengthened the customer relationship with the seal ring manufacturer. This also marked a significant shift, as for the first time the company started to comply with official standards, moving towards a better structured and organized operation, with a focus on planning, portfolio management, and improved organizational structure. 2005 was also the year when René Sessler left the company. Thomas took over as the sole owner and managing director, allowing him to have more freedom in his strategic decision-making process.

By 2006, the company was substantially dependent on WMF, its key customer from the gastronomy sector, which accounted for approximately 44% of revenue (see Exhibit 6). By that time 5 to 6 out of 11 employees were allocated to work on processing cutlery. This included two shifts with one to two people for preparation and pre-treatments, two people for coating and two for quality control. While representing a significant share of revenue for RST, WMF voiced initial thoughts of reducing future business. The reason was that WMF wanted to insource its coating production. As a reaction to this announcement RST minimized the risk and dependency by introducing a new production method, electrolytic polishing. This was an electrochemical process in which material was removed from a metallic workpiece, reducing surface roughness by leveling micro peaks and valleys and improving surface quality. After 4 years of operation, the revenue distribution among production methods was adjusted (see Exhibit 4):

- 20% barrel applications – mainly electric industry
- 57% rack applications – mainly gastronomy and automotive industry
- 19% browning – other industries
- 4% electrolytic polishing – other industries

At the beginning of 2008, high demand in barrel applications further expanded this business segment. The diversification of the portfolio had a positive impact on productivity and revenue distribution (see Exhibit 2). Therefore, revenue of the gastronomy customer WMF increased by 5%, but the customer's overall share decreased from 44% in 2006 to 29% in 2008 (see Exhibit 6 and Exhibit 7).
The continuing uncertainty of WMF had an additional impact on planning and day-to-day business. Even though the revenue increased, the customer reduced orders, and two employees had to be laid off. In addition, the financial crisis in 2008 was the second major challenge, as revenue decreased due to reduced demand of the automotive and mechanical engineering industry. As an outcome of those two negative factors, revenue of RST dropped by 49,5 % in 2009. This led to a restructuring of the company. A further five employees had to be laid off, reducing the number of employees from 12 employees at the beginning of 2008 to five in May 2009. In order to deal with this challenging situation, Thomas decided to get help from an external consultant for strategy and development support. In monthly meetings with the consultant, the figures and performance of the previous month were discussed and a forecast for the coming month was drawn up. This helped Thomas to track actions and see immediate results.
The post-crisis management led to the first insights into optimization and rebranding, including the company's logo (Exhibit 8), production processes, and hiring process. By the end of 2009, the company began recovering from the financial crisis. Other companies did not manage so well leading to multiple bankruptcies in close proximity to the RST facility. RST was offered one of the neighboring buildings as an additional production site and storage space. This could have led to an opportunity to increase size and further expand manufacturing technologies. On the contrary this would also have meant that new investments would have had to be made in facilities, , technical assets such as machinery, manpower and, above all, know-how. Previously, RST mainly served customers with small quantities of components. The knowledge for large batches and mass business was not available and processes for handling mass business were not designed for the existing production plant. In addition, the company had hardly overcome the financial crisis and was still confronted with the uncertainties of stable future revenues. Consequently, Thomas decided that the expansion was not appropriate for the situation.
In 2010, RST was able to win new customers in the field of prototypes in stamping and in the automotive sector. Most of the new business was focused on developing prototypes for engines and electric drives, meaning new requirements for RST's manufacturing processes. Compared to previous order types, engine prototypes required only coating of individual parts in small quantities, for which higher profit margins could be generated. Therefore, RST worked closely

with the customers' R&D departments developing an innovative and unique workflow for this selective coating process and clearly defining requirements in order to coat specific parts of the components (see Exhibit 9).

With the support of the external consultant, the company focused more on its strategic positioning and orientation. Success in prototyping, with its significantly higher profitability, and the ongoing uncertainty in the existing partnership with WMF, ultimately led to dropping that business in favor of focusing on more complex technologies. In this context RST decided to focus more on working for technical customers and moved away from the decorative application areas.

1.2. Recent Developments

In 2011, Daniela Schmidt became managing director of the company, owning 50% of the RST. 10 months after RST had stopped working for WMF, the customer began inquiries and discussions about reintegration and resumption of business. The customer was struggling with the in-house service and quality of the knives and did not have the expertise and efficiency in coating, something RST had accumulated over the years. The negotiations and, above all, the test phase lasted almost two months. As RST had stopped finishing decorative parts, the company first had to develop a new workflow and a new method to apply technical coatings to decorative knives. When they succeeded in doing this and were able to ensure that, despite reintegration, they still had only one workflow for all customer parts, Daniela and Thomas agreed to the deal. The customer's dependency put RST in a strong negotiating position and Daniela and Thomas were able to increase their profit margin by 12%.

In 2011 and 2012, the revenue distribution among the five production methods was relatively stable but the share of the gastronomy sector decreased from 7% in the previous year to 1% in 2011 (see Exhibit 4 and Exhibit 6).

However, the growth of the automotive industry was not free of challenges. In 2012, RST faced the most substantial complaint in its history, with a total value of more than €10 million. The complaint was related to quality issues, involving three of its most important automotive original equipment manufacturers, all of which served the same end customer, Volvo Group. This complaint had not only a significant impact on revenue, particularly in the automotive sector, which accounted for 50% of the total revenue (see Exhibit 6). But it also raised questions about the general willingness to service the highly competitive automotive mass business in comparison to the automotive industry for prototype development. By October 2013 the complaint was not closed.

1.3. Customer Changes

Over the years, RST underwent substantial transformations and significant shifts in its customer base. Initially, the revenue was distributed across five different industries - electric, automotive, gastronomy, medical, mechanical engineering (see Exhibit 6). In 2012 its customer base was distributed across 7 different industries, with new customers in the building sector and the defense industry.

From 2001 to 2009, revenue in the gastronomy sector went from 7% to 23%, with a peak of 44% in 2006. The number of customers ranged between two and 15, with an average of six customers per year (see Exhibit 10). The biggest customer in this industry, WMF Retail GmbH, was established in 1853, had 6,500 employees and generated a revenue of € 1,024 million in 2012 (WMF Retail, 2012). The main challenge working with WMF, was the uncertainty of whether it would integrate the surface coating and process cutlery in-house or not. It was difficult for Daniela and Thomas to plan, as the demand for cutlery was seasonal. For example, big hotel chains in France, Spain and Italy closed down during the winter and used this time to restock and renew its gastronomy items. Furthermore, until 2010, the pieces for the gastronomy sector were coated using a decorative process. This process required additional effort and differed from all other customers, as all other components were used exclusively for technical purposes.

The automotive industry also demonstrated remarkable growth. The revenue share expanded from 5% in 2001 to 50% in 2012, marking the most substantial increase among all the industries with 14 customers in 2012 (see Exhibit 6). It became clear that the automotive sector for mass production was a very competitive environment and pressure was high to meet quality and delivery standards. In particular, the warehouse, logistics and, above all, quality assurance requirements could not always be fully met by the team. RST's facilities and production capacity were too small to be sustainably profitable for the mass market.

Meanwhile, the electric and mechanical engineering sector maintained stable shares and customer numbers over the years (see Exhibit 6). The most important customer in the electric industry was a seal ring manufacturer. Established in 1961, the company generated revenues of € 17.1 million annually and produced about 1 billion sealing rings in 2012 (Unternehmensregister, 2013). Over the years RST increased its revenue in the electric sector by almost 300% (see Exhibit 7).

Other industries, representing the residual mix of product offerings, had developed a significant deterioration in revenues during the same time period (see Exhibit 6). Daniela and Thomas focused on reducing the customer base and acquiring customers from their main industries instead of offering services to various non standardized industries. Therefore, the number of customers decreased from a maximum of 212 customers in 2002 to 18 customers in 2012. This also meant a rather high dependency on three single customers (see Exhibit 11).

1.4. Main Competitors

RST competed with three key players in the industry, including Weinbrecht & Kücherer GmbH & Co. KG, known for its electroplating services and was characterized by a wide range of products and applications in both the decorative and technical fields. In addition to electroplating, Weinbrecht & Kücherer offered additional services such as blasting, polishing and painting to create specific surface textures. The company, which was in business for over 80 years, was founded in Pforzheim and had 35 employees.

Another competitor was Klaus BUDEI GmbH Metallveredlung, which had specialized in the coating of contact parts for the electrical and electronics industry since 1973 (Budei GmbH, 2012). With around 30 employees, the company achieved a total revenue of around € 2.3 million in 2012 (Unternehmensregister, 2012).

The third competitor was Dittes Galvanik GmbH with a main focus on barrel coating of mass-produced parts (Dittes Galvanik GmbH, 2012). The company was founded in 1968 and generated approximately € 2.2 million revenue with 17 employees in 2012 (Unternehmensregister, 2012).

The three main competitors had a large market share and a rather small bargaining power. As all four companies had a large overlap in their target groups, it was easy for customers to switch between the competitors and their similar offerings.

1.5. Competitive Assets

RST built its competitive position based on the following factors:

<u>Industry recognition</u>

Over the years, RST had continued to develop its strategic approach to drive success and recognition in the industry. An important aspect of this was participating in industry trade fairs such as Stanztec, trade fair for punching technology and BlechExpo, international trade fair for sheet metal working, word-of-mouth advertising and a customer-oriented approach. Despite the small size of the company, RST had been recognized and served well-known end customers such as Volvo, Aptiv, Kostal, Bosch, TE Connectivity and Audi.

Location (see Exhibit 1)

It's geographical location in southern Germany was an advantage for RST and a key factor in increasing awareness. Keltern was in the district of Pforzheim with its approximately 115,000 inhabitants, where there were around 31 surface coating competitors, 13 turning companies and 40 milling customer companies (Statista, 2012). This geographical positioning in the middle of a booming automotive industry and close to most of the big German car producers, such as Porsche (30 km), Mercedes-Benz (50 km), Audi (100 km) and BWM (260 km), was an advantage for RST. According to the Baden-Württemberg State Statistical Office, three of the administrative districts in the state, Stuttgart, Karlsruhe and Tübingen, were among the most powerful economic regions (Baden-Württemberg.de, 2013).

Talent Hiring

By supporting talents and collaborating with educational institutions such as the Meisterschule für Galvanotechnik (Master school for galvanizing), RST built up a qualified workforce. For younger people the company has initiated a program that offered apprenticeships and internships without any career or skill requirements. Therefore, the application barriers for young people were low and the chance to find motivated people was high. As part of these programs, interns had the opportunity to rotate within several companies with which RST cooperated. Additionally, RST had raised its profile among career changers who previously worked in another field. Exhibitions, specialist presentations and additional employee benefits such as daily sport, free water and fruit and a company retirement fund were reasons why fluctuation had fallen, and employee satisfaction had risen. RST recognized the importance of attracting young talent to its workforce. While the average age was 54 in 2001 it decreased to 36 in 2012 (see Exhibit **12**). Over the years the aim was not only to attract dynamic talent but to grow the next generation of skilled professionals.

Production Process

RST's five different production processes included the barrel process, the rack process, chemical blackening (browning), electrolytic polishing and selective surface coating. In the barrel process, various small components were coated in small and large series using a manual bulk material system. In the rack process, parts were processed on racks, whereby the focus was on small to medium-sized components with individual rack customization. This process was suitable for processing complex-shaped parts and offered tin, copper, nickel, gold and silver coatings. Chemical blackening, a passivation process that protected steel from rust, produces a black oxide layer. Electrolytic polishing, an electrochemical process, removed material from metallic components and improved the surface quality. The selective process used a special system for the partial coating of individual parts and striped sections up to 500 mm long and offered various coating combinations depending on customer requirements.

