

INTERNAL ANALYSIS

CLOSING IN ON A BUILDING EQUIPMENT GIANT

IO2030 Strategic
Product Innovation
Assignment 1
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HILTI

Outperform. Outlast.

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1. INTRODUCTION

Outperform, outlast. Hilti's slogan can't be more specific about their goals. Founded in 1941 in Liechtenstein, it has conquered the market for building equipment with this inspiring slogan ever since. Now this conglomerate has branches in 120 countries, employing over 17.000 men and women all over the world.

But how far do they go to actually reach the goals stated in their slogan? And what makes this company as successful as they are? This internal analysis tries to answer these and some other questions and sheds some light on their corporate, business and marketing strategy. Furthermore this report will focus on important aspects like branding, sustainability and their competitive position. This is Hilti.

2. CORPORATE STRATEGY

2.1 CORPORATE SCOPE

Hilti provides quality tools for construction, mechanical/electric system engineering and public works. They strive to create success for their customers and meet their customers' demands and needs in order to supply them with innovative and value-adding solutions as well as achieving a significant and sustainable, profitable growth, to secure their freedom of action. Thus their mission statement is as follows:

"We create enthusiastic customers and build a better future!"⁽¹⁾



2.2 CORPORATE OBJECTIVES

Hilti uses their “Champion 3C Strategy” meaning:

- Customers: They want to be their customers' best partner.
The customers' requirements drive Hilti's actions.
- Competency: They are committed to excellence in innovation, total quality, direct customer relationships and effective marketing.
- Concentration: They focus on products and markets where they can achieve and sustain leadership positions.

The Hilti strategy was introduced in 1996 and in 2007 it entered its third phase which is due to be fulfilled by 2015.

According to their annual report of 2007 they want to achieve the following objectives (there are no measurements whatsoever mentioned in the report):

- Growth
- Differentiation
- Productivity
- Employee development (2)(3)

1. Annual report 2007[http://www.hilti.com/data/editorials/-11002/Annual_Report_2007.pdf]

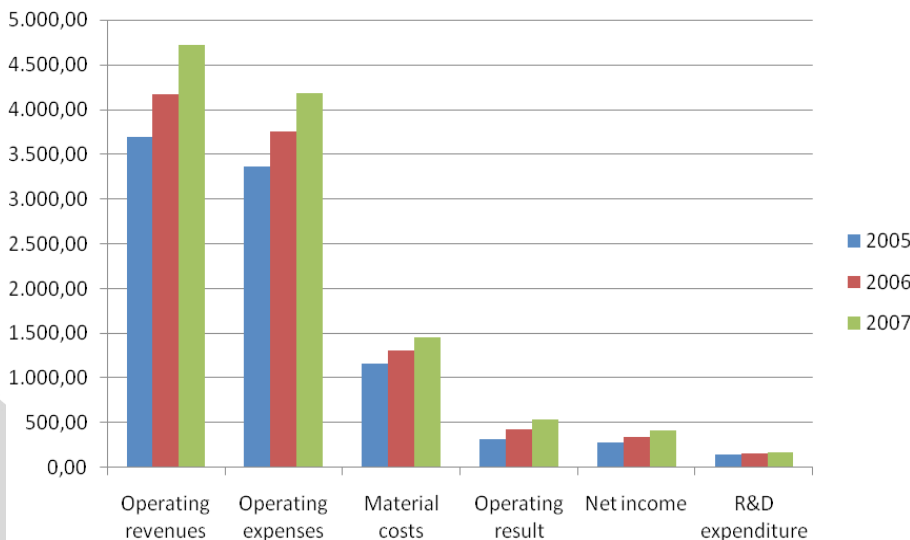
2. Hilti Annual report 2007

3. www.hilti.com

2.3 GROWTH STRATEGY

According to the annual report of 2007 Hilti plans to grow further during 2008 and aims for a turnover of 5 billion Swiss francs although they are not sure how much the mortgage crisis in the USA will affect their growth, as well as how much the negative currency development will affect their sales and results.

Hilti is planning on making major investments during 2008 and the years to follow. These investments will include the expansion of their production plants in Schaan in Liechtenstein, Thüringen in Austria, Kaufering and Strass in Germany and they will also increase warehouse capacity all over the world. One of the biggest projects to come is building an innovation center for research and development at its headquarters in Schaan.



4. Financial Reports 2007, 2006 & 2005

5. http://www.hilti.com/data/editorials/-11002/Financial_Report_2007.pdf; (; _2006.pdf; _2005.pdf)

2.4 ALLOCATION OF RESOURCES

After thorough investigation of both Hilti's annual and financial reports it still wasn't possible to display a Relative Market Share Matrix. There weren't any statistics on what kind of profits or costs specific product lines or brands were making.

