

# Der 'Good Enough' Markt: Chancen und Risiken für Europäische Unternehmen



**'GOOD ENOUGH' MARKET:**  
OPPORTUNITIES AND RISKS FOR EUROPEAN COMPANIES

**NOV 2** ■ **EVENT**  
**SHANGHAI** ■ **IN GERMAN**

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# China Situation, 2005:



Schenck is Global leader for balancing machines

Balancing machines for armatures

→ Leader in Europe  
yet no sales at all in China

China Opportunities

→ Huge market growth  
→ Locally made machines for a fraction of the price



Auswuchtmaschine

Customers say,

→ made in Germany is *too expensive, too fancy, too automated* –  
just not what we need here in China.





## 2005 Market position for Frequency Converters

Europe: #3 (after ABB & Siemens, ahead of Vacon)

Worldwide: #4 with 7% (after Yasakawa)

China market share: **5%**

## Strategic Objectives:

[CEO interview in HBR 2005]

- China as 2<sup>nd</sup> home market  
→ **#1 or #2** by market share
- Target annual growth in China: **50%**



# China Situation, 2005:



## Premium market

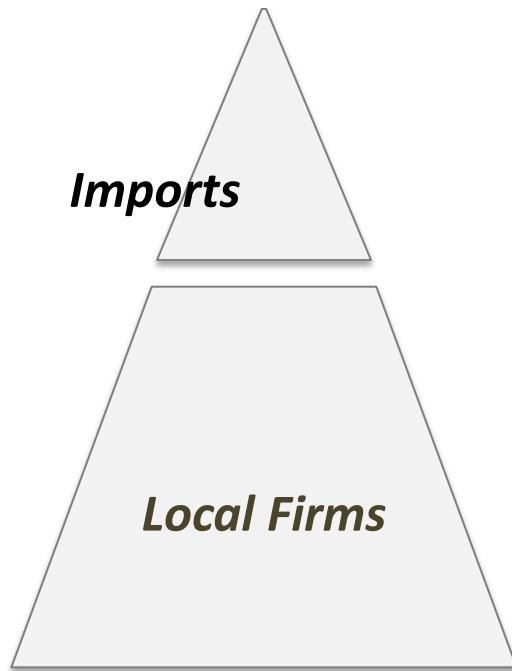
- Dominated by European and Japanese Players
- Annual growth **9%**

## Good Enough market

- Dominated by local and Asian players
- 35% of market size
- Annual growth **25%**