Originally, RST started working for customers from the jewelry sector and focused on decorative components where it was important to apply silver or gold to a surface. The visual and aesthetic requirements were more important than the functional characteristics of the parts. Offering services to customers with decorative and technical components, meant to plan production days carefully since the two types of surface coating required two different workflows and also two different types of material for example such as silver or gold. Over time, focus and especially expertise moved away from jewelry towards technical components. This made it possible to process parts from different customers with different requirements using the same work process. For example, the electronic conductivity - a functional characteristic of a coated component - was more important to the customer than its appearance.

1.6. Time to Make a Decision

The expansion in production processes was an effort to compensate for the risk of dependencies and failures of the three major customers with an extensive portfolio of smaller customers. Serving many small customers meant that RST had to meet different requirements and standards. This included aspects such as quality, logistics, warehousing and administrative tasks. RSTs extensive commitment led to additional operational effort and costs. However, despite increased efforts to comply with these standards, the expected proportional increase in sales did not materialize. This ultimately led to reduced operational efficiency, lower profit margins and a downward trend in the profitability of new production areas. The uncertainties and the before mentioned complaint were a trigger for RST to recognize the need for realignment. After giving up five potential customers worth up to € 130,000, it was time for Daniela and Thomas to figure out how RST could succeed in increasing operational efficiency and acquire new customers. How would they position themselves correctly in the market, manage the customer complaints and achieve a more equal distribution of revenue in order to minimize dependencies on large customers? How could RST drive further growth?

2. Literature Review

The following literature review should give examples of literature in the field of productivity in a niche market and mass market as well as an overview of customer concentration risk. It will present the most important terms and definitions and showcase different types of strategies that can lead to more efficiency. Those topics are related to the issues raised by the Case Study.

2.1. Niche Market vs Mass Market

2.1.1. Definition and Productivity

The term niche strategy has been used in many different ways such as niche marketing, market segment or target marketing and many more. However, a niche market strategy is defined as "an emphasis on a particular need, or geographic, demographic or product segment" (Teplensky et al., 1993). There are various definitions of niche. Kotler defines a niche as "a more narrowly defined group seeking a distinctive mix of benefits" (Kotler et al., 2022). Niche markets are usually formed by dividing a segment into sub-segments, for example in the automotive industry there are sub-segments such as luxury cars, sports cars, SUVs and small cars. They can also be described as the division of traditional markets into smaller segments. As the customer base is much smaller in a niche market, a company knows the requirements and needs so well, that they can be met to a greater extent (Kotler et al., 2022). For this higher benefit provided by the company, the customer is willing to pay a premium. Generally, customers are more loyal in a niche market because they appreciate the customization. In comparison, in a mass market, where the aim is to sell a large number of units, niche market companies focus on higher profit. Finding one or two niches can be a profitable strategy for a company. Whenever the optimal niche is found, it is characterized by five key features (Shani & Chalasani, 1992):

- First, customers within the niche have a recognizable set of unique requirements.
- Second, these customers are willing to pay a higher price for products or services that meet specific needs.
- Third, the niche is less vulnerable to competitors, allowing the company to maintain a strong position.
- Fourth, specialization within the niche allows the company to benefit from specific savings. For example, less marketing material and a smaller workforce..
- Finally, the ideal niche has the critical elements of size, profit potential and growth prospects, making it an attractive and lucrative market segment for targeted business activities.

Niche marketing gives smaller businesses the opportunity to compete effectively in the market by focusing their limited resources on niches that may be unimportant or overlooked by larger competitors. Many companies, for example EasyJet, first enter the market in a niche in order to position themselves correctly to then expand into the mass market. The airline started in 1995 with only two flights from London to Edinburgh and Glasgow. Nowadays EasyJet is one of the leading low-cost airlines in Europe (V. Kumar & Reinartz, 2018). The key to being successful in a niche market is relationship and reputation A long-lasting customer relationship and positive company image can build barriers for other competitors and sustain higher customer retention. Additionally, the outside image of being a specialist and expert in the field the company operates in is another key factor. To do so, a company has different options to specialize. It can specialize in a specific end application. For instance, the company focuses on a type of customer that is defined by the use of the product. Lawyers, for example, specialize in criminal and civil law. Another way is to be specialized in a particular stage of the production or distribution system. For example, a raw material supplier for bakery shops. Being specialized in a customer size or in the geographical area can be another strategy. Many local marketing agencies specialize in providing services to small customers. Whenever companies offer products and services only to young or old people, they become experts in one specific target group. Concentration can be very profitable for companies but at the same time it can lead to higher risk. If companies focus on a single niche, the risk of dependency increases. The demand could shrink and therefore the niche could disappear or develop in the opposite direction by increasing until it becomes interesting for bigger companies and competitors to enter. Big companies such as Coca-Cola acquire small niche companies with the intention that they efficiently develop the niche market, which optimally then becomes part of the main market or the mass market. Historically, the mass market emerged from large American companies and developed rapidly between 1880 and 1930 (Russell-Walling, 2014). At that time, it featured three basic characteristics: division of labor, interchangeable parts and mechanization (Duguay et al., 1997). The mass production is defined as providing low-cost products or services to customers through large-scale manufacturing (Hu, 2013). The term "mass market" refers to a market in which companies sell on a large scale to a significant number of end consumers. It differs from the niche market, in that the mass market focuses on consumers with very different backgrounds and without recognizable preferences and expectations in a large market segment. Nowadays the term "mass" refers to very high production and sales volume. These mass markets exist where customers have a high demand for standardized products or services. Therefore, prices are also more competitive and affordable. Because of that, entry barriers for new competitors are relatively low. As a marketing strategy, companies focus on reaching a broad range of potential customers. The market can be characterized as companies that are focusing on reducing costs by increasing their production volume. Larger quantities enable increasing profits or falling market prices (Stigler, 1958). Economies of scale occur when the production of products or services becomes more cost-efficient as the scale of production increases. The challenge of operating in a mass market is that the production requires a higher level of investment for machinery and facilities needed for the production (Che Mamat et al., 2015). Innovation is mainly driven by larger projects or customers and aims to make the production process more efficient. This includes the use of machines or robots (Ohno & Bodek, 2010). Lastly, it can be challenging for companies to sustain their level of quality and innovation while reducing costs.

2.1.2. Innovating and Niche Market

The concept of innovation is an important part in a marketing strategy. Due to today's dynamic and competitive business environment, many companies are increasingly faced with the need to be first, fast and on time (Wong, 2002). In this highly competitive environment, companies can only differ and compete by either cutting costs or innovating. Innovation has four key dimensions that can be seen as innovation pillars: Strategy Innovation, Product Innovation, Process Innovation and Market Innovation (Henard & Szymanski, 2001). Each pillar requires a different set of capabilities and knowledge that cannot be developed or acquired overnight. Innovation along one pillar often influences decisions related to other innovation fields. Therefore, selecting and focusing on one pillar that defines a companies' innovation strategy requires a conscious, portfolio-based approach that must be clearly communicated both within the companies and externally (Mohanbir et al., 2006).

2.1.3. Steps of Differentiation in a Mass Market (Trout & Rivkin, 2008)

A real differentiating idea serves as a powerful motivational tool for both internal and external stakeholders. It is not only a helpful tool for a company, but it also can be used to inspire employees to embody and promote unique qualities in their work. Trout and Rivkin's approach of differentiation is not only about providing a different product as a competitor but can be seen as creating a distinct and memorable identity in the minds of customers.

<u>Step 1: Make sense in the context:</u> Before a company can stand out, it needs to know what its competitors in the market are doing. This step involves researching what similar companies are saying and doing and how they position themselves. The goal is to find out what customers

already think in that business area. While researching the company should also take time and market situation into consideration.

Step 2: Find the differentiating idea: With the in-depth market research the company looks for a unique idea about itself. It's not necessarily related to the product it offers to the market, but it could also be the culture, mission, or the way it operates.

Step 3: Have the credentials: In order to be successful and recognized for its uniqueness the company needs to proof to the customer trustworthiness. If for example a company promotes itself as sustainable company, it should act in a sustainable way. Operating differently is having proof or credentials.

Step 4: Communicate your difference: The last step is to communicate the idea. It involves using advertising, brochures, websites, and any other marketing ways to distribute information to the customer. As in most campaigns it is crucial to communicate constantly and consistently. This will help the customer to better recognize the company and the new idea.

2.1.4. Key Elements of Successful Niche-Growth

Within the framework of strategic niche management, three elements contribute to the successful growth of a niche. Visions and expectations, networks, and learning (Kemp et al., 1998). To best support niche emergence, a company's vision and expectation should be widely shared. The communication should be specific, realistic, and achievable in order to maximize target audience. To engage internal and external stakeholders who draw resources from their organizations to support the niche's emergence, networking activities can enable the company. Lastly learning should contribute not only to everyday knowledge and expertise, but also to "second-order learning" wherein people question the assumptions and constraints of mainstream systems altogether. Each of these processes is interdependent, forming a dynamic path in niche development. On this path, the learning component contributes to elevated expectations of functionality. Consequently, this will attract new companies and resources. This cycle continues, creating either positive or negative cycles (Raven, 2007).

2.2. Positioning

There are many definitions of positioning and repositioning. On the one hand, there was Kotler, who defined positioning as "the act of designing the company's offerings and image to occupy a distinct place in the target market's mind" (Kotler, 2000). Arnott 1992 similarly stated that "positioning is the deliberate, proactive, iterative process of defining, modifying and monitoring consumer perceptions of a marketable object". Overall, a positioning process can be described as iterative (Kalafatis et al., 2000). It requires considered and proactive action. It involves decisions at a conceptual, strategic, and operational level. It should consider and reflect the following three components: Company, Competitors, and Target Group. For a company to position itself, it can use various tools and frameworks. In the following section, business-level strategy and its different types of strategies will be explained.

2.2.1. Business-Level Strategy

The business-level strategy is used to decide how to compete in a specific business area (Schreyögg & Koch, 2014). This is based on the assumption, that the conditions in the business fields can be extremely different, both in terms of the internal and the external situation. This means that a special strategy is required in each case. Companies with several business segments can pursue many different competitive strategies. It is an integrated and coordinated set of commitments and actions that a company applies to achieve a competitive advantage by leveraging its core competencies in specific markets (Hitt et al., 2017). It refers to the choices made by the company regarding its positioning and especially to its competitive approach in individual markets. Business-level strategy is an influential forecaster of managerial phenomena and is important in clarifying the different aspects of a company's effectiveness and long-term performance (Teeratansirikool et al., 2012). Porter's contribution was to provide a systematic framework for understanding how businesses can achieve competitive advantage within their industries. He introduced the concept of generic business-level strategies, specifically cost leadership and differentiation. These strategies aim to help companies gain a sustainable competitive advantage and outperform their competitors. Porter's research involved the analysis of various industries and the identification of key determinants of success, which he outlined in his Five Forces framework (Porter, 1989). It is a model that identifies and analyzes five competitive forces that shape each industry and helps to point out the weaknesses and strengths of an industry. The five forces analysis is often used to better understand the structure of an industry and to define the corporate strategy. The primary objective of a business-level strategy is to define the company's approach to how to compete in its selected market or industry (Seifzadeh & Rowe, 2019). This strategy aims to create a sustainable competitive advantage that will enable higher performance and differentiate the company from its competitors. Business-level strategies are built around delivering value to customers and, consequently, driving profitability for the organization. Companies ask themselves fundamental questions such as "How do we stand out in our chosen market?" and 2What is our unique selling proposition that drives our success?". These strategies require critical decisions about resource allocation, differentiation of offerings, and the creation of unique customer value. The different types of business-level strategies will be further highlighted in the following section.

