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Exploring proactive niche market strategies in the steel industry: Activities and implications

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ABSTRACT

The literature has often proposed a niche market strategy as the means by which producers of commodity-based products (e.g. steel, pulp and paper, and petrochemicals) can counter increasing competition, particularly from low-cost, low-price competitors. That strategy has primarily been viewed as defensive, i.e. the weaker producer builds protective barriers around its product to fend off competition. This paper proposes, on the contrary, that niche marketing can also be used as a proactive, or even aggressive, strategy to enable a firm to outperform competitors in both profitability and growth. The use of a proactive niche market strategy in practice is examined in case studies of three global Swedish steel firms that have achieved above-average profitability over time. We propose, as a result of our analysis, the concept of the *proactive* niche market strategy as one that employs a mix of five key activities: focusing on the customers' customers; making the effort to become a preferred supplier early in the process; interacting with customers at multiple levels; extending the product offering by adding services; and focusing on the development of "adjacent" products, markets, and applications.

1. Introduction

Many firms producing upstream commodity-oriented products in such mature industries as steel, paper, and petrochemicals are today facing increased global competition, not least from low-cost producers. One strategic avenue open to these firms to counter that challenge has been to pursue a "niche market strategy" (Toften & Hammervoll, 2013). Increased competition has forced many traditional commodity-based industrial firms to upgrade their offerings, for example, from standardized bulk products to more specialized and customized products (Skarp & Gadde, 2008), to better serve a smaller niche in the market. It is now more than three decades since Porter (1985) recognized the potential of focusing on narrow strategic differentiation and offering tailored offerings that meet the unique needs of customers. Rangan and Bowman (1992) have since similarly advocated a strategy focused on niche markets as a way to avoid direct competition with low-cost, low-price rivals, especially in stagnant or even shrinking markets. The process of transitioning towards such a niche market strategy can be both costly and time-consuming but it has the potential to generate returns and profits higher than those of bulk-producing competitors.

Hamlin, Henry, and Cuthbert (2012) have noted, however, that niche strategies are treated in the marketing literature as primarily defensive countermeasures used by weaker players to build protective barriers, avoid competition with stronger players, and survive in a "regular" market while facing such threats as diminishing returns, increased international competition, overcapacity, and price deflation (Parrish, Cassill, & Oxenham, 2006a, 2006b; Toften & Hammervoll, 2013). This seems to hold true especially for firms in mature industries facing increased competition from low-cost and low-price rivals with both scale and scope advantages (Parrish et al., 2006a, 2006b). Recently, Boon, Moors, and Meijer (2014) have discussed different processes and strategies for niche protection. Hamlin et al. (2012) and Parrish et al. (2006a) confirm that most niche market strategies could be categorized as defensive and recommend procedures for identifying, implementing, and maintaining such strategies effectively.

Contrary to the prevalent view of the niche market strategy as a defensive reaction, this paper proposes that it can be used as a proactive or even aggressive choice that, rather than allowing a firm to barely survive in the marketplace, can potentially enable it to outperform competitors in both profitability and growth. In accordance with the findings of previous research by Dalgic and Leeuw (1994) and Toften and Hammervoll (2013), we conceive of a niche market strategy as an applied initiative, used and defined by a set of activities.

The use of proactive niche market strategies in three global Swedish steel firms is examined by means of in-depth case studies, which illustrate how the five characteristic activities can enable firms to achieve above-average profitability over time. The Swedish steel industry, which was traditionally a mature bulk-producing industry but today consists of several niche players, serves as a fitting empirical context in which to develop an enhanced understanding of successful proactive niche market strategies.

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In this study, we find that five activities underpin the concept of what we term a *proactive* niche market strategy: focusing on the customers' customers; making the effort to become a preferred supplier early in the process; interacting with customers at multiple levels; extending the product offering by adding services; and focusing on the development of "adjacent" products, markets, and applications.

The paper is structured as follows. Section 2 describes and discusses the concepts of niche and niche market strategy as developed in the published literature. Section 3 presents the chosen research methodology and Section 4 presents the research setting. Section 5 then presents the generation and analysis of data for the three case firms and for the five key activities identified. The sixth and penultimate section takes a managerial perspective on the findings and discusses the practical implications for management. The final section, Section 7, draws overall conclusions from the research study.

2. The niche and niche market strategy concepts

Although niche marketing and niche market strategy are popular contemporary concepts among both academics and practitioners, no generally agreed definitions of the concepts are found in the literature. Many of the definitions of "niche" discussed in the literature reviews by Toften and Hammervoll (2013) and Dalgic and Leeuw (1994) bear clear resemblances to traditional definitions of "segment". A niche can be seen as a "specific market segment" and "firms can choose to produce a single market offering targeted to a specific market segment (i.e., a niche strategy)" (Hunt & Arnett, 2004, p. 17). Dalgic and Leeuw (1994, p. 40) consider a niche to be "a small market consisting of an individual customer or a small group of customers with similar characteristics or needs". In general, the definitions emphasize that a niche is a smaller (Stanton, Etzel, & Walker, 1991), more focused (Philips & Peterson, 2001), and often narrower (Toften & Hammervoll, 2013) segment of a wider referral market. Kotler (2003) also notes that customers within a niche have a distinct set of needs and are willing to pay a premium to the firm that best satisfies those needs. Niches are therefore not static but can constantly be developed by identifying new needs of potential customers, needs that are currently not being satisfied by other market offerings. For example, Skarp and Gadde (2008) demonstrate that niche steel companies can grow their specific niches by offering upgraded steel offerings to customers currently using standard steel. In that sense, it is possible to persuade customers to move from the standard referral market to the niche market segment. Hence, for the purpose of this paper, a niche is treated as a specific (as in focused, smaller, and narrower) market segment targeted by a firm's offerings.