→ *A local start-up is available for sale (though they also fancy an IPO)*

# Why is the “Good Enough” Segment Important?

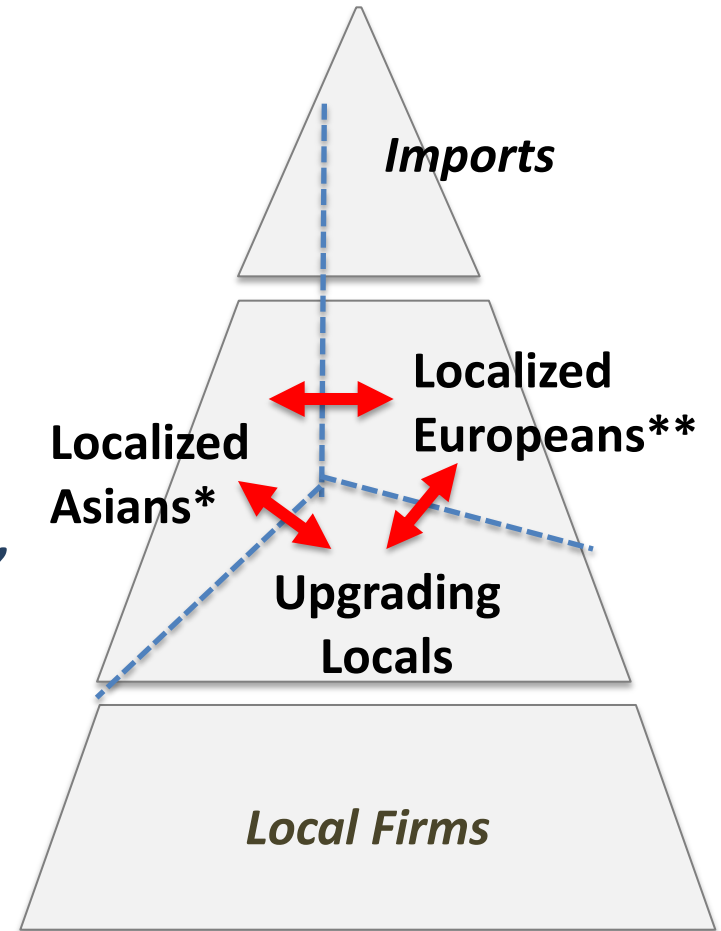


1995

*High End*

*Mid Market*  
**“Good Enough”**

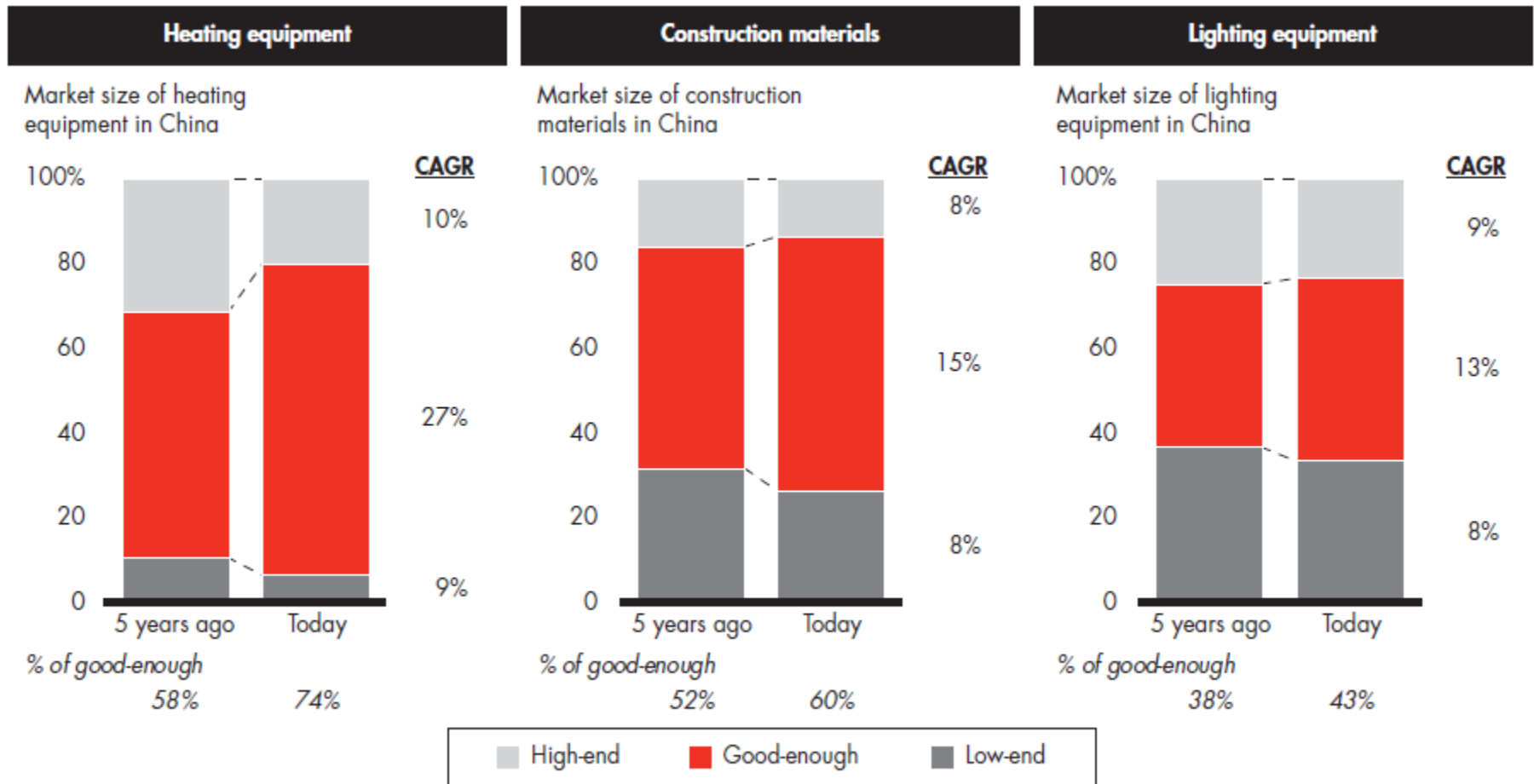
*Low End*



2015

Localized Europeans = esp. German, Nordic, Swiss, USA  
Localized Asian = Japanese, Korean, Taiwanese

# How Important is the “Good Enough” Segment?

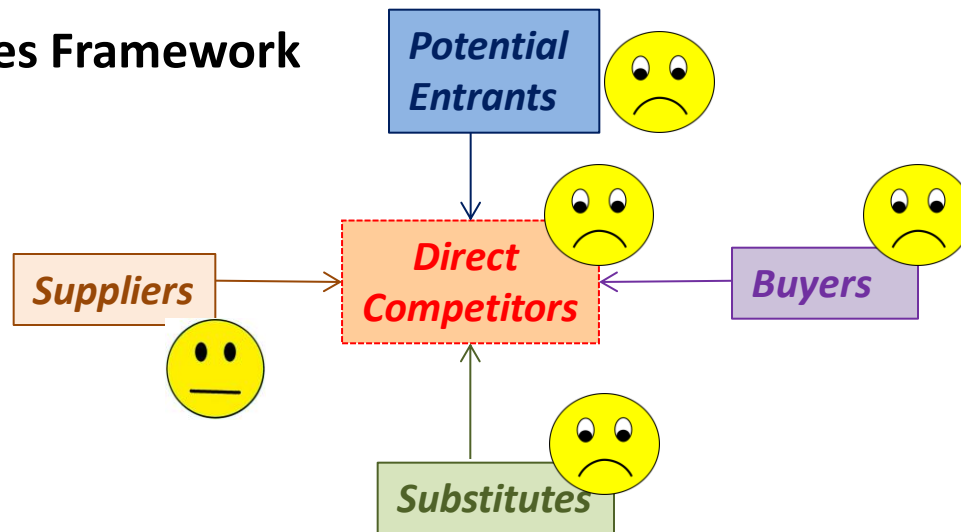


Source: Bain & Company

Source: Tsang & Chong (Bain & Company), 2014

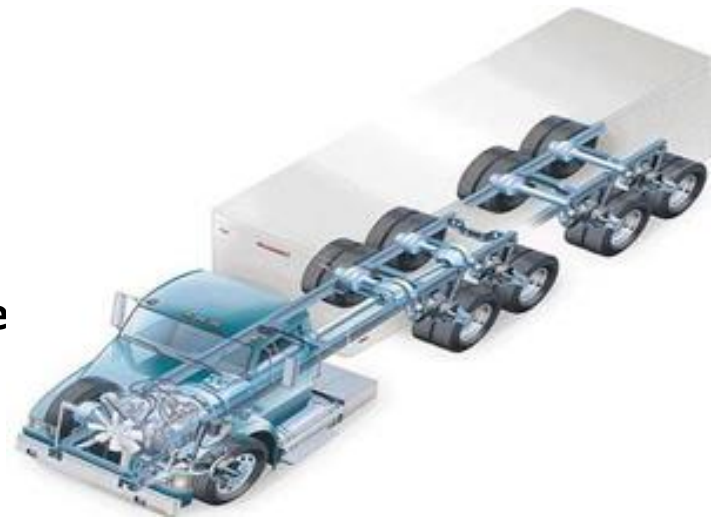
# Ok, it's fast growing – but does that make it attractive? Let's ask Michael Porter:

## 5 Forces Framework



→ Normally, the good enough segment is not a place where we would expect to earn nice margins!