2.2.2. Types of Business-Level Strategies

There are five different types of business-level strategies that a company can establish to achieve its competitive advantage: cost leadership strategy, differentiation strategy, focus cost leadership strategy, focused differentiation strategy, and integrated cost leadership/differentiation strategy (see Figure **1**). For a company to defend its desired strategic position each strategy helps to exploit a specific competitive advantage within a specific competitive scope.

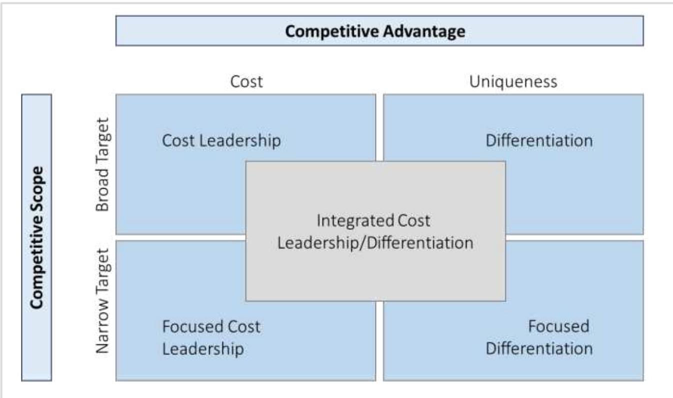


Figure 1 - Business-Level Strategy Types (Source: based on Hitt et al., Seifzadeh & Rowe, (Schreyögg & Koch)

Figure **2** provides a brief overview of each business-level strategy type, its purpose, competitive advantage, and target market. In the following paragraph, each type will be explained in detail.

	Cost Leadership	**Differentiation**	**Focus Cost Leadership**	**Focused Differentiation**	**Integrated Cost Leadership/ Differentiation**
Purpose	To become the lowest-cost producer in the industry	To create unique and high-quality products/services	To become the lowest-cost producer in a specific niche	To create unique and distinctive products/services for a specific niche	To achieve both cost leadership and differentiation simultaneously
Competitive Advantage	Offers products/services at the lowest cost	Offers products/services through innovation, design, quality or quality	Offers products/services at the lowest cost within a niche market	Offers products/services with unique features within a nice market	Offers a combination of cost efficiency and unique features
Target Market	A broad customer bases	Customers who willing to pay a premium for unique features	A narrow and specialized customer base	A narrow and specific customer base that is willing to pay a premium	A broad or focused customer base

Figure 2 - Business-Level Strategy Types Overview (Source: based on Hitt et al., Seifzadeh & Rowe, (Schreyögg & Koch)

Cost Leadership

The Cost Leadership Strategy is a comprehensive approach to achieving competitive advantage through cost-efficient operations, requiring an aggressive managerial action directed toward controlling and minimizing costs (Jones & Butler, 1988). It is a business approach focused on delivering products or services with features that are demanded by customers at the lowest price compared to competitors (Porter, 1997). This strategy is typically adopted by companies that specialize in selling standardized products in large quantities and that monitor costs strongly. The company is required to offer homogeneous products so that the price is the crucial factor in the purchase decision of the customer (Corsten, 1998). To approach the cost leadership strategy, companies become experts in their production processes, aiming to minimize production costs through increased efficiency. However, it’s crucial to balance cost reduction with maintaining a competitive level of differentiation that creates value for customers (Gehlhar et al., 2009). Simply reducing costs does not automatically translate to increased efficiency (Sheehan & Vaidyanathan, 2009). Cost-cutting measures can potentially harm innovation processes, lead to a decline in production quality, and reduce employee motivation. Companies pursuing the cost leadership strategy usually target a broad customer base and continually seek ways to lower costs relative to competitors. This involves a constant reevaluation of primary and support activities to further reduce costs while keeping the competitive levels of differentiation as high as possible (Kotabe & Mudambi, 2009). In particular, core activities, such as inbound and outbound logistics, have a significant impact on overall costs. Establishing a competitive advantage in the logistic chain creates added value within the Cost Leadership Strategy. Companies implementing this strategy must also consider the options of vertical or horizontal integration (Arocena et al., 2009). However, it is important to be careful, as outsourcing or integration can make the company dependent on other companies (both outsourcing providers and suppliers), potentially causing additional costs. In the best-case scenario, a company can create interdependencies between outsourcing firms and suppliers, fostering a more balanced and cost-effective approach.

Advantages	Disadvantages
Cost leaders **benefit from economies of scale**, as they often have a large market share and can produce in higher quantities, resulting in lower per-unit production costs.	A focus on cost reduction may lead to **quality concerns**, potentially affecting customer satisfaction.
Lower costs and competitive pricing can lead to **higher profitability**, even with a lower profit margin.	Rapid technological advancements can disrupt cost leaders if they **fail to adapt quickly**.
Cost leaders can set prices that competitors find challenging to match, allowing them to **control pricing in the market**.	Cost leaders may struggle to **differentiate their products**, making it challenging to charge premium prices.
The ability to purchase in large quantities enhances **relationships with suppliers** and often results in favorable terms.	**Competitors may respond** by reducing their prices, eroding the cost leader's margins.
Cost leaders are **better equipped to** weather **economic downturns** and market **fluctuations** due to their competitive pricing.	Constant cost-cutting can lead to **employee dissatisfaction** and **burnout**.
	Excessive focus on cost reduction may **divert resources** from other critical areas like research and development.

Figure 3 - Pro and Con Cost Leadership (Source: based on Gehlhar et al., Corsten)

Differentiation

Differentiation strategy is about standing out from the competition by offering unique and valuable products or services to a broad customer base (Alhosseiny, 2023). This approach involves creating products that are "different" and better in some way than what competitors offer. Differentiation strategies may include product quality, unique features, superior customer service, and innovative product offerings. To do this, companies invest heavily in research and development (R&D) to make their products more innovative and attractive to their customers and at the same time set higher standards and boundaries for competitors. They aim to be seen as special and superior, gaining a leading position in the market and being able to adapt to the innovations of its competitors.

Differentiation strategies can sometimes be riskier for companies as they may involve non-traditional activities such as the use of the latest technologies (Dirisu et al., 2013). These strategies can lead to higher production costs, which are then passed on to customers in the form of premium prices. However, companies must strike a balance between the benefits their products provide, and the costs incurred in delivering these benefits (Jones & Butler, 1988).

The advantages of differentiation strategies are numerous. They help build brand loyalty, reduce price sensitivity among customers, create barriers to entry for competitors, and allow companies to charge higher prices due to the uniqueness of their products. Differentiation sets a company apart and limits customer alternatives. In essence, differentiation is about offering something special that customers are willing to pay extra for, and it safeguards a company's position against powerful buyers in the market (Gorondutse & Hilman, 2019).

Advantages	Disadvantages
Differentiation allows companies to **charge premium prices** for unique products or services, resulting in higher profit margins.	Developing and maintaining unique features often requires **significant investments** in research, development, and quality control, resulting in higher production costs.
Creating distinctive offerings can lead to **strong customer loyalty**, reducing the risk of losing customers to competitors.	Differentiated products may have a **smaller target market** due to specific customer preferences, limiting the potential customer base.
Customers who value the unique features of a differentiated product may be **less sensitive to price** increases, providing pricing flexibility.	Successful differentiation can **attract competitors** who may replicate or **imitate the unique features**, eroding the differentiator's competitive advantage.
Successful differentiation builds brand reputation and product distinctiveness, making it **difficult for new entrants** to compete effectively.	During **economic downturns**, price-conscious consumers may **switch** to **lower-cost alternatives**, affecting sales and profitability.
A unique product can reduce direct competition, leading to **higher market share** and reduced rivalry.	Effectively **communicating** the value of differentiated products to customers **can be challenging** and costly due to customer-specific trends.

Figure 4 - Pro and Con Differentiation (Source: based on Dirisu et al.)

Focus Strategies

The focused strategy involves concentrating on specific market niches characterized by various factors such as geography, income levels, demographics, or product specialization. The focus strategy can be further divided into two sub-strategies: *Focused Cost Leadership* and *Focused Differentiation*. Focus strategies, also known as niche strategies, aim to serve the specific needs of a limited customer group or segment. This specialization can be based on geographic, demographic, or market-specific criteria. The primary objective of a focus strategy is to create a sustainable competitive advantage by catering to the unique demands of a particular niche, thus ensuring customer loyalty and enhanced profitability (Alhosseiny, 2023). By optimizing its strategy, the competitive advantage will only be achieved within the niche and does not mean that this strategy would be a competitive advantage for the overall company.

The *Focused Cost Leadership* strategy concentrates on providing products to a specific group of buyers within a narrow market segment. The company is cost-conscious and ensures that customers stay loyal. The key focus is on becoming the cost leader in this niche, often by offering products with well-established technology and processes. The emphasis is on delivering superior value through competitive pricing while maintaining cost efficiency. One example is companies like Southwest Airlines in the aviation industry. Adopting this strategy, it provides low-budget flights to its customers - a sub-market of all flights - with low-priced, low-quality products.

The *Focused Differentiation strategy* is about offering unique products with added value that are tailored to the specific and high preferences of a particular customer group. These products stand out because of their exclusive features and are tailored to a small, niche market. Pursuing this strategy often requires specific resources and capabilities to differentiate the offerings effectively.

Advantages	Disadvantages
Focus strategies allow companies to **specialize** and **become experts** in serving a **specific niche market**, enabling them to better meet customer needs.	Focusing on a single niche market can be risky, as **economic or market changes may negatively impact on** the business.
In a focused differentiation strategy, companies can **charge premium prices for unique products** tailored **to a niche**, resulting in higher profit margins.	The small size of niche markets can **limit a company's growth** potential, especially if it relies solely on this strategy.
Meeting the distinct needs of a niche market can lead to **strong customer loyalty** and **satisfaction**, as the company caters specifically to their preferences.	Companies following a focus strategy may **become** overly **dependent on their niche market**, making them vulnerable to market fluctuations.
Niche-focused companies face **less competition** within their specialized market segments, reducing competitive pressure.	**Competitors** may **enter** the **same niche** market, eroding the company's competitive advantage.
Companies pursuing focus strategies have **more control** over their **niche market** and can **adapt to changes more quickly**.	Niche markets can **decline over time** due to changing customer preferences or external factors, affecting the company's sustainability.

Figure 5 - Pro and Con Focus Strategies (Source: based on Alhosseiny)

Integrated Cost Leadership Differentiation Strategy

The fifth and last strategy is a comprehensive approach that combines the features of cost leadership and differentiation into one single strategy. This hybrid strategy can be applied to serve both broad and narrow target markets. Originally, Porter referred to this type of strategy as a “middle-of-the-road” approach (Alhosseiny, 2023). This approach aims to provide customers with an optimal cost-to-benefit ratio, appealing to those who are sensitive to both price and value. The hybrid strategy involves offering more benefits to customers at a lower cost compared to competitors, effectively delivering higher value for their money, including upmarket or premium products (Hitt et al., 2017). Many companies aim for this hybrid-strategy approach to satisfy customers who seek both affordability and differentiated products One of the main reasons for adopting a hybrid strategy is the ever-changing business environment, also known as the VUCA world - a volatile, uncertain, complex, and ambiguous environment (Taskan et al., 2022), which necessitates flexible integration of strategies. Hybrid strategies allow companies to adapt more easily to external environmental changes and develop new competencies rather than relying solely on a single generic strategy. Companies implementing an integrated strategy may achieve superior performance compared to those following a single strategy (Smith, 1956). The implementation of a hybrid strategy yields various competitive advantages, such as economies of scale and brand/customer loyalty, compared to the benefits of pursuing a single strategy. Successful examples of companies employing hybrid strategies include Toyota, which improved quality and reduced prices, enhancing core competencies to create differentiated products with distinctive features at lower costs.

