GCP Industrial Products: Survival Strategy for a Commodity Business

The Challenge

After some initial success as an importer of industrial rubber products, by 2005 Kitchener-based GCP Industrial Products ("GCP") was encountering problems that threatened both sales and profitability. Many of its products were standardized, similar to competitors' offerings. Market prices and margins were decreasing. Customer loyalty was low, occasionally even "adversarial" according to Gary Mottershead, GCP's founder and CEO.

In addition, GCP had to deal with customer complaints on quality issues. Most issues were not product failures, but noncompliance such as wrong color, or wrong size. However, those noncompliance issues were significant enough that customers were rejecting orders and asking GCP for compensation or refunds. Such situation was not only frustrating, but put GCP's customer base, its profitability, and ultimately its survival at risk.

Background

GCP started in 1999, born from Gary Mottershead's insight surrounding the possibilities of a collaborative partnership between North America and China. As the latter's industrial capabilities grew, the improving supply chain logistics would make it economical to incorporate Chinese components into North American manufacturing processes. GCP began as an importer of industrial rubber products such as rubber sheet for gaskets, animal matting, rubber flooring etc. Taking advantage of an early relationship with a Beijing-based manufacturer of recycled rubber, GCP soon grew annual sales to a few million dollars. However, around 2004-2005, GCP lost some key customers and its revenue dropped by 30%. The market had been quick to catch up with the changing trends and soon the industrial rubber market was 'commoditized'. Product prices declined gradually and so did customer loyalty, making it difficult for GCP to retain its gross margin. As the market became more and more competitive, customers became more sophisticated and demanding. Order rejections, demand for refunds and similar problems were becoming more frequent, eventually putting GCP's survival at stake.

In *The Discipline of Market Leaders* (1997) Michael Treacy and Fred Wiersma describe three generic competitive strategies: operational excellence, customer intimacy and product leadership. They claimed that a company needed to follow one of these three strategies in order to succeed in the market. As a start-up, GCP's business strategy had pretty much relied on trial-and-error but the three competitive strategies provided a framework during the period when GCP was re-thinking its business.

GCP might have considered an operational excellence strategy. It had a lean operation by not holding inventory and was a small organization that could move quickly and decisively. The team mostly had engineering backgrounds and product development experience that might have enabled the product leadership strategy. Upon further reflection GCP decided it lacked the resources to implement either an operational excellence or a product leadership strategy.

As a small trading company, GCP's selling price was typically higher than that of its competitor's; accordingly, achieving operational excellence while maintaining cost competencies was an impractical idea. GCP also lacked its own research lab or the necessary development budget to create and market test innovative products of its own rendering. As a result, a product leadership strategy was impractical as well.

The Strategy

Eventually and in part to the customers issues it was having and changing customer needs, the company adopted a strategy of "customer intimacy", formalized in 2008 as GCP's trademarked 'Risk-Free Sourcing Solution'. Widely acclaimed due to its customer-centricity, the strategy comprises six major components:

First, it customized products according to customers' expectations by developing a process to ensure complete understanding of customers' specific needs such as technical specifications, production capacity, pricing and even packaging.

Second, GCP utilized its product development proficiencies to bridge the gap between North American industrial standards and manufacturer's local standards providing advice, technical support for materials sourcing, product development, quality control, order processing and logistics.

Third, GCP utilized its supplier sourcing capabilities to establish manufacturing expertise in low cost countries, mainly China, but not exclusively.

Fourth, the company improved the quality control process for order fulfilment, hired local people to conduct order inspections before shipment, supported by a dedicated staff in 2007 and eventually an office established in Suzhou, China in 2012.

Fifth, GCP improved communication and services to customers by, for example, providing weekly order updates to each individual customer.

Sixth, GCP took full product responsibility while offering the same payment terms as a North American supplier. GCP's Risk-Free Sourcing Solution meant that a customer did not pay until its order was delivered to their warehouse and inspected for quality and other order criteria. As described in its website "*Through our sourcing expertise and Risk-Free Sourcing Solution™, we will qualify then select the factory which possess the best mix of technical ability, product quality, pricing and delivery terms to manufacture the product your organization requires. Based on technical specifications and important organizational vital factors, our team will ensure the solution we deliver fulfills your marketplace expectations.*"

The Results

Applying a “customer intimacy” strategy, GCP has acquired insights about its customers’ culture and their needs. Based on such insights, the company selected customers to focus on and to develop mutually beneficial, long term relationships and to identify those niche markets that were not commoditized. As a result, GCP was able to move its focus from animal mats and rubber flooring to products such as rubber sheet for the gasket industry, which require precision manufacturing to achieve highly consistent quality rubber sheet that meet precise technical performance specifications. The company has built valuable customers relationships and distinguished itself away from low cost-low quality competitors. Highly consistent quality increased customers’ confidence, improving GCP’s profitability as well as its market position. Between 2005 to 2010, GCP’s revenue and gross margin grew by a factor of five times. Most of this growth came from core strategic customers because of better relationships and business alignment. GCP’s relationship with key factory partners also improved as it was able to bring more stable business to them as well as better market visibility.

GCP is now the largest importer of industrial rubber sheet in North America and distributes more that 22,500 tonnes of industrial product coats-to-coast. GCP also recognized it could utilize one of its core strengths to source products as a service for other distributors and manufacturers. This service now accounts for 15% of the company’s revenue. In 2013, 2015 and 2016, GCP ranked amongst Canada’s top 500 fastest-growing companies based on five-year revenue, calculated by PROFIT Magazine.

GCP’s story is relevant to other start-up companies because according to statistics 80% of start-ups go out of business within five years of establishment. Thus, survival or sustainability is of high concern to all start-ups and GCP demonstrates that even in a commodity business there are smart ways to compete and succeed.