→ But:



# What are the risks?

Risks	Likelihood	Impact	Possible remedial action
<b>Cannibalization of premium segment</b>	1-10	1-10	Clearly separate performance standards (e.g. precision, automation)
<b>Reputation of the brand in China, and beyond</b>	1-10	1-10	a) Dual branding b) Ensure key quality criteria (reliability, trustworthiness)
<b>Encourage local imitators</b>	1-10	1-10	?
<b>Get drawn into sales practices unacceptable to HQ</b>	1-10	1-10	Be touch on your distributors



# How to Compete in this Segment?

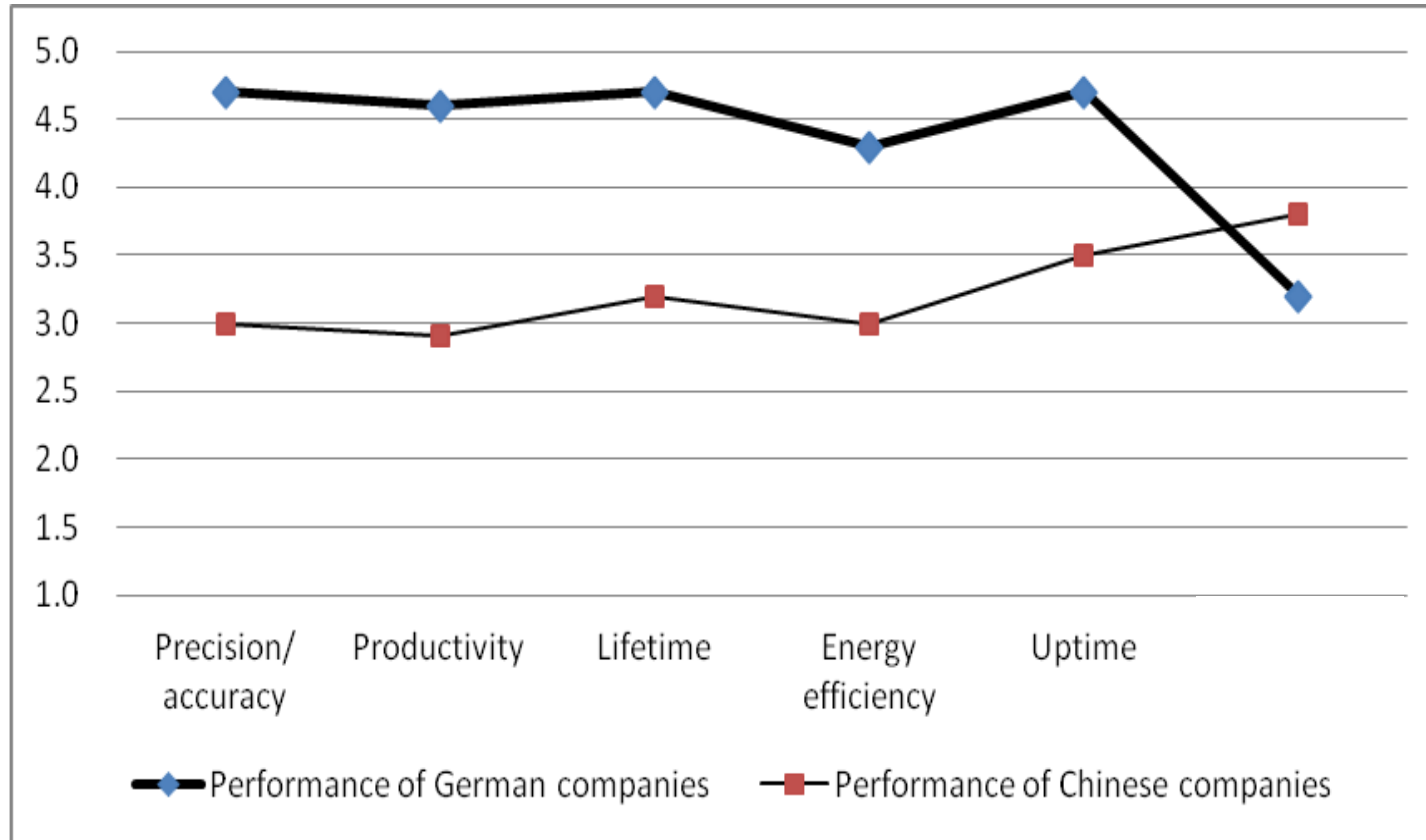
## PREMIUM

## GOOD ENOUGH

- **Quality**
  - No breakdown, precision, zero-defaults, reliability, durability
  - Special features
  - High automation
- **Service** (reliability)
- **Brand** competition
- **Customization** without compromise in quality (needs rigorous tests!)
- **Distribution**: global contracts, direct sales, distributors
- **Innovation**: latest high tech is a key differentiator
- **Industry**: stable, known competitors