2.2.3. Strategic Repositioning

Repositioning is seen as the constant conscious adaptation to a company's changing environment. Companies often use many different strategies to position themselves to move to new positions over time (Ostaseviciute & Sliburyte, 2008). Strategic repositioning is described as a deliberate act by enterprises to adapt to a changing commercial landscape, signifying a profound change in the underlying value proposition, targeted market segments, or basis of differential advantage (Turner, 2003). When a company decides to reposition itself, it seeks two outcomes. Firstly, it anticipates a strong association between the company's name and the new positioning attribute, and secondly, it expects consumers to forget the old positioning (Jewell, 2007).

2.3. Customer Concentration

2.3.1. Customer Concentration Risk

Customer concentration is a measure of how total revenue is distributed across a company's customer base. The risk of customer concentration refers to the extent to which a company is dependent on a small number of customers or single industries who account for a significant proportion of revenue. It evaluates the extent to which a company relies on a limited customer base to maintain its financial performance. In some industries, customer concentration tends to be higher than in others. For example, concentration is generally lower in the retail sector, while large project construction companies often have fewer customers, which account for a significant share of the company's revenue. In practice, the rule of thumb is that a company has a high customer concentration if a single customer accounts for 10% or more of its revenue or if the five largest customers account for 25% or more of revenue (Cao et al., 2021). Both high and low concentrations have advantages and disadvantages. The advantage of high concentration is that there is a greater opportunity to build long-term relationships with a few large customers and to enter into contractual agreements that can be tailored to each individual customer (N. Kumar, 1996). Processes and products can be focused on fewer customers, so that resources can be used more efficiently to better understand and meet the needs of each individual customer. Customers often provide valuable suggestions for improving products or services because they have an interest in the success of the company. Customer relationships can grow into partnerships. On the other hand, a high customer concentration can pose a significant risk to companies. As the loss of a major customer or a decline in business with key customers can have a significant negative impact on profit and overall financial stability (Saboo et al., 2017). The importance and impact of the risk lie in various factors such as revenue dependency. If the major customer reduces business or in the worst case goes bankrupt, the company may

experience a substantial revenue decrease (Kolay et al., 2016). This can lead to further cash flow concerns. Not only revenue is affected by a high concentration but the overall financial stability and in the end a company's profitability can be affected too. Especially during economic downturns or trends in the customers' industry. Therefore, companies with a high concentration are more likely to decide in favor of the customer (Fee & Thomas, 2004). This influence also has an impact on the internal decision-making processes. Looking at the outside perception of a company, stakeholders including investors or creditors may recognize a high customer concentration risk as a negative business strategy. But how can this happen? A good factor can also be bad - what contributes to customer concentration can be a long-term exclusive customer relationship. Companies develop a close relationship, serve unique products, and develop a customized service for its customer. Both sides invested in cooperation whereby the customer is better off since the bargaining power is much higher. External factors such as industry or market dynamics also play a big role that influence and contribute to customer concentration.
As a high customer concentration reflects the power of customers, there is a risk that they will have a negative impact on the profitability of a company. Powerful customers can negotiate and enforce favorable contract terms (Hui et al., 2019).

2.3.2. Effects on Company's Growth

A high customer concentration rate is a valuable factor to consider in management forecasts. A study conducted in the U.S. between 2007 and 2015 on manufacturing companies revealed that those with a higher customer concentration rate tend to experience growth in sales, assets, and employees (Binti M., 2018). A high customer concentration rate is a valuable factor to consider in management forecasts. A study conducted in the U.S. between 2007 and 2015 on manufacturing companies revealed that those with a higher customer concentration rate tend to experience growth in sales, assets, and employees. Another study shows the price and non-price characteristics of credit agreements (Campello & Gao, 2017). The credit market assessed the customer profile of a company and the relationships in the supply chain. Higher customer concentration leads to a wider interest rate spread and the number of restrictive clauses in new and renegotiated bank loans. In addition, customer concentration shortens the term of these loans as well as the relationships between companies and their banks. These effects are exacerbated by the financial distress of customers, the level of relationship-specific investments and the use of trade credit in customer-supplier relationships. The results show that a stronger link to a small group of large customers has negative consequences for a firm's relationships with its creditors and highlights the limits of integration along the supply chain. A third study investigates the impact of major customer concentration on firm profitability, testing two possible hypotheses (Hui et al., 2019). The collaboration hypothesis suggests that customer power fosters cooperation, benefiting both the supplier and its major customers. Conversely, the competition hypothesis posits that customer power leads to rent extraction, favoring major customers at the supplier's expense. The findings reveal that a higher concentration of major customers is linked to lower profitability for the supplier but increased profitability for the major customers. Importantly, as the supplier firm gains more influence in its relationship with major customers, these effects fade, supporting the competition hypothesis.

2.4. Conclusion

In conclusion, the comparison of productivity in a niche market and a mass market highlights distinct strategies and characteristics. A niche market strategy emphasizes meeting the unique needs of a specific customer segment, leading to customer loyalty and the ability to charge premium prices. The success of niche marketing lies in specialization, relationship building, and a focus on a smaller customer base. Conversely, the mass market targets a broad and diverse consumer base, relying on high production volumes and economies of scale to offer competitively priced standardized products. The mass market is characterized by lower entry barriers, intense competition, and the challenge of maintaining product quality at scale.

Moreover, the concept of customer concentration risk is crucial in assessing a company's dependency on a limited number of customers for a significant portion of its revenue. High customer concentration, where a single customer or a few major customers contribute a substantial percentage of revenue, presents both advantages and disadvantages. While it allows for long-term relationships and tailored agreements, it also poses a significant risk. The loss of a major customer can have a severe negative impact on a company's profitability and financial stability. Companies facing high customer concentration must carefully manage relationships, diversify its customer base, and implement strategies to mitigate the associated risks.

3. Teaching Note

3.1. Learning Objectives

RST's Case Study provides a ground for a discussion on the strategic realignment and positioning of a German manufacturing SME, offering a valuable introduction to strategic concepts and the intricacies of entering a niche market. Additionally, the Case Study provides a practical illustration of how a company navigates the challenge of avoiding customer dependency while cultivating robust customer relationships.

Key learning objectives for students to discuss in class include:

- Recognizing the importance of realignment in a company's lifecycle
- Understanding the positioning within a competitive market
- Evaluating the role of customer concentration
- Analyzing diverse strategies to sustain growth

3.2. Suggested Assignment Questions

1 List key strategic decisions until 2012 and evaluate what were the key elements of RSTs' strategy?

2 Analyze the market conditions and the associated main challenges for Daniela and Thomas?

3 Imagine you are Thomas, what would you suggest to Daniela about how RST should continue business in the future?

3.3. Class Plan

Question 1- What is your evaluation of RST's strategy up to 2012?

Question 2 - Examine the historical growth and positioning of RST within its automotive business.

Question 3 - What are the major challenges faced by RST in the present market conditions?

Question 4 - Explore the consequences of the strategic decisions made by RST in the past, especially in relation to customer concentration.

Question 5 - Identify potential alternatives available to RST for overcoming its present challenges.

Question 6 - What are your recommendations for RST's management?

3.4. Analysis

Question 1- What is your evaluation of RST’s strategy up to 2012? [15 Min.]

Up to 2012, RST pursued a strategy characterized by both successes and challenges. The company initially started with a diverse customer base but later narrowed its focus primarily on two major customers. Although this concentration was lucrative for several years, it represented a considerable risk, as demonstrated by the unexpected decision of a major gastronomy customer, WMF, to reduce business in 2006. This event highlighted the vulnerability of RST's strategy, particularly in the face of uncertainty. Additionally, the strategic decision to invest heavily in time, resources and capital in unique processes and machinery tailored for WMF was also initially profitable. However, this over narrowly focused differentiation strategy also led to a risk of high dependency on this customer. The consequences of WMF's decision to relocate production underscored the importance of diversification and the need for a more resilient strategy that could withstand sudden changes in customer relationships. Despite the challenges, RST exhibited adaptability by venturing into new business areas, such as the electro-mobility field for selective coating. The decision to drop less profitable business segments, like the decorative areas, demonstrated a proactive approach to realigning the company's focus for better profitability and sustainability. Overall RST expanded its operation from 3 to 5 different production methods. Reasons to operate in different areas, were to diversify its production portfolio in order to minimize the dependency on single customers and to be competitive. And, since the surface technology market and especially RST’s three main competitors were also operating in these fields RST had to develop its production methods to be competitive. In evaluating RST's strategy, it is evident that the company faced industry challenges, including a highly competitive market and increased customer demands for speed, cost-effectiveness and quality standards, especially in the automotive industry. On the other side, automotive was also the industry with the highest revenue share and the proximity to the customers was a key competitive advantage for RST. Significant efforts were made to increase visibility, both among customers and competitors, as well as employees. The market was characterized by the presence of three main competitors, contributing to intense competition. All competitors engaged in similar practices, lacking diversification. The customer decision-making process was probably primarily influenced by factors such as time and cost-effectiveness. This underlines a competitive environment where differentiation was minimal and prices where low. The recognition of these challenges and the willingness to diversify, indicate an awareness of the strategic landscape. However, the company also encountered setbacks, such as the substantial complaint in 2012, emphasizing the importance of continuous adaptation and improvement in its strategic approach.

Question 2 – What have been the major positioning shifts in the history of RST within the automotive industry? [20 Min.]

In the early years until 2010, RST positioned itself in the automotive industry by serving mass and serial production customers. As a supplier to various Original Equipment Manufacturers (OEM) in the automotive industry, RST played a crucial role in their supply chain, ultimately reaching end users such as the Volvo Group, Audi and BMW. One of RST's advantages was its geographical proximity to the automotive industry's production facilities, which allowed for smoother operations and better collaboration with key players in the sector. However, the mass manufacturing segment was a major challenge. These mass markets are usually characterized by intense competition and powerful customers with strong bargaining power. In this highly competitive market, customers placed high demands on quality control and safety, among other things, while at the same time expecting competitive prices. Due to the relatively small size of RST and the high costs involved for control processes, human capital and machinery, profit margins were comparatively low. In order to navigate this complex environment, RST pursued a strategy of cost leadership. This strategic positioning aimed to standardize the production process as much as possible, thereby increasing productivity and reducing costs. Despite the challenges posed by the competitive environment and the pressure on profit margins, RST managed to successfully establish itself in the market and generate a significant proportion of its revenue from this demanding industry.

In 2010, RST entered a new phase characterized by innovation and adaptability with its entry into prototyping for the automotive sector. This step demonstrates the company's ability to evolve and take on new challenges. Working closely with its customers' research and development departments, RST pioneered the development of unique workflows specifically tailored to the selective coating processes. The entry into the prototype sector shows new possibilities within the automotive industry. In contrast to the mass market, the focus here was on smaller quantities, high precision and highly specialized processes. RST took advantage of its relatively small production facility and small team to make the processing of smaller orders more flexible and efficient. In contrast to the challenges of mass markets, the smaller scale of the components for prototypes proved advantageous for RST. The customized nature of the work not only suited the company's strengths in terms of size and knowledge, but also led to significantly higher profit margins. This strategic shift not only demonstrated RST's adaptability, but also highlighted the financial benefits of targeting niche markets with specialized and high-margin offerings.