Instead we will take a look at what key statistics in Hilti's annual and financial reports did say. (4)(5)

(in CHF millions)	2005	2006	2007
Operating revenues	3.688,3	4.173,8	4.719,6
Operating expenses	3.366,1	3.752,0	4.186,7
Material costs	1.1668	1.304	1.459
Operating result	322,2	421,8	532,9
Net income	283,8	343,9	421,6
R&D expenditure	151	164	177

It is especially interesting to us that their net income is growing at an exponential rate while research and development expenditures are growing linearly. This could indicate that if there are no significant changes in the environment, keeping a linear growth in R&D is enough to sustain competitive advantage.

2.5 HISTORY OF CORPORATE INNOVATION

Hilti's Milestones indicate that they have gained a significant amount of success by entry into new markets. They started out as a manufacturer of mechanical components, but in the first decade of existence they shifted their focus to fastening systems. In the next three decades they mainly expanded within the fastening market and geographically expanded their sales area. Entry into the diamond coring and construction chemicals market occurred in the 1980's.

Because Hilti fixes its attention on the top-of-the-line segment within a market, they will eventually run out of expansion room once they have secured their preferred position. They will not want to broaden their position within the market, so they look outwards for new opportunities. This seems to be one of the main strategic strengths of Hilti.

In the 1990's they use the same strategy to enter the measuring systems and cutting and sanding tools markets. Innovation in markets where Hilti is already in their preferred position is directed towards maintaining that position. When they enter into a new market, most of the R&D resources will be directed there, where they need good amount of product innovation to get a better position. (6)

6. Milestones in the group's development [http://www.hilti.com/data/editorials/-12323/milestones_en.pdf]

3. BUSINESS STRATEGY

Hilti Groups' headquarters are located in Schaan in the Principality of Liechtenstein. Hilti has nearly 20.000 employees in over 120 countries. According to the annual report of 2007 Hilti has over two-thirds of employees working in sales. This way they can maintain a lot of daily contact with their customers. They also have their own production plants as well as research and development centers in Europe and Asia.

(31) Personnel expenses

Personnel expenses comprise wages and salaries and social contributions. Social contributions include expenses for pensions and similar liabilities in addition to social security contributions.

The breakdown of the average number of employees by function is as follows:

	2007	2006
Sales	14,790	13,070
Research and development	610	595
Production	2,240	2,375
Administration	1,290	1,210
Total employees	18,930	17,250

The breakdown of the average number of employees by market region is given in note (37).

(7)

3.1 STRATEGIC BUSINESS UNITS

According to a Hilti advisor at the Hilti Centre in The Hague, The Company has the following Strategic Business Units, where SBU 1 is the largest and SBU 3 the smallest.

7. http://www.hilti.com/holcom/modules/editorial/edit_singlepage.jsp?editid=-12320_000003 & Annual Report 2007

SBU 1 = Building Construction

SBU 2 = Mechanical and Electrical systems engineering

SBU 3 = Public Works

Hilti follows an analyzer strategy in all three business units, maintaining a strong core business while expanding into related product markets by differentiation. This is accomplished by offering superior product quality and service. The strategy in the different SBU's is mainly different in the service offered to the customer. A manager in the public works sector will have other priorities than a building contractor. Tailored service is very necessary as a company that mainly competes through the quality of their offered service.

3.2 COMPETITIVE ADVANTAGE

Hilti's competitive advantage lies in their customer service. They provide excellent service and have an extended warranty unmatched by any other company. Even though other companies strive to bring their innovative products on to the market as fast as possible, Hilti insists on testing it thoroughly and fine-tuning the products in order to provide the best quality possible.

4. MARKETING STRATEGY

Hilti is a company with a long history and has accomplished to make itself the main contestant in the area of professional construction-tools and materials. It didn't get this high-placed position unthinkingly. How did Hilti obtain this lead over its competitors and how does it maintain this? The most important is the way the company manifests itself on the market. This is called the 'marketing mix' and can be divided into four parts; the 4 P's. These are Product, Price, Place and Promotion. We will discuss each of these items. (8)(9)

8. Marketing Strategy: A Decision Focused Approach
Orville C Walker, John Mullins Jr., Harper W Boyd
9. www.Hilti.com

4.1 PRODUCT

How do the products of Hilti distinguish themselves from those of the competitors?