有没有问题？

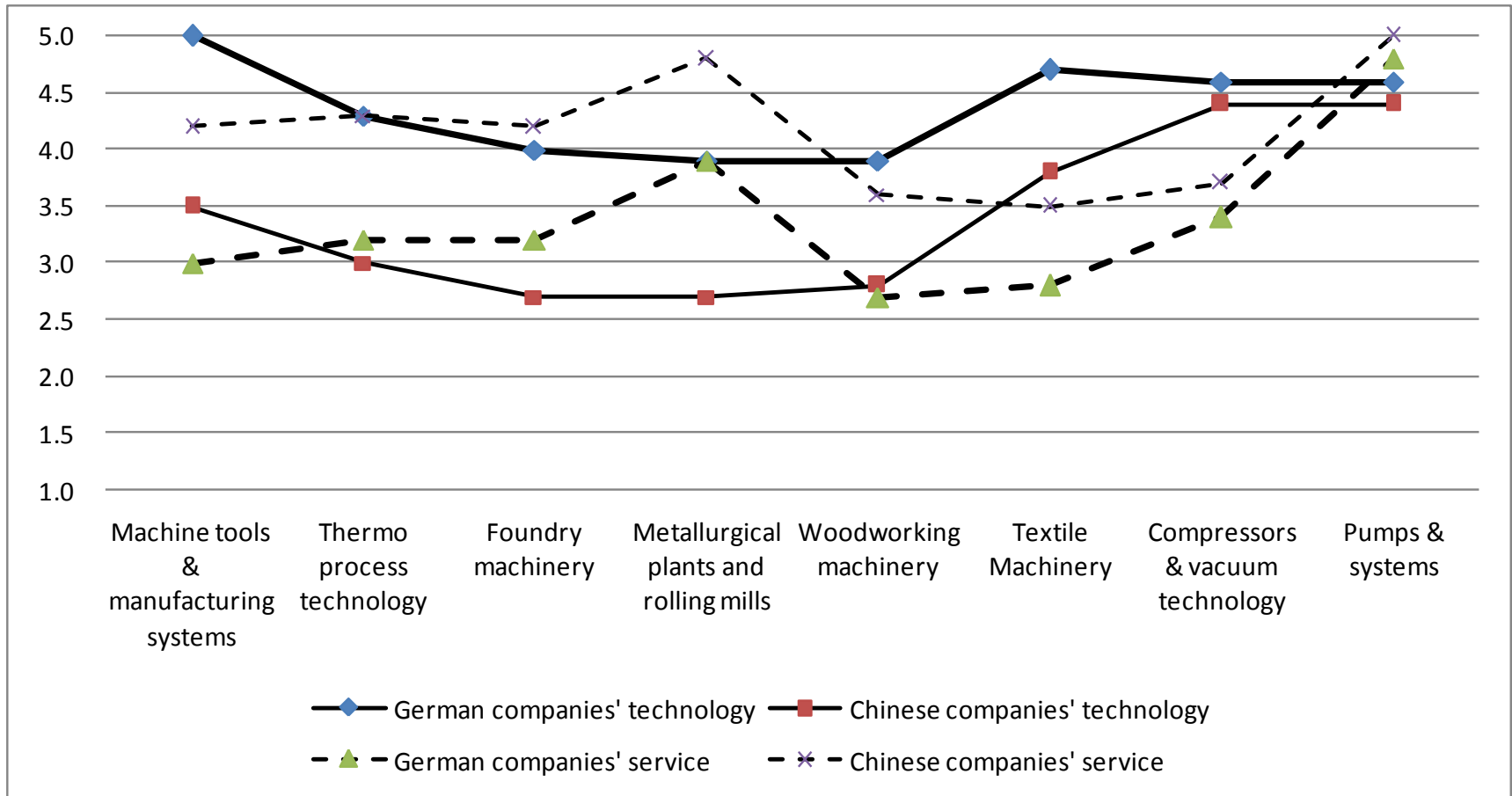
# What do Chinese think about their German competitors?



Note: survey of 122 Chinese companies, rating performance on a scale of 1 (low) to 5 (high)

Source: VDE

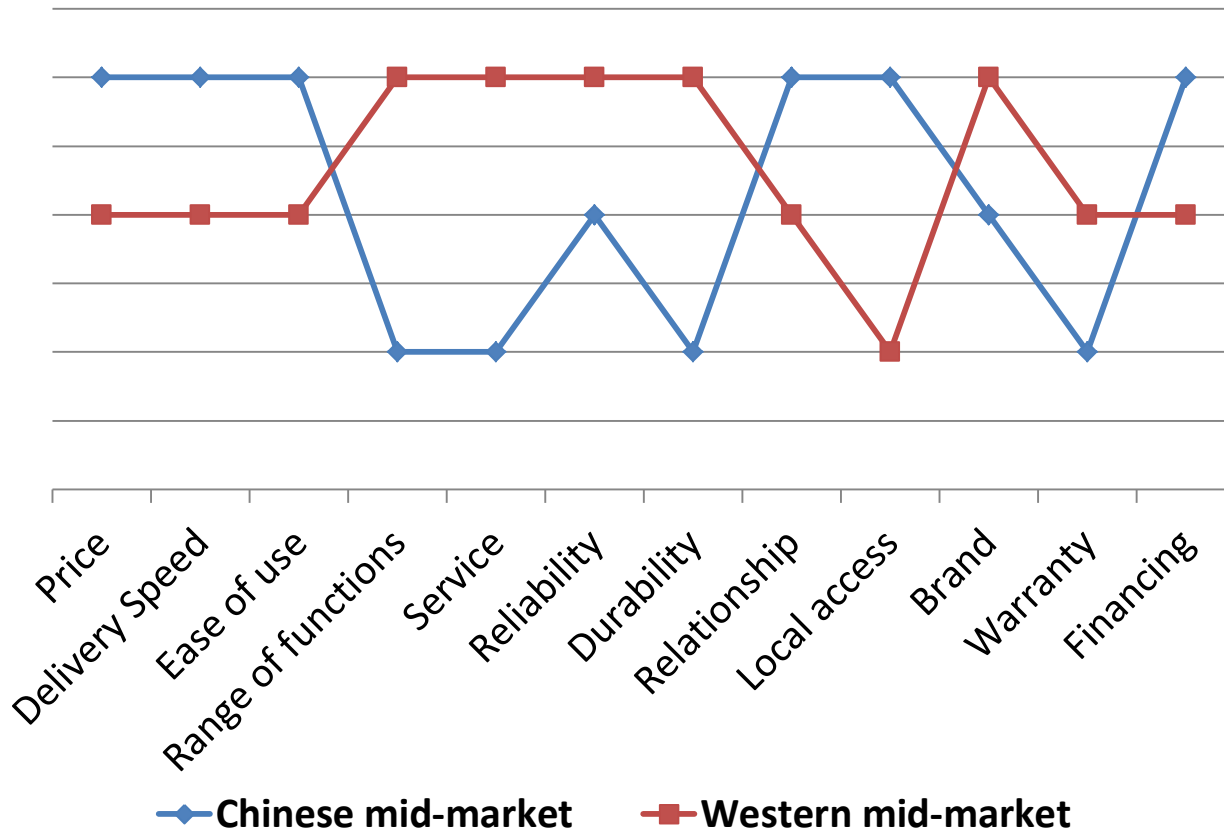
# What do Chinese think about their German competitors?



Note: survey of 122 Chinese companies, rating performance on a scale of 1 (low) to 5 (high)

Source: VDE

# What do customers really care about?



[Source: Universefonden, based on interviews with Danish companies, [www.suitableforgrowth.dk](http://www.suitableforgrowth.dk)]

# Low margins + Significant risks → Why bother?

For many companies, the motivation for engaging in the good enough segment is primarily defensive:

## Learning opportunities:

- Cost efficient processes
- New business models
- New applications of IoT

## Engage Future Customers:

- follow customers to mid-market
- up-selling

## Engage Future Competitors:

- observe
- preempt
- acquire

有没有问题?