Despite experiencing overall growth, RST faced a significant challenge in the form of a substantial complaint. The complaint involved three major automotive customers and amounted to a total value exceeding €10 million. This incident made it clear how difficult it is to operate in the highly competitive business of the automotive industry. It underlines how important it would have been to carry out strict quality controls, but RST simply does not have the capacity to do so. Regrettably, as of 2013, the complaint remains unresolved, extending the period of uncertainty and doubt for RST. The situation has created a challenging environment for the company. However, Daniela and Thomas should see this difficult time not as a time of hardship, but as an opportunity for change. They already recognized the potential to pivot away from serving the highly competitive mass market and instead focus on the more lucrative niche business only. This change could enable RST to overcome the turmoil and leverage its strengths in specialized offerings with higher profit potential. The decision to use this situation as a basis for change reflects RST's resilience and adaptability.

These three positioning shifts can also be seen in RST's financials over time. RST started its operations in 2001, and by 2006, the company experienced substantial 10% growth in the automotive sector (see Exhibit **3** and Exhibit **7**). Overall, the revenue share increased from 5% in 2001 to 50% in 2012, indicating a significant concentration in the market. Compared to all other industries RST was operating in, this is by far the most significant development. The financial crisis in 2008 posed a challenge as the automotive industry dramatically reduced demand (see Teaching Note Exhibit 1). RST's revenue dropped significantly by 49.5% in 2009, leading to a restructuring of the company. The fact that employees had to be laid off, and that there was loss of almost 10% of the revenue, clearly indicates that RST was financially in a bad shape and highly dependent on the mass automotive market (see Teaching Note Exhibit 2). In response to these financial challenges, RST diversified its portfolio and acquired new customers in the field of prototypes for the automotive sector in 2010. For the first time the company focused on coating components for prototype engines, introducing innovative workflows for selective coating processes. Compared to the mass market margins were significantly higher. This also can be seen in the significant increase in automotive revenue that more than doubled from 2010 to 2012 (Teaching Note Exhibit 3). The post-crisis management involved strategic decisions, including restructuring, optimizing production processes, and rebranding. The automotive industry recovered too, and revenues increased by 95% from € 140.000 in 2009 to € 277.000 in 2010. With the complaint from the automotive industry in 2012 amounting to +€10 Mio. and a revenue of €1.2 Mio., RST found itself in a precarious situation. The conditions and financial state of the company do not look promising and the survival of the company may be at stake;

however, this had not yet manifested in the revenue figures, as there had been no financial impact up to this point.

Question 3 - What are the major challenges faced by RST in the present market conditions? [10 Min.]

There are three major challenges that can be highlighted. First, the automotive complaint and the management of this problem. RST faced its most substantial complaint, involving three major automotive customers and exceeding €10 million in value. This sizable issue underscored difficulties in quality control and customer satisfaction. RST could not meet the requirements and had quality issues with the surface of its coated parts. This is by far the biggest challenge RST faced in 2012. The uncertainty of whether the operation goes on or not was probably not only a mental challenge but also influenced other business decisions and will most likely influence the financial numbers in the upcoming years. The second main challenge were uncertainties and dependencies on key customers. Over the years RST introduced 3 new production methods in order to diversify its portfolio and minimize risk. Despite the changes in processes and the introduction of new methods, RST has repeatedly slipped into a new customer dependency. In all three main sectors, RST only worked for one very strong customer at a time. At first it was WMF in the gastronomy sector, which accounted for 44% of revenue at the peak in 2006. The electric industry's sealing ring manufacturer was a second main customer with whom a very close relationship has existed since the company was founded, as can be seen from the introduction of ISO certification. In the automotive industry, it was the customer conglomerate which consisted of 3 customers, all delivered to the end customer Volvo. These three customers were responsible for approximately 50% of revenue in 2012. Concentration can cause considerable challenges, which was already the case in 2006 with WMF and in 2012 due to complaints from automotive customers, both in figures and in layoffs or restructuring. Another major challenge was adapting to a new market segment and customer requirements. This challenge refers to the automotive industry. RST was faced with the complexity of market dynamics in the mass market and increasingly demanding customer requirements. The company had the opportunity to develop its first customers in the niche market, a strategic change in 2010. The processing and development into the niche required RST to align its capabilities with the specific requirements of the identified customer and especially with the R&D department to ensure a successful market entry and sustainable growth. But the technical challenges were not the only ones. The question arose as to whether RST still wanted to operate in the automotive industry after the complaint.

Question 4 - Explore the consequences of the strategic decisions made by RST's in the past, especially in relation to customer concentration. [10 Min.]

Focusing exclusively on one customer or specializing in a specific field offers both advantages and disadvantages for RST. On the positive side, it fosters a strong customer relationship with the seal ring manufacturer that developed into a partnership. The electric industry customer was mainly the driver for RST's management certification. That was a win-win situation. RST implemented its first management standards, and the customer could continue business with its supplier. A similar situation was happening with WMF. Since WMF is dependent on RST's knife coating expertise, the customer is more likely to codevelop production processes together as it is also in his own interest. A tight relationship ultimately leads to increasing customer loyalty and enables a deep understanding of customer requirements. This has the advantage that resources and expertise can be planned in advance since orders are predictable. Meaning that, for example, one specific team is responsible for one customer. They are experts and know the production processes and requirements. This saves time for processes and if a problem arises, the allocated team knows how to solve it. Additionally, if the relationship is stable, orders are usually also stable and resource utilization can therefore be predicted well. As mentioned in the case, when WMF announced insourcing of its production, RST was struggling to compensate for the revenue decline. One can clearly see the downside of high customer concentration. Higher concentration means a higher risk of dependency. This dependency weakens the negotiating power, especially in times of economic downturn. RST attempted to broaden its portfolio by introducing new processes, but paradoxically, this move led to an increase in customer concentration. In 2005, the concentration peaked at 44% from a single customer and 61% from the top 5 customers (see Teaching Note Exhibit 4). According to industry standards, a high concentration is characterized when a single customer contributes 10% or more to revenue or when the five most important customers together account for 25% or more. The data reveals that, coinciding with the introduction of the fourth production process in 2005, RST reached its highest customer concentration rate, inadvertently achieving the opposite of its diversification goal. This non-inattentional move in the past leads to a rather high dependency. RST is mainly dependent on its two largest customers. This dependency became very clear during the financial crisis in 2008, when 49% of sales were lost. The reason for this was that over 50% of revenue was generated by just two customers.

Question 5 - Identify potential alternatives available to RST for overcoming its present challenges. [10 Min.]

RST has multiple options to continue its business. Some of the business level strategies (see Teaching Note Exhibit 5) will help to evaluate the different alternatives open to RST.

1. <u>Business as usual – cost leadership</u>

Under the business-as-usual strategy, RST could decide to maintain its current operations and address the significant complaints it faced in 2012. An important aspect of this approach would be cost leadership and becoming a low-cost manufacturer in order to improve competitiveness. To measure customer satisfaction and identify potential areas of improvement, RST could conduct a comprehensive customer survey. This would not only provide insight into current customer opinion, but also highlight areas where customer engagement and loyalty can be strengthened. This customer-centric approach is crucial for all strategic alternatives, especially for the "business as usual" scenario. In seeking cost leadership, RST could expand its customer base and streamline processes to offer competitive prices. In addition, by utilizing the results of customer surveys, RST could identify potential requirements and expand its portfolio accordingly. To become an expert in the products and services most in demand by customers, employees would need to be trained and partnerships to be formed to fulfill technical requirements. At the same time, monitoring competitors is essential to seize opportunities, for example to attract their customers or gain a competitive advantage when investing. Prioritizing complaint management is crucial in this strategy in order to raise quality standards and consistently ensure the high quality of surfaces. While this approach leverages RST's familiarity with existing markets, it also presents challenges. Operating in highly competitive markets, particularly in the automotive sector with its narrow profit margins, can limit growth opportunities.

2. <u>Focusing exclusively on the 3 main customers, dropping all other customers – focused cost leadership</u>

In this alternative, RST is considering an exclusive focus on its three main customers, while discontinuing relationships with all other customers. This strategy, known as "Focused Cost Leadership", involves optimizing and automating processes specifically tailored to these three key customers and aims to achieve the most competitive prices in the market. By becoming an expert in the sectors of these key customers, RST aims to raise the barriers to entry for potential competitors and thereby gain a significant competitive advantage.

This strategy allows for a stronger focus on the selected customer base and opens up opportunities for strategic partnerships in various industries. Collaboration can be expanded and

processes can be 100% customized for each of the three customers. This includes the integration of IT systems, which allows seamless processes such as automatic order placement by customers directly into RST's system. This IT integration extends across the entire production process and ensures transparency in terms of ordering behavior, lead times and deliveries. With these insights, RST can improve its overall processes and make them more cost-efficient over time.
However, this strategy is not without its challenges. The decision to exclude all other customers can lead to dissatisfaction among those excluded, which in return can have a negative impact on word of mouth. Given the relatively small size of RST, maintaining a positive reputation is crucial. Despite the focus on three customers from different sectors, one could argue that the risk is spread. Nevertheless, the absolute dependence on these three customers from different sectors raises concerns about high customer dependence and concentration. This could cause problems when raising capital from investors or creditors due to the perceived risks associated with such a concentrated customer base.
In addition, the implementation of this strategy could require an initial reduction in staff as production capacity is initially reduced. However, RST could anticipate that order volumes will increase over time, effectively retaining these key customers and ensuring optimal production utilization without idle time or overcapacity.

3. <u>Focusing exclusively on the niche – focused differentiation</u>

With a focused differentiation strategy, RST could consider a strategic shift by focusing exclusively on a highly profitable niche market, specifically in the area of prototyping. This strategy envisages entering into a broader niche market that extends beyond the automotive sector and into other industries. The aim should be to diversify RST's portfolio while minimizing potential risks. The initial focus could be on existing customers in the prototyping sector. Daniela and Thomas could conduct research to find out from current customers whether they are involved in prototyping-related activities. Subsequent discussions and inquiries with these customers could determine their interest in working with RST for further development. New customers can then be acquired in other sectors in order to expand RST's position in this niche market.
This alternative offers clear advantages. It opens the door to lucrative, high-margin opportunities, and RST has already secured its first customer base in this niche. In addition, it has developed unique processes tailored to the automotive industry, providing a foundation that can be extended and adapted to other sectors. The proactive approach to engaging with existing customers not only strengthens existing relationships, but also lays the foundation for potential expansion into new market segments. RST's early success in acquiring niche customers

underlines the potential viability of this strategy, which is in line with the company's aim to focus on specialist areas and high-margin ventures.

4. Replacing automotive mass market with prototype niche market, continuing other business as usual - integrated cost leadership/differentiation strategy

An alternative strategy is to move from the highly competitive mass market of the automotive industry to a more specialized niche market. This strategy would have the same advantages and disadvantages as Alternative 1 but RST could replace low-margin automotive customers with high-margin prototype customers. This would mean focusing on complaint management in the short term and then building up and developing a focused differentiation strategy. At the same time, it could continue its existing business activities and retain all other customers, especially those that contribute significantly, for example the stealing ring manufacturer maintain to revenue due to their lucrative nature.

Question 6 - What are your recommendations for RST's management? [15 Min.]