Literature reviews by Toften and Hammervoll (2013) and Dalgic and Leeuw (1994) demonstrate that the great majority of studies analyzing niche market strategies emphasize their defensive aspects. Hamlin et al. (2012) have demonstrated that firms pursuing a niche strategy have often been viewed as weak, in decline, and unable to compete with stronger players in the market. Toften and Hammervoll (2013) note that, given such an emphasis on defensiveness, several studies have underlined the need for weaker niche players to erect protective barriers as a way of avoiding competition with stronger players. The same authors have proposed this definition of a *niche market strategy*: "The process of carving out, protecting and offering a valued product to a narrow part of a market that displays differentiated needs" (Toften & Hammervoll, 2013, p. 280). What is apparent even in this description is the defensive focus signaled by "protecting". From a business strategy perspective, traditional niche firms can therefore be seen as typical defenders (Miles & Snow, 1978) focusing on smaller segments of the market, trying to maintain secure positions (Walker & Ruekert, 1987), and sealing off portions of the market (Slater, Hult, & Olson, 2010). Both Dalgic and Leeuw (1994) and Toften and Hammervoll (2013) argue that niche market strategies can be used at both the strategic and the operative marketing decision levels.

Previous studies have identified various factors affecting the success of niche market strategies, perhaps the most important of which is the ability to build strong and long-term customer relationships (Dalgic & Leeuw, 1994). According to Kotler (1999), among the key advantages of focusing on customers in a niche are the opportunities to get to know each customer more personally, to face far fewer competitors, and to earn a higher margin since the customers in the niche will often be willing to pay a premium for the niche marketer's expertise in meeting their needs. Both Toften and Hammervoll (2013) and Dalgic and Leeuw (1994) discuss numerous other reported benefits, such as enhanced profits, higher prices, increased sales, superior growth, improved market share, and increased competitiveness. Less frequently mentioned in the literature is more efficient value creation through improved attuning to customer needs (Toften & Hammervoll, 2013).

2.1. From defensive to proactive niche market strategy

As we have seen, the niche market strategy is often portrayed as a form of defensive "pull marketing" in which management first identifies a niche market, then develops a product for it, and eventually seeks to protect it by raising a variety of barriers (Parrish et al., 2006a; Toften & Hammervoll, 2013). Processes and strategies for protecting a niche have been proposed by, for example, Boon et al. (2014).

One of the most serious potential challenges associated in the literature with the pursuit of a niche strategy is that change in the pattern of customer demand may reduce uptake of the niche marketer's products. According to Hamlin et al. (2012), previous research into niche market strategy has insufficiently emphasized this issue. Our review of the literature found only two studies considering that such a strategy might be carried out in a more proactive, even aggressive, manner and thereby enable enhanced growth and increased profitability (Gaudes, 2004; Hamlin et al., 2012). In the latter, the strategy of occupying multiple niches as a springboard for an aggressive move into a mainstream market is exemplified by the entry of a Japanese producer of heavy machinery into the North American market, for whom a single niche provided the means to gain an initial foothold from which to expand successfully into large sectors of the total market.

There seem to be very few studies in the literature of firms that have taken a strategic approach by actively seeking to drive a market niche, rather than simply protecting and defending it. It is possible to find some support for this proactive line of reasoning in the literature on strategic types (Miles & Snow, 1978; Slater et al., 2010; Walker & Ruekert, 1987), in which the prospector type relies on proactive behavior that drives the market. A proactive niche actor ought to exhibit traits similar to those of a prospector (e.g. the identification and exploitation of new product and market opportunities) but, as they are niche actors and as such are defined by narrow focus and the existence of a core market, they also ought to exhibit some characteristics of a so-called differentiated defender (Walker & Ruekert, 1987) (e.g. continuous differentiation and reliance on a stable core market niche), especially perhaps in the particular context studied here, as capacity utilization and scale economies are pivotal concepts in the steel industry.

Though a number of benefits might well be realized by approaching niche market strategies from a defensive perspective, firms that do so risk becoming complacent and continually finding themselves in a race to the bottom in shrinking markets with decreasing margins. They also risk losing control of their marketing channels, due to their relatively limited engagement with customers or other downstream actors, as not only competitors but also such other actors as suppliers and customers become more powerful and innovative. A similar line of reasoning is proposed by Narver, Slater, and MacLachlan (2004). They argue that for any business to create and sustain success, a responsive market orientation strategy is not sufficient. Rather, a proactive market orientation strategy plays an important positive role in a business's new-product success, for example, by reducing the risks inherent in

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