# Should we enter the “Good Enough” Market?

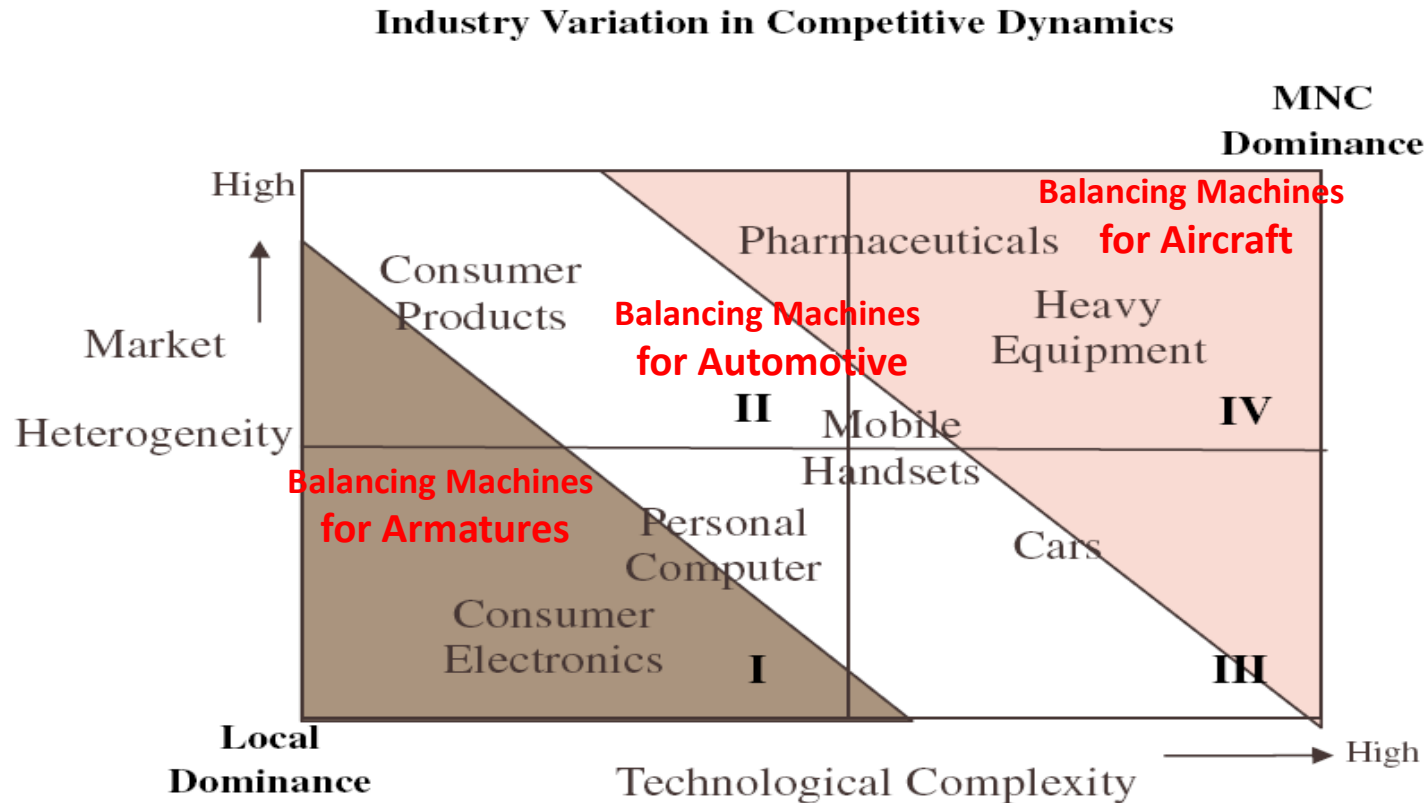
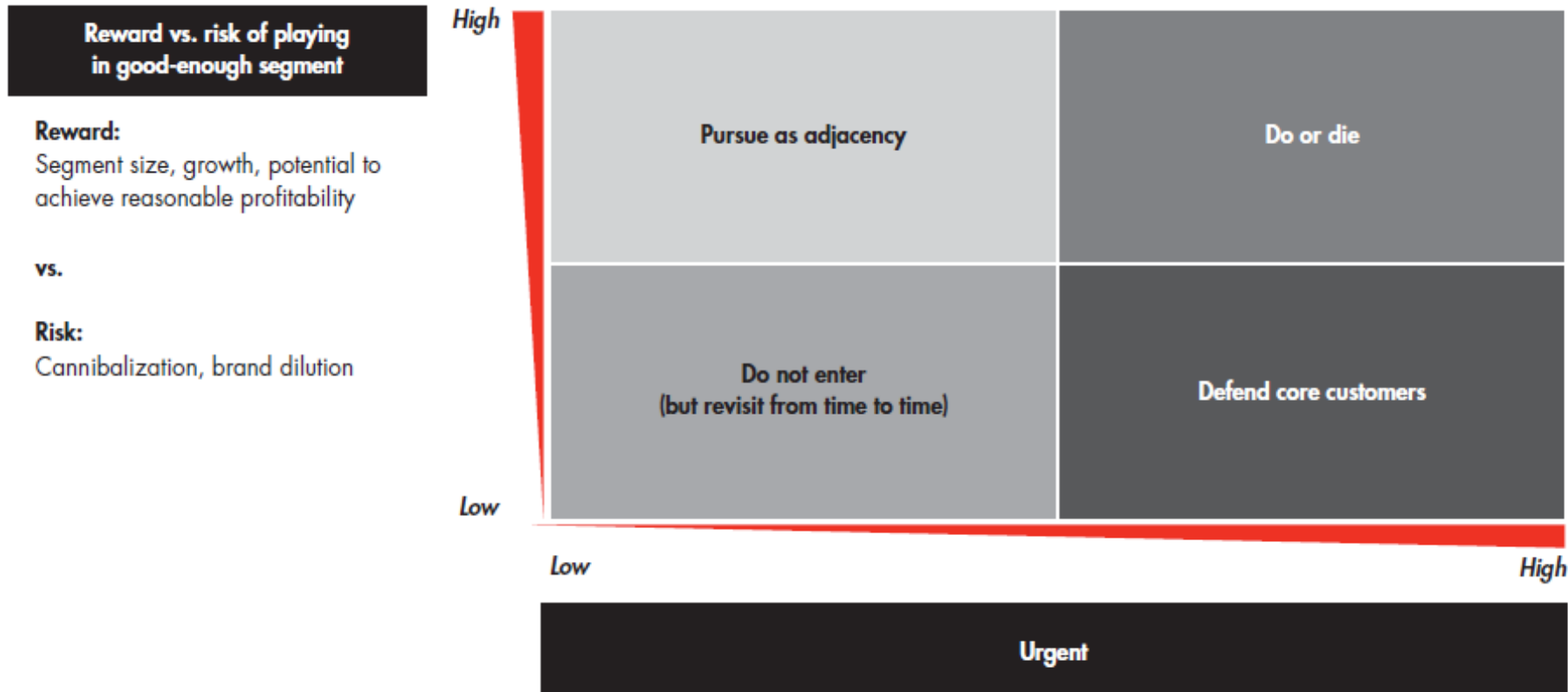