I recommend Daniela and Thomas to approach alternative 3 in question 5 - Focusing exclusively on the niche – focused differentiation strategy. This strategy involves focusing on the niche market, particularly prototyping technology. To understand the status quo of the market, I recommend conducting market research as a first step. An in-depth analysis of the prototyping market for surface companies should be conducted to find out how developed the market is. Understanding current trends, emerging opportunities and potential challenges provides valuable insights for strategic decision-making. Identifying sectors with the highest prototyping spend, particularly in emerging industries such as electric vehicles, medical, etc., enables targeted business expansion. Given the circumstances, RST can position itself as a first mover - as a pioneer in the industry. This includes establishing market leadership, building strong brand awareness and customer loyalty. These advantages act as formidable barriers for potential competitors and contribute to long-term sustainability. What is more, these are already "values" that RST represents and has started to promote in recent years with trade fair appearances and manpower training. The expansion of the niche business model to complementary sectors is in line with RST's expertise. The focus on small components in technical sectors such as medicine, automotive, computer technology/telecommunications and electronics offers opportunities for significant growth. However, growth will only occur if continuous innovation is pursued. The focus here is on developing new processes tailored to the specific sector or customer. The production site must be adapted to niche customers and their needs. In addition, investments in digitalization, automation and sustainability will most likely play a major role in the future in order to meet changing customer and market expectations. The first mover should create increasing dependency on prototype manufacturers and to bind them even more closely, RST could offer additional consulting services. In cases where major customers are planning significant changes or, in the worst-case scenario as with WMF, are withdrawing production, consulting services can facilitate the transition and strengthen long-term partnerships. RST can sell the know-how or even individual processes to customers so that they can set up their production. However, it is essential to pay attention to competitive advantages in such consulting activities. Strengthening the negotiating position also involves greater individualization of product and service offerings. This not only meets specific customer needs, but also increases the barriers for potential competitors. Additionally, investments in employee training programs and production optimization are essential for the new strategy. Reskilling the employees and restructuring production processes contribute to enhanced efficiency, reducing costs and streamlining operations. Proactive crisis and grievance management should nevertheless be an important part of RST's strategy. Dedicating resources to this area ensures preparedness for unforeseen challenges, protects the company's reputation and strengthens resilience in times of adversity.

4. Conclusion

The Case Study deals with the positioning of RST GmbH in a niche market. It addresses the challenges and decisions associated with the market positioning of a German SME in the dynamic environment of surface technology. The company started its business with a diversified customer base in 2001 and over time RST developed a close and highly dependent relationship with its three main customers. This raised the question of how RST should continue its business. Several alternative strategies and approaches are addressed in the analysis, ranging from current challenges, high customer concentration, the status quo issues, to a focused differentiation approach. When it comes to the future of RST, all alternatives have their pros and cons. However, the recommendation made in the Teaching Note is to focus on the niche market, as this appears to be the most promising approach. The concept of "first mover" highlights the potential benefits of being a pioneer in the niche market for prototype surfaces. Furthermore, the case underlines the importance of constant innovation, not only in the development of the product portfolio, but also in processes and internal quality standards.

As RST reflects on its future, considerations of internationalization, partnerships, diversification into different industries and consulting activities could be key. Future studies would also benefit from exploring in greater depth the factors that contribute to customer dependence in small businesses and effective strategies to mitigate the associated risks. In addition, an investigation on specialization and generalization in small businesses could provide valuable insights into sustainable success. The question can be raised whether SMEs are not fundamentally better suited to niche markets. Finally, the impact of technology and digitalization could be explored to help small businesses minimize customer dependency and increase customer satisfaction.

Since I grew up with this company, I have an emotional relationship to it. Differentiating the emotional stories from the objective facts was the most challenging part while writing this Dissertation. However, I was still very young and for the first time I understood what Daniela and Thomas went through and managed in the last years. The time while the customer complaint was ongoing was especially challenging. If I had more time and word space, complaint management would have been an interesting topic for me to dive deeper in order to better understand RST's complaint management processes and evaluate improvement opportunities. The development on these two topics are interesting subjects to follow in the future.

5. Appendices

5.1. Case Exhibits

Exhibit 1 – Map; Germany and Baden-Württemberg

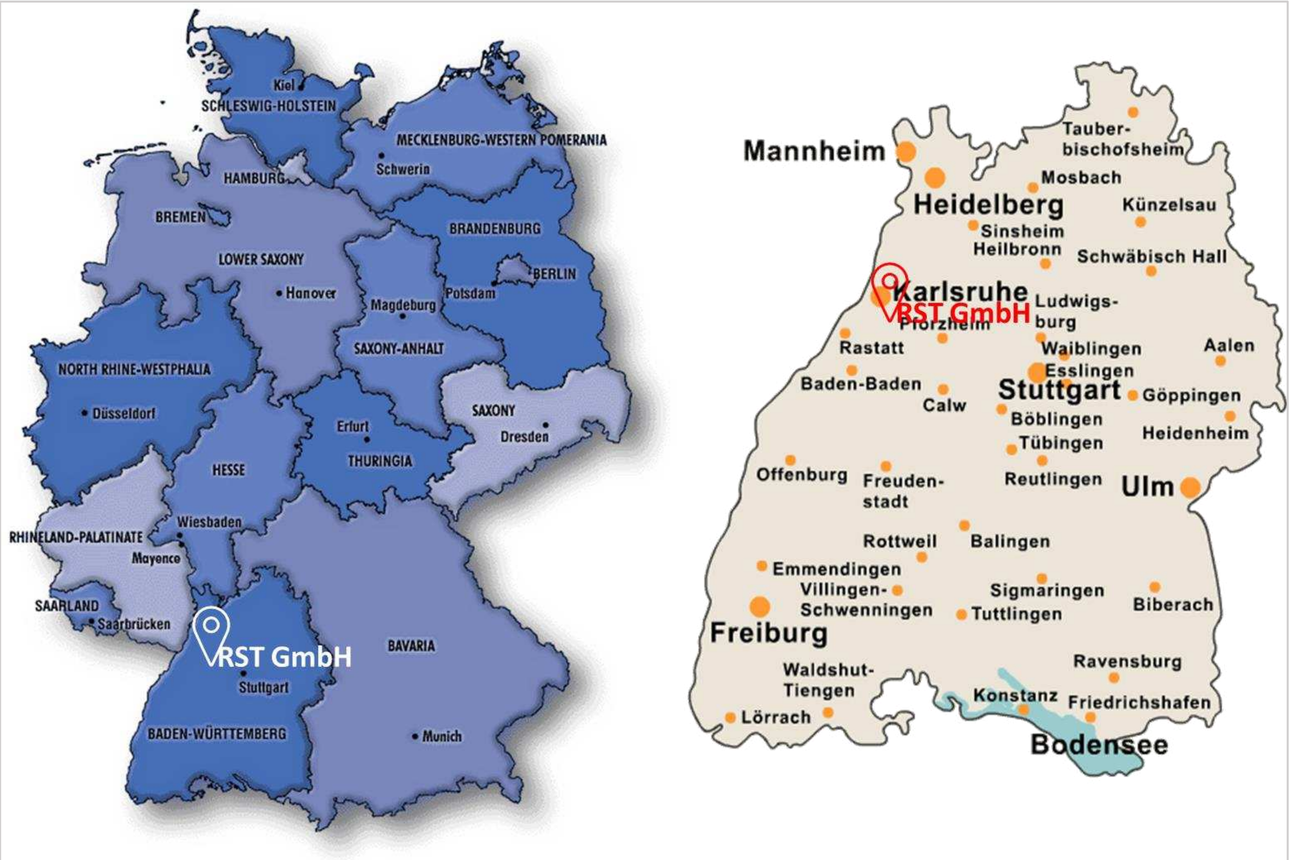
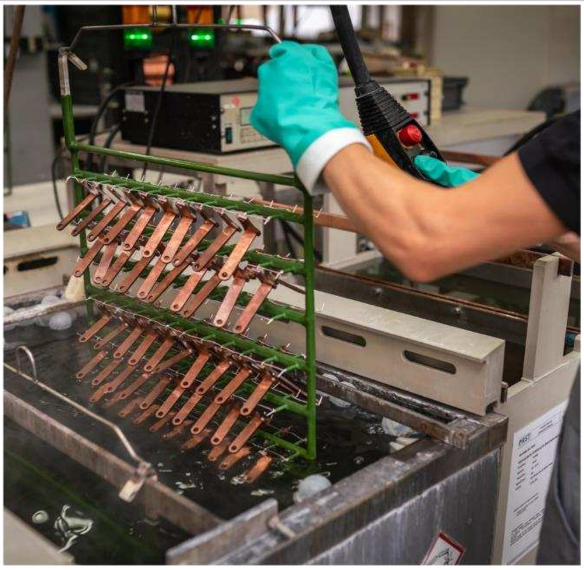


Exhibit 2 - Production Processes

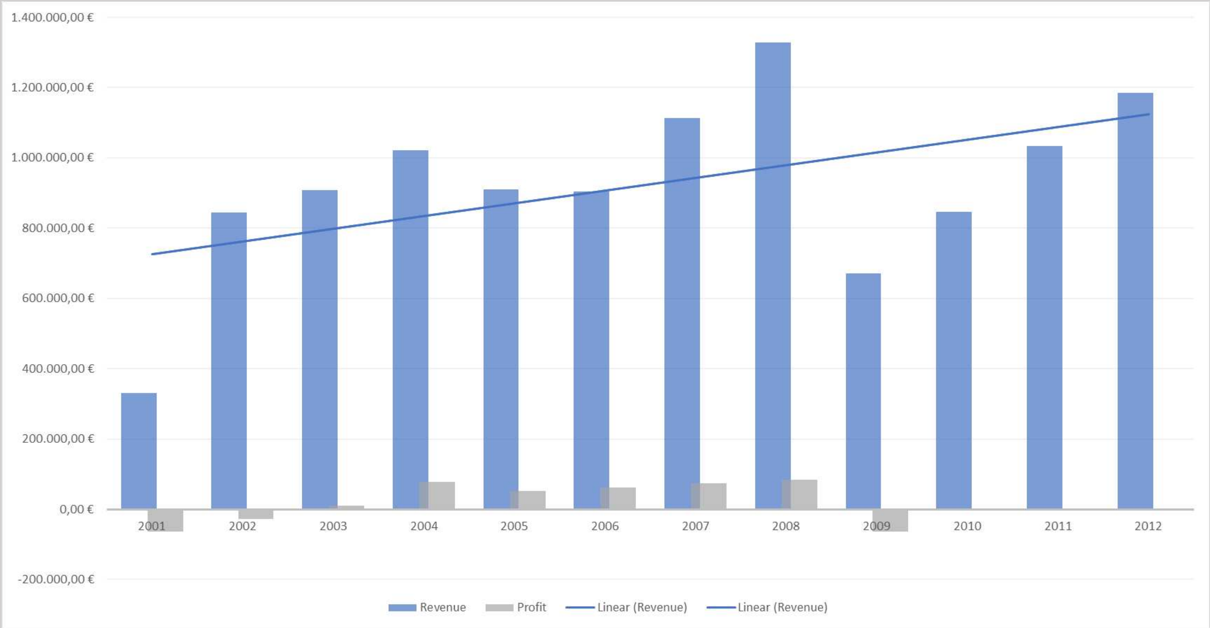


Rack Applications

Chemical Blackening (Browning)

