

Exit Preparation/Positioning For Electronics Component Provider: Establishing Niche Market Positioning And Multi-Pronged Growth Strategy

The Challenge: Our client, a PE-owned electronics component supplier, offered a broad in-stock selection of low-volume, hard-to-find parts in-stock to a broad range of customers. The company had recently failed to generate buyer interest at the desired valuation due in part to the company's unclear positioning around the niches the company competed in and insufficient understanding of its customers' end-markets, departmental purchasers, and product needs. Furthermore, the company's flagship catalog brand had experienced recent unexplained volume declines despite an otherwise healthy overall market and volume growth in the company's recently acquired e-commerce brand. To help drive profitable growth through a cohesive and compelling growth strategy for a successful eventual exit, the company asked Gotham to: (1) clearly define of the company's niches, including market size/growth rates and the company's positioning in each niche; (2) identify and assess potential growth opportunities; and (3) determine whether recent price increases (or something else) are affecting volume growth of the catalog brand.

Addressable Niche Identification, Needs, And Positioning Assessment: To build a solid fact-base regarding company sales, market position, and competitive dynamics, Gotham undertook a multi-pronged approach:

- Analyzed 7 years of transaction-level sales data to generate customer profiles by end-market and function. As the company did not track end-markets in its customer file, Gotham rapidly established the company's end-market mix through analytical techniques and company research to assign end-markets to >5,000 customers representing almost 80% of sales
- Conducted 170 interviews and 1,900 online surveys of customers and prospects globally, representing a cross section of needs, end-markets, company sizes, and functions (product design, test lab, manufacturing, field service, sourcing), to gain customer insights on vendor selection criteria, relevant spend, lead time requirements, the role of sourcing, price sensitivity, brands and vendors used, and vendor preference for different needs
- Built a bottom-up model of the company's addressable market, using market research, survey results, and management input, to estimate market size and growth rates by end-market and segment. Gotham leveraged its analysis of company sales data to estimate the company's market share by sub-segment for each end-market.



Company Positioned As Niche Leader In The In Operations Segment

Although the company's market had traditionally been segmented by end-market, customer insights from interviews and surveys indicated that customers' needs vary across the product life cycle. Consequently, we developed an original use-based segmentation based on customers' component needs: the Inside Products segment (prototyping needs during product development, BOM needs for manufacturing finished goods) and the In Operations segment (needs for connecting equipment and parts needs for product testing, manufacturing operations, infrastructure, and repair/maintenance). While the company had a small presence in the larger Inside Products segment (77% of addressable market), the company had a sizable share in the In Operations segment, as In Operations customer needs (e.g., wide product selection, fast turnaround) were well aligned with the company's value proposition. In fact, the company was one of the most preferred vendors by In Operations customers (21% overall, 27% for hard-to-find parts).

14% CAGR Growth (Vs. 6% Overall Market Growth) Achievable Through Multi-Pronged Growth Strategy

Gotham established that 4 end-markets accounted for 76% of company revenue and the company had a strong presence in the In Operations segment of these end-markets, with market share approaching 50% in some niches. Gotham established an incremental growth opportunity (3% market share gain) in this segment through improved prospecting and targeted messaging enabled by our customer profiles. However, Gotham's customer insights work indicated a much larger growth opportunity in the Inside Products segment of these end-markets. We found that design engineers, the company's current customers, influenced BOM decisions and 78% of them were willing to consider the company's parts for Inside Products needs. While the company was well-positioned to service this low-volume product need in these end-markets, it would require a direct sales force to target sourcing professionals. We identified further growth opportunities in the remaining 9 end-markets (wireless, datacom, communications, telecom, computer, consumer, medical, automotive/truck/offroad and homeland security) where the company could grow its current small presence by leveraging its In Operations strength using targeted prospect lists, targeted new product introductions, and improved marketing communications. Finally, the company could capture additional growth opportunities by entering new product categories and by partnering with additional distributors to more than double its international market share.

End-Market Mix, Not Pricing, Affecting Catalog Brand Sales Performance

To investigate management's assumption that recent price increases were dampening catalog brand's volume, Gotham analyzed the relationship between pricing and sales volume over the previous 7 years to determine the effects by price point and ABCD category, as well as the magnitude of price change. Despite the prevalence of volume discounts, custom SKUs, and low-volume SKUs, Gotham was able to isolate key factors, concluding that the catalog's declining revenue was driven by end-market mix. Our market sizing work established that the company's biggest end-markets were performing poorly and the company's sales actually beat the market average by nearly 5% after accounting for end-market mix.

The Outcome: The client is now able to demonstrate that the company is a niche leader and now has a multi-pronged growth strategy to achieve 14% CAGR (vs. 6% market growth), positioning the company for a successful exit. The client developed a strategic plan incorporating Gotham's recommendations – e.g., hiring a direct salesperson to pursue opportunities in the Inside Products segment, mining Gotham's customer insights to identify product opportunities, and implementing targeted messaging.