Figure 2.

Source: Chang and Park (Long Range Planning, 2012)

# Should we enter the “Good Enough” Market?

ng



- Are existing customers migrating to “good enough” alternatives?
- Are “good enough” rivals closing performance/quality gaps?
- Are current competitors entering the “good enough” market?  
What are the supplier cost/product trends?

Source:  
Tsang & Chong (Bain & Company), 2014

→ **Competitor analysis**

# If yes, how?

**Organic**

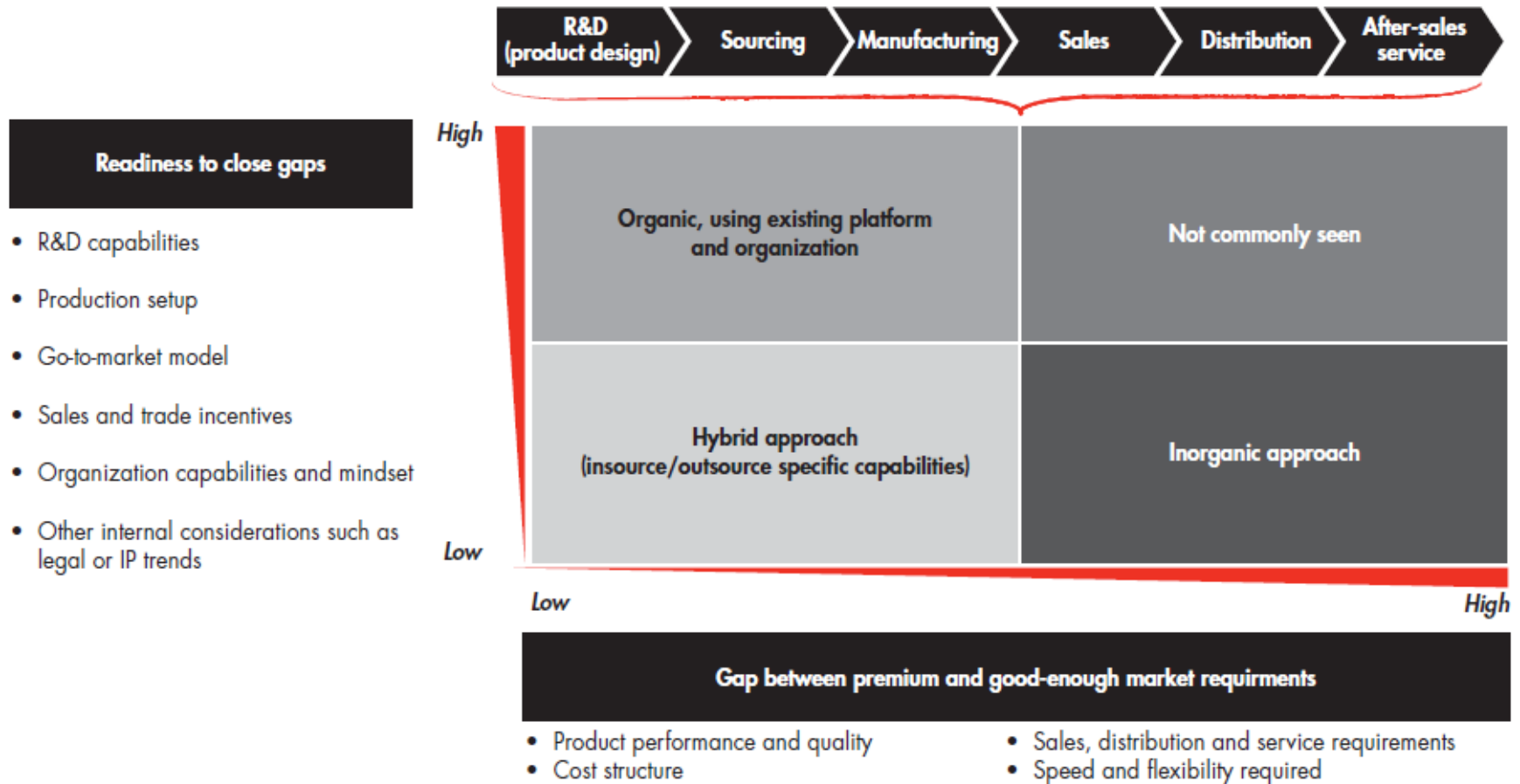
**By acquisition**

**By ?**



# How to Enter: Organic or by Acquiring a Local Player?

”



Source: Tsang & Chong (Bain & Company), 2014

# Danfoss: Acquisition Entry



November 2005:

Danfoss acquires Holip

By 2008:

- **Dual branding, dual channel** strategy
- Holip keeps its **lean** operations,
  - e.g. no integration of IT, accounting and HR functions
- Enhanced **financial** reporting and **employee** benefits
  - Meeting European minimum standards
- **Integration** of sourcing, and some aspect of production

*Danfoss market share: 8%*

# Danfoss: Performance (2015)

## Danfoss

- 14 subsidiaries in China
- China accounts for 20% of global frequency converter sales
- Danfoss acquired Vacon in 2015



## HOLIP

- Dual branding sharpened: Distributors kept separate
- Holip strengthens its own R&D, after a slow start
- Profitable in both premium and good enough segments



*Meeting David Lu (co-founder of Holip, now both CEO of HOLIP, and CEO of Haiyan site of Danfoss)*

## 2005

- Development of a prototype for a balancing machine for armatures by a local team in Shanghai
- Finalization of the product w/ HQ R&D
- Quickly gained market share after launch

## 2016

- 30% to 40% of global order intake in China
- ‘good enough’
  - Portfolio of balancing, filling & industrial cleaning machines
  - Ca 7% of China sales
  - Single brand strategy
- Small acquisition in low tier in 2015

# How can German and Chinese engineers together develop a new product?

## *What makes an engineer proud?*

### German, Swiss & Danish

- **Quality of the product:**  
Precision, reliability, and durability.