Barrel Applications

Exhibit 3 - Financial Performance



	Total Revenue	Profit
	€	€
2001	329.955,00 €	-63.826,00 €
2002	843.827,00 €	-27.625,00 €
2003	909.001,00 €	9.144,00 €
2004	1.021.918,00 €	78.044,00 €
2005	910.218,00 €	52.330,00 €
2006	904.702,00 €	60.844,00 €
2007	1.113.354,00 €	72.994,00 €
2008	1.328.962,00 €	84.311,00 €
2009	670.633,97 €	-64.257,00 €
2010	846.657,00 €	
2011	1.032.750,00 €	
2012	1.185.042,52 €	

Exhibit 4 - Production Process Distribution

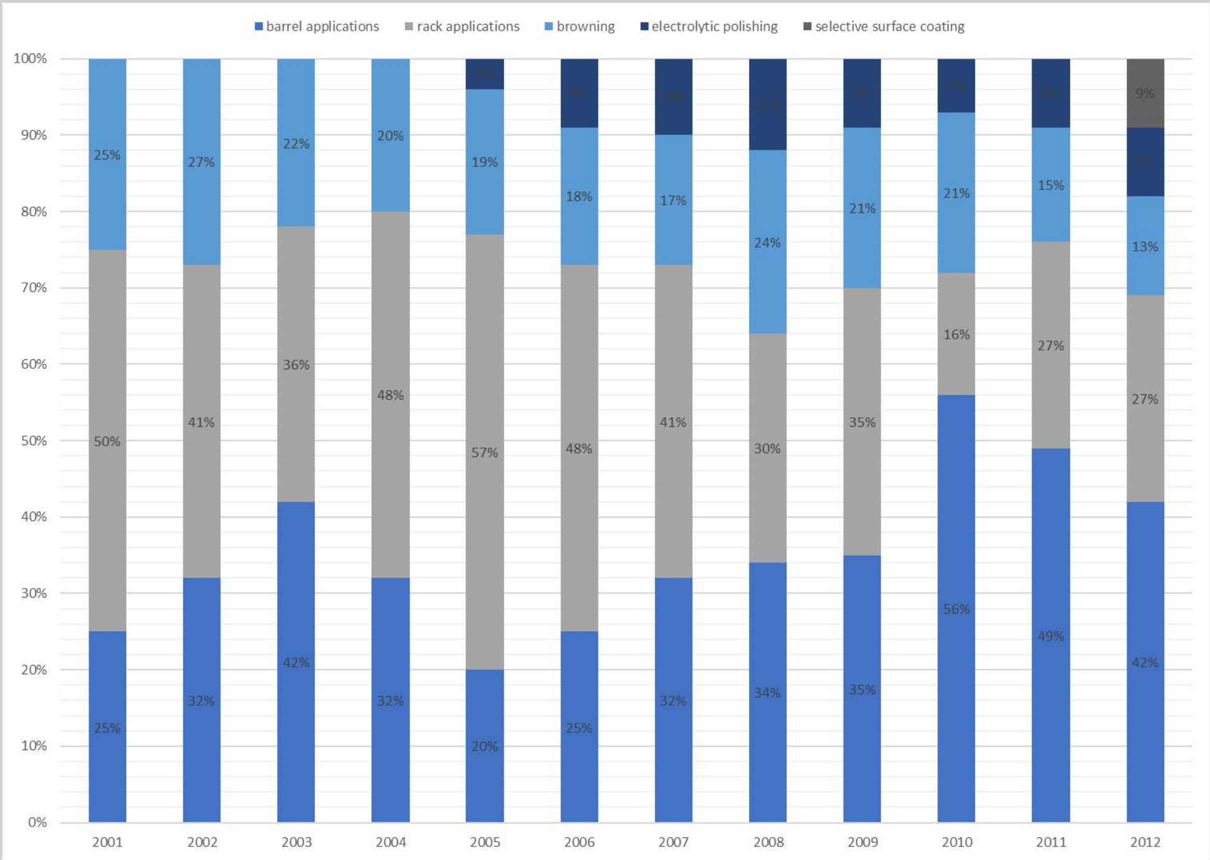


Exhibit 5 - Knife Cutting Machine

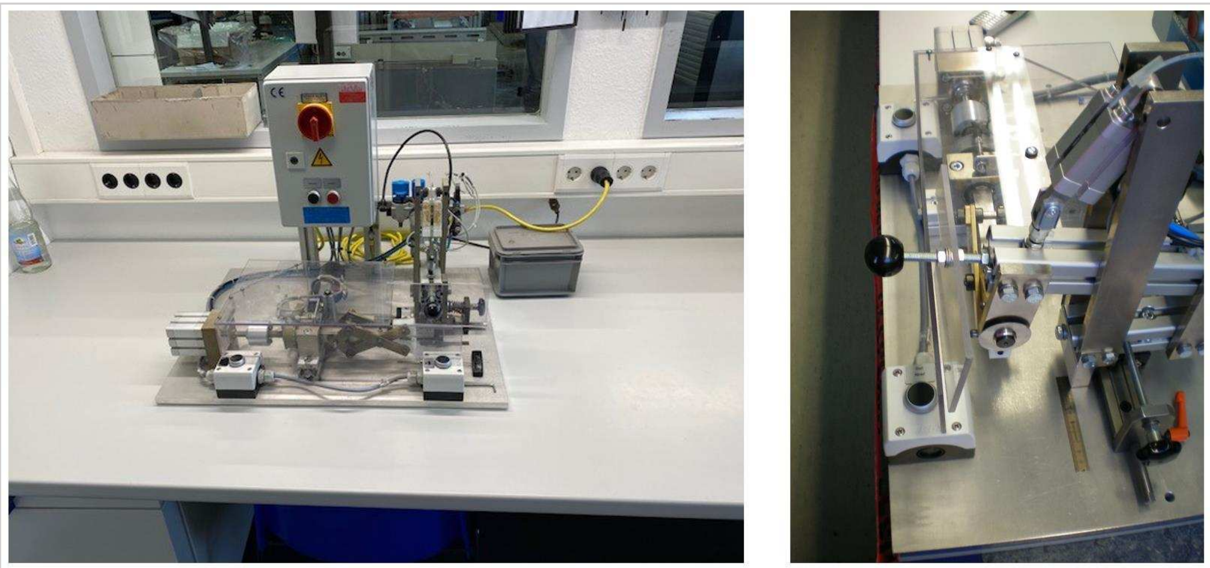


Exhibit 6 - Industry Distribution

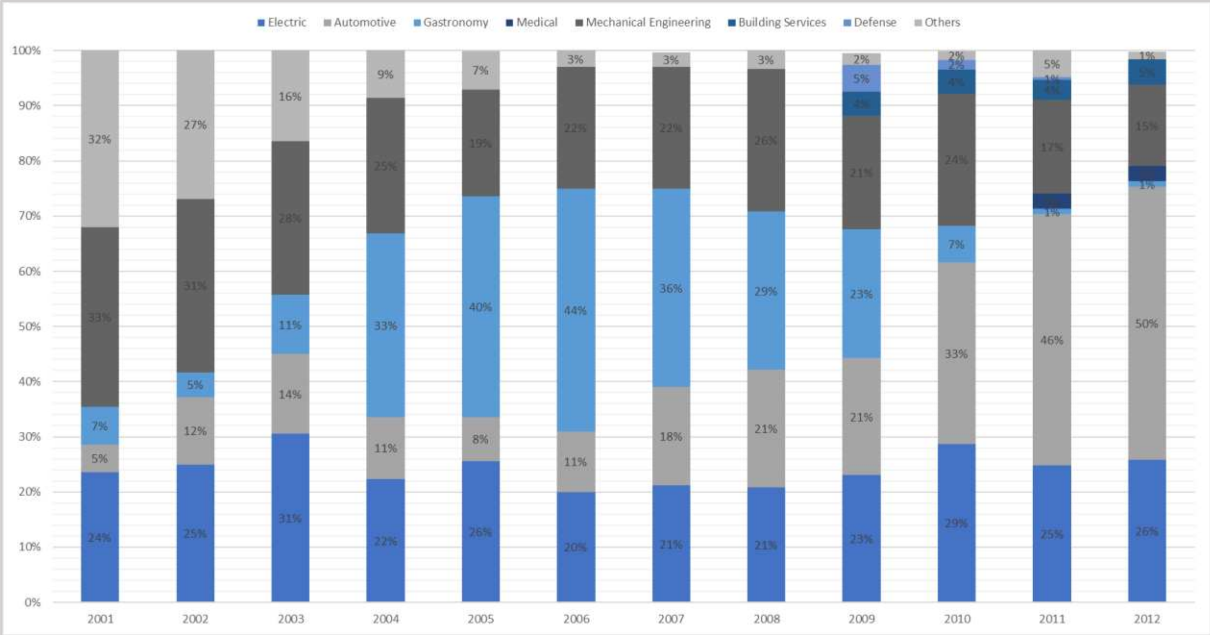
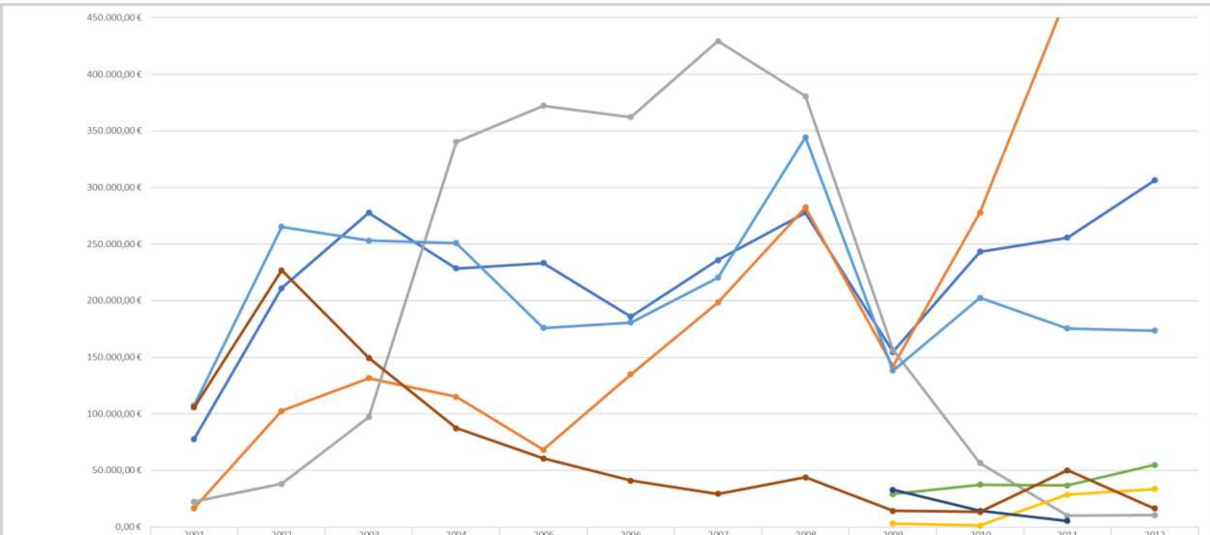


Exhibit 7 - Revenue per Industry



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Electric	77.783,00 €	211.049,00 €	277.712,00 €	228.364,00 €	233.144,00 €	185.930,00 €	235.921,00 €	277.712,00 €	154.646,25 €	243.403,00 €	255.769,00 €	306.452,00 €
Automotive	16.680,00 €	102.700,00 €	131.420,00 €	115.154,00 €	68.223,00 €	134.820,00 €	198.403,00 €	282.421,00 €	142.092,01 €	277.959,00 €	470.511,00 €	586.951,56 €
Gastronomy	22.273,00 €	38.102,00 €	97.217,00 €	340.149,00 €	372.283,00 €	362.133,00 €	429.299,00 €	380.524,00 €	156.558,11 €	56.630,00 €	10.013,00 €	10.546,88 €
Medical									3.036,69 €	1.346,00 €	28.644,00 €	33.655,21 €
Mechanical Engineering	107.385,00 €	265.274,00 €	253.177,00 €	250.871,00 €	175.915,00 €	180.720,00 €	220.324,00 €	344.379,00 €	138.122,60 €	202.464,00 €	175.474,00 €	173.490,22 €
Building Services									29.098,41 €	37.358,00 €	36.764,00 €	54.867,47 €
Defense									32.866,01 €	14.196,00 €	5.411,00 €	
Others	105.834,00 €	226.702,00 €	149.475,00 €	87.380,00 €	60.653,00 €	41.099,00 €	29.407,00 €	43.926,00 €	14.213,89 €	13.301,00 €	50.164,00 €	16.472,09 €

Exhibit 8 - New and Old Logo

RST
Oberflächentechnik
Prototypengalvanik
Real Surface Technology

New Logo

rst
DIE RST GMBH
Der Spezialist für Oberflächentechnik

Old Logo

Exhibit 9 - Selective Coating Component

Exhibit 10 - Number of Customers per Industry

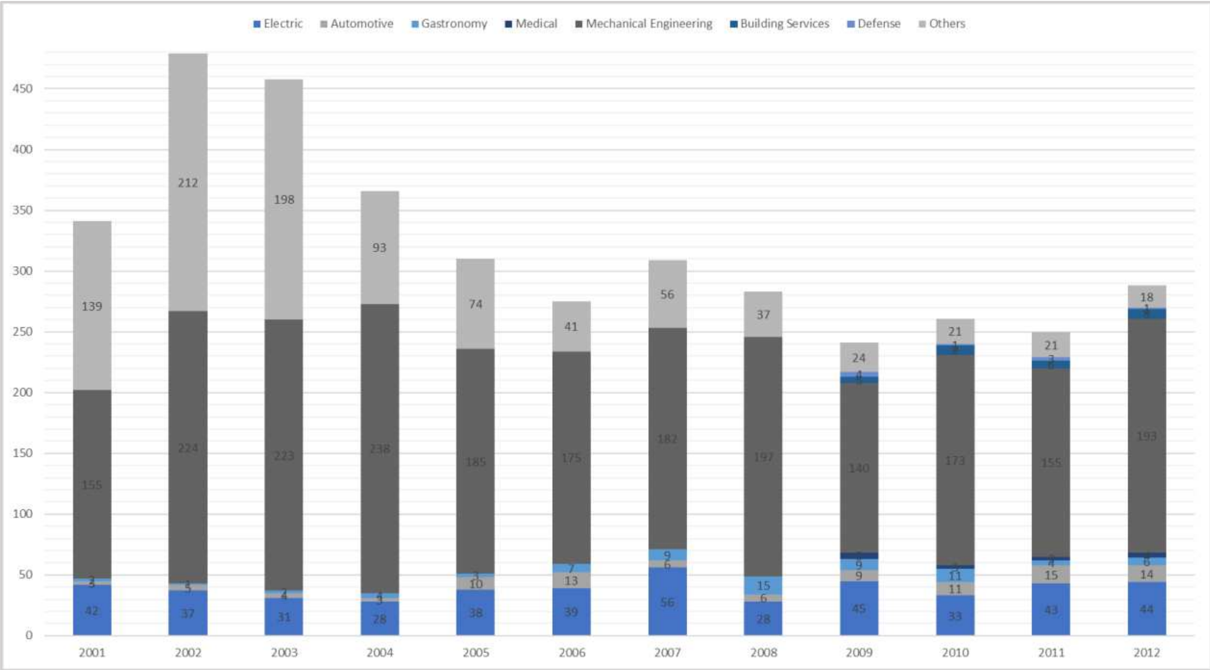


Exhibit 11 - Revenue Share of Top 10 Customers

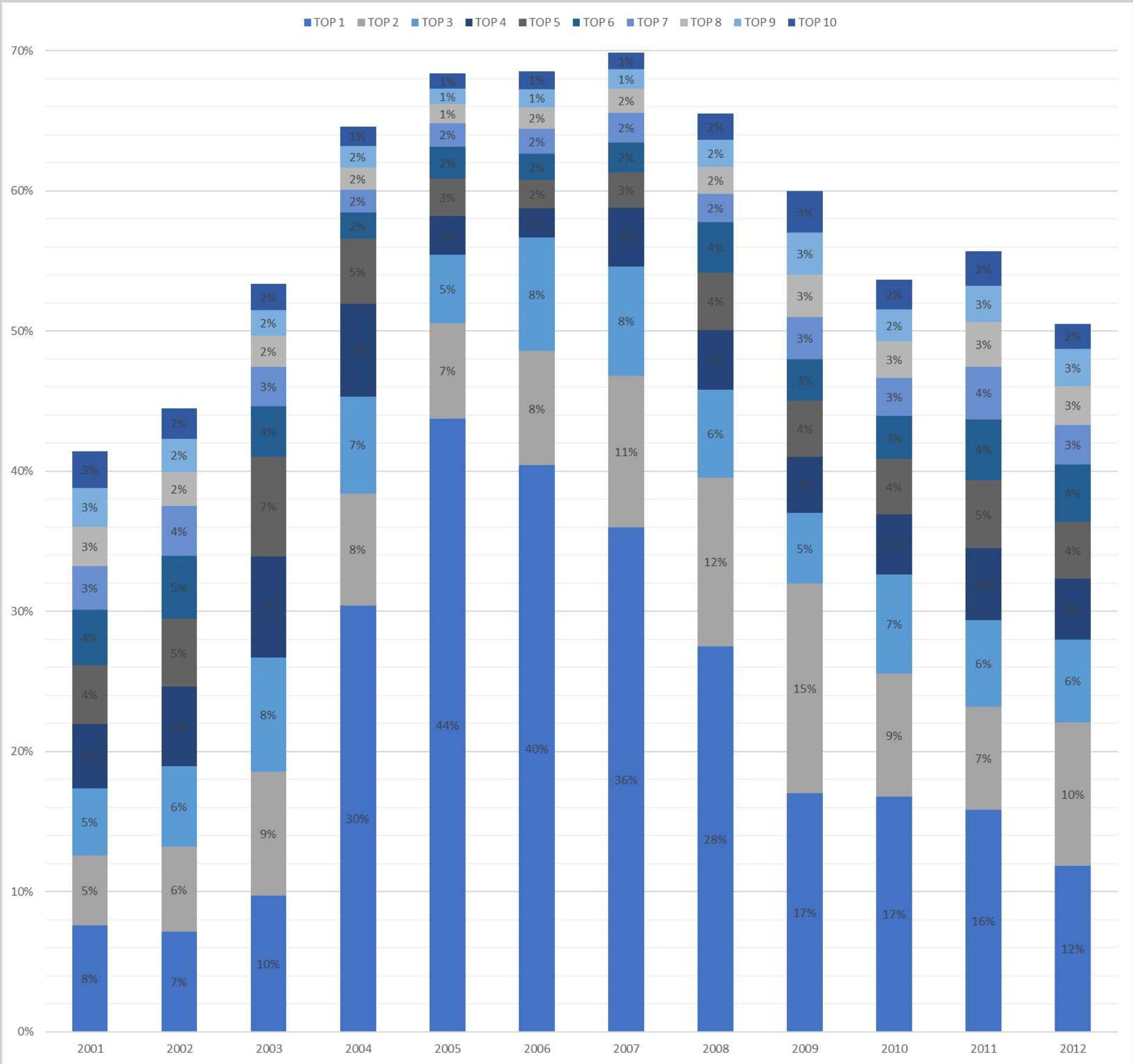
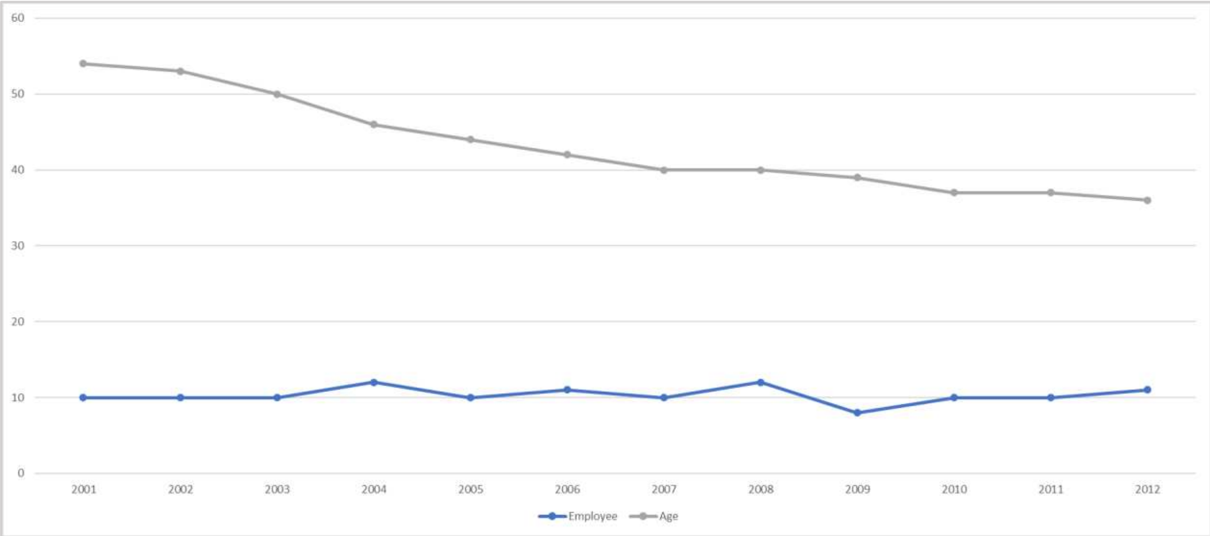


Exhibit 12 - Employee Structure



5.2.Teaching Note Exhibits

Teaching Note Exhibit 1 - Revenue 2008 and 2009

Revenue 2008 - 2009	
2008	1.328.962,00 €
2009	670.633,97 €
Δ	**-49,54%**

Teaching Note Exhibit 2 - Profit 2008 and 2009

Profit 2008 - 2099	
2008	84.311,00 €
2009	-64.257,00 €
Δ	**-176,21%**

Teaching Note Exhibit 3 - Revenue Automotive 2010 - 2012

Revenue automotive 2010 - 2012	
2010	277.959,00 €
2012	586.951,56 €
Δ	**111,16%**

Teaching Note Exhibit 4 - Customer Concentration

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
TOP 1	8%	7%	10%	30%	44%	40%	36%	28%	17%	17%	16%	12%
TOP 2	5%	6%	9%	8%	7%	8%	11%	12%	15%	9%	7%	10%
TOP 3	5%	6%	8%	7%	5%	8%	8%	6%	5%	7%	6%	6%
TOP 4	5%	6%	7%	7%	3%	2%	4%	4%	4%	4%	5%	4%
TOP 5	4%	5%	7%	5%	3%	2%	3%	4%	4%	4%	5%	4%
overall	26%	29%	41%	57%	61%	61%	61%	54%	45%	41%	39%	36%

Teaching Note Exhibit 5 - Business Strategies

	Cost Leadership	Differentiation	Focus Cost Leadership	Focused Differentiation	Integrated Cost Leadership/ Differentiation
Purpose	To become the lowest-cost producer in the industry	To create unique and high-quality products/services	To become the lowest-cost producer in a specific niche	To create unique and distinctive products/services for a specific niche	To achieve both cost leadership and differentiation simultaneously

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