*“If the product isn’t perfect, it is not allowed to leave the factory gate”*

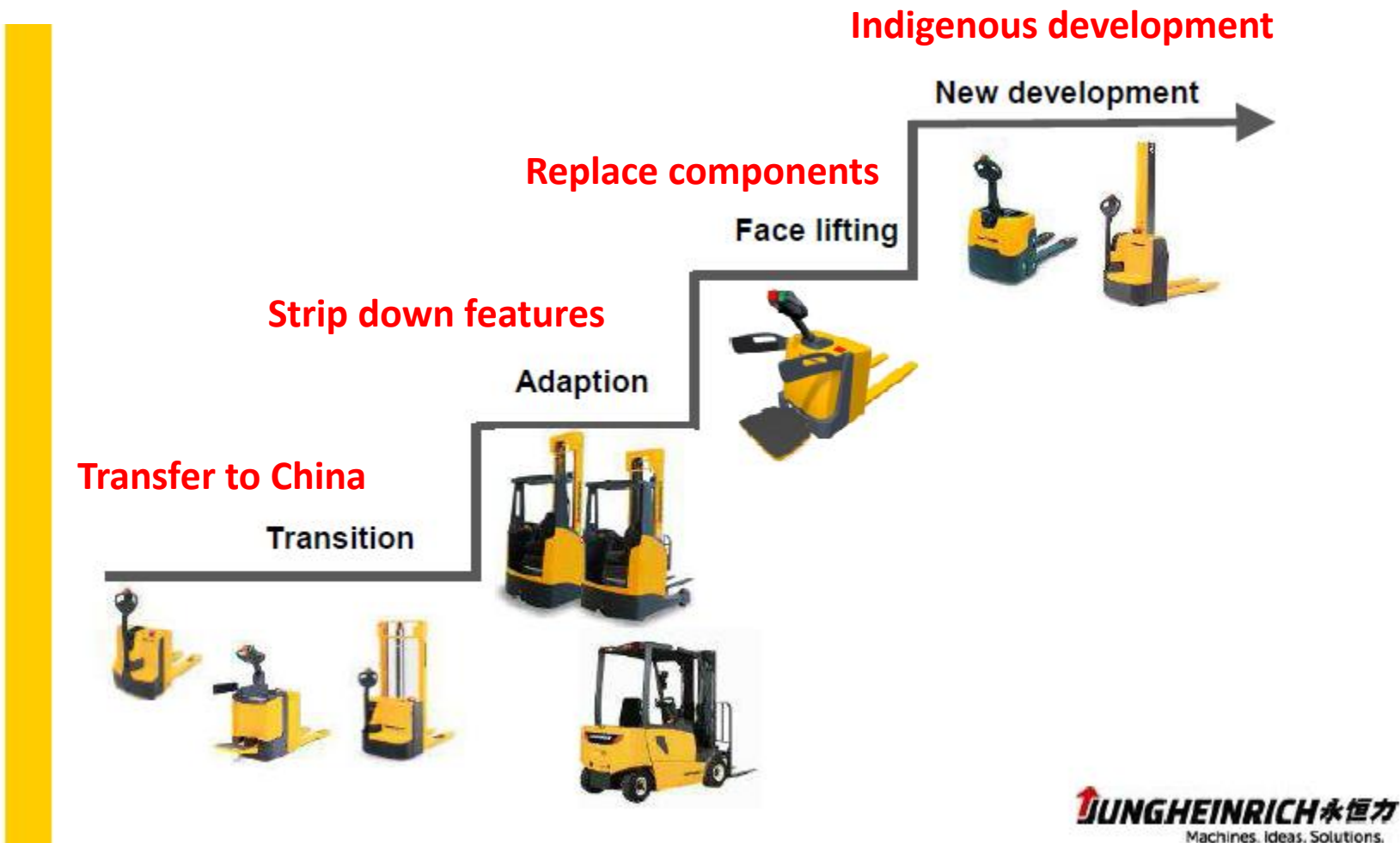
### Chinese

- **Solve the customers’ problems fast – and make money from it.**

*“If the product isn’t perfect, customer service will fix it later!”*

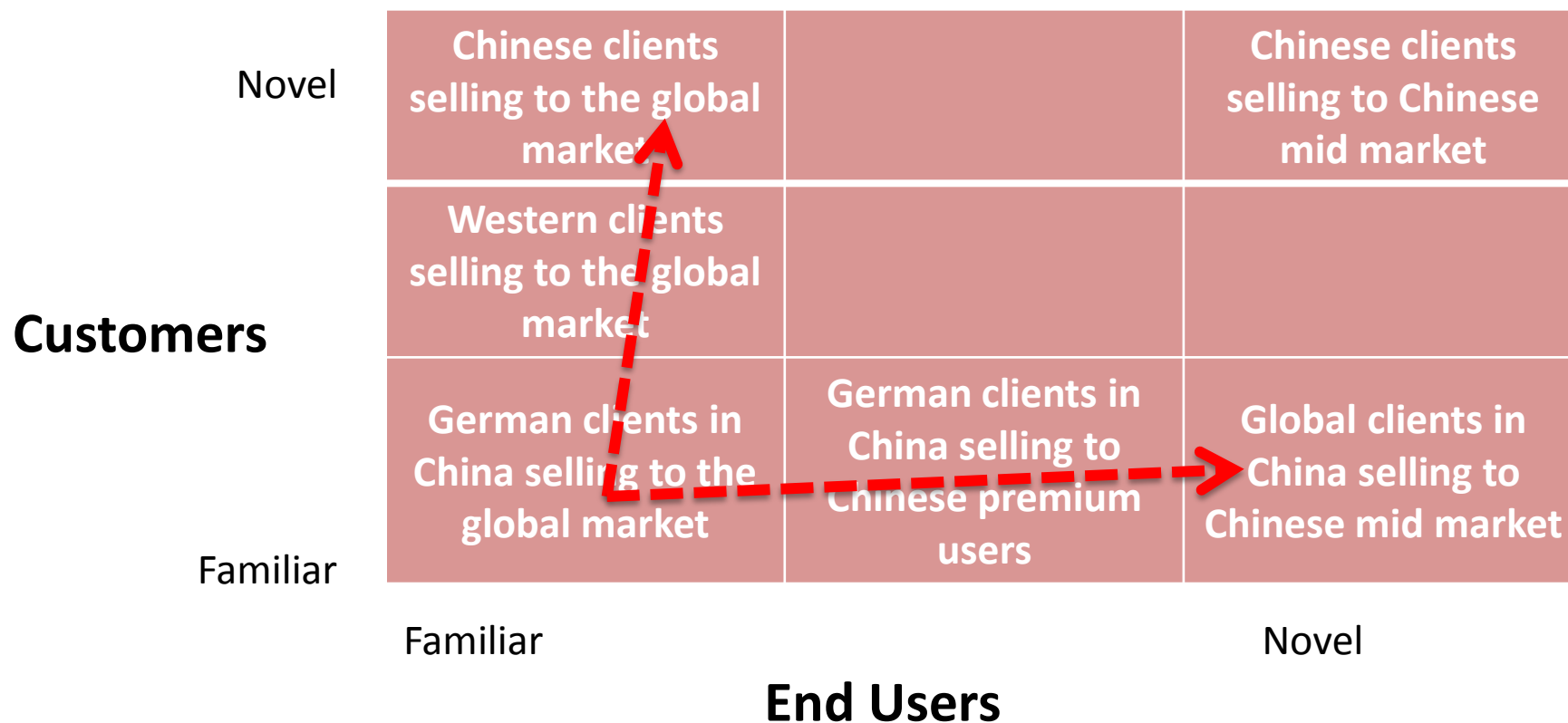
## The Values of the Engineer

# Step by Step to the New Market Segment?



# Step by Step to the New Market Segment?

## Start with familiar customers



[Source: based on Universefonden, [www.suitableforgrowth.dk](http://www.suitableforgrowth.dk)]



# FILLING SYSTEMS IN CHINA

Key projects 2012: compact filling systems “CEMAC” (Appliances) & “Compact C” (Automotive)

## Design of “Chinese” machines, manufacturing in Shanghai



Audience Question:  
***“How did you manage that development process?”***

Speaker Reply:  
***“Before SAP, ...”***

© Schenck Shanghai Machinery Co., Ltd, Workshop "Die Deutsche"



# How to make HQ understand your local markets?

## A typical case?

**Subsidiary manager** identifies business opportunity and made a proposal:

- New product to existing customers, sourced from local supplier, minimal investment, no R&D
- Opportunity to increase demand for existing product lines → increase sales by two-digit DKK

**HQ** didn't see fit to core business, concern about quality level and quality assurance, IPR issues. Decision is postponed several times, finally decided to go for it 18 months after original proposal

### Outcome?

Local players were by now occupying the market → too costly to get it in  
→ idea was terminated.

[Source: based on Universefonden, [www.suitableforgrowth.dk](http://www.suitableforgrowth.dk)]

## CASE:

One Danish manager successfully initiated several projects. How?

- He spent half of his time educating colleagues in Denmark about the conditions and opportunities in China
- He hired a consultant to assess a new business opportunity and make recommendations to HQ, adding credibility to his own similar ideas.
- He took top management on field trips to more remote areas of China to help them understand how uneven the development of China has been ...
- He built a very good personal relationship with the Danish boss at HQ
- He gave high priority to making the numbers and/or exceeding the sales performance of the existing business.

→ Increased trust from TMT → more decision autonomy  
→ faster decision processes

[Source: Universefonden, [www.suitableforgrowth.dk](http://www.suitableforgrowth.dk)]

# Where are the red lines that HQ will not allow the subsidiary to cross?

## Legal Requirements from Home Countries

e.g. OECD anti-corruption legislation, official sanctions against certain countries

## Regulations of the Stock Exchange

Reporting requirements

## Corporate Standards on Ethics

“Triple Bottom Line”, “Standards of Engagement”, HSE Standards, etc.

## Brand Values

Value that the top management considers intrinsic to its global brand(s)

*Stakeholders at home are taking an interest in what companies do overseas (not only for products exported back home), yet not appreciating “diversity”.*

## Guidelines from [suitableforgrowth.dk](http://suitableforgrowth.dk):

- ***HQ TMT visits China regularly, go on field trips to customers.***
- ***Chinese executive is placed in HQ to ensure diversity.***
- ***Danish senior manager who wants to live in China is hired as GM of the subsidiary... Alternatively, a Chinese GM who understands Western values is hired in combination with Danish CFO.***
- ***Chinese employees are send to training and education at HQ***
- ***Danish experts are sent to China to transfer knowledge to the local Chinese employees at the subsidiary***
- ***Procedures are implemented to ensure that information is flowing adequately and frequently between HQ and the subsidiary***
- ***Managers form HQ stay at least two or three weeks when they visit the Chinese subsidiary and avoid flying in and out.***

[Source: Universefonden, [www.suitableforgrowth.dk](http://www.suitableforgrowth.dk)]

**Importance**

**Key Success Factors**

**Segment Entry Strategy**

**Obtaining HQ Support**

## Innovating for the Good Enough Market

**Further Reading: My own blogs:**

**Are You Good Enough for the Good Enough Market? *Forbes*, June 17, 2015**

<http://www.forbes.com/sites/ceibs/2015/06/17/are-you-good-enough-for-the-good-enough-market/>

**Is the Good Enough Market Attractive Enough? *Forbes*, June 10, 2015**

<http://www.forbes.com/sites/ceibs/2015/06/10/is-the-good-enough-market-attractive-enough/>