- Hilti continuously innovates her products. An increasing amount of effort and funds is invested in R&D to enlarge the number of products and to improve them. Hilti will only continue with a product if it is verified that it matches customer needs significantly better than competitive products.
- All products are of a high quality. This is equivalent to a high level of reliability. This is very important for a lot of companies, because they are dealing with deadlines and their reputation is at stake. The products are of such kind a quality that they should last a lifetime.
- The products are designed in view of efficiency. A good machine can save the consumer a lot of time. In a company's perspective this saves a lot of money.

4.2 PRICE

At what price level does Hilti sell her products?

- The price level of the products is quite high in comparison to the other competitors. So Hilti doesn't use the low price strategy to get an advantage. You could say that the prices emphasize the image of a high quality manufacturer.

4.3 PLACE

Where and how does Hilti offer her products?

- In the Netherlands Hilti's products are solely available at Hilti-centres or by contacting one of the many salesmen operating all across the land. So you can't find these products at your local do-it-yourself shop or at the wholesale dealer. But some shop-in-shop locations do exist, though they are completely run by Hilti itself. In the Netherlands there are approximately 20 Hilti-centres.
- At Hilti's website you can find most things you need as a customer. You can order products, inquire about offered services, find technical data of products and get into contact with Hilti advisors. To use most online services registration is obligatory to ensure customer-oriented services, even online.

4.4 PROMOTION

What are the promotional activities Hilti uses to accomplish a big as possible turnover?

- Hilti's main objective in promotion is to emphasize its quality and service. Hilti does this by providing lifetime warranty on her products. Also the slogan "outperform, outlast" states the advantage of Hilti.
- Because Hilti is particularly a 'business to business' operation, it uses different channels than most other companies to reach its customers. You won't find any Hilti advertisements in the newspapers, simply because the readers aren't part of the target group.
- There are around sixty representatives and advisors active for Hilti Netherlands to stay in direct contact with the customers. They will take orders and advise their customers. This service is of great importance to many users, especially companies. The advisors regularly contact to give information about the latest innovations in the company's business and they think along to reach a high level of efficiency. Representatives also give on-site demonstrations of the machinery.
- Customer satisfaction is a main issue. Of great importance is the repair service. Small reparations can be dealt with by a local Hilti-centre. If it can't be achieved over there, the product is shipped to the repair-centre. The goal is to return the device in less than four days. The warranty is widespread and no certificate is needed. Depending on the type of product, you get one or two years of full warranty, even for wear. After this period the service costs for repairing are bounded by a maximum of 25 percent of the purchase price and you get a new full warranty period for six months.

- Hilti provides a service called 'fleet management'. Customers have the possibility to lease their machinery. The advantages of this service are: no upfront investment, instant access to your complete tool inventory, modern tool fleet, theft insurance, free replacement tool during reparation and no unexpected expenses.
- Hilti is present at every construction trade fair. They even have a special team, focused on solely these fairs. Now and then so called 'Hilti-days' are organized, in which customers and candidates can go to a Hilti-centre for special activities. There are demonstrations, people can test the products and have the possibility to talk to other Hilti-users while having a barbecue.
- Hilti runs several campaigns. For example the price reduction campaign 'buy more, get more'. People can also collect little dolls that come with the products or participate in contests by which they can win tools.
- Customers frequently receive emails with the latest information or a newsletter. Also a magazine called 'Hilti Impulse' is brought out on a regular basis. This is a periodic publication from a team of engineers and covers technical developments concerning the products.

COMPETITION ANALYSIS

To be able to define Hilti's main competitors and to compare them to Hilti standards, it is important to first define Hilti's own corporate goal, niche market and customer handling.

Hilti is a very professionally oriented company, meaning that it mostly sells to professional users such as building companies. It has solely high priced, top of the bill equipment meant for those who demand long life-time and reliability under hard conditions. Companies working towards a deadline and being under pressure by their contractors simply can not afford to waste time on delays due to equipment malfunction. Hilti delivers to these customers high-end equipment and an extended service package, including for example years of free reparation, fixed repair costs and temporary replacement when a product needs repairing.

Selling to the same niche market are, most notably, Bosch, Makita, DeWalt and companies like Protool and Metabo. These companies all have high-performance equipment and some kind of service program that includes fast repairs and an extended warranty. We have compared the first three (being the largest and most widespread competitors) with Hilti, focusing on warranty and service but also comparing prices of some more or less similar products from the different manufacturers. The results can be found in appendix 1 to 4.

After analyzing the data, we can conclude that Hilti differs from other companies by offering even more service and a more extended warranty package. But this goes at a cost. Product prices are very high. Compared with DeWalt, we find only slightly less service for a slightly lower price. Other companies sell very reliable machinery but cut costs in personal customer service and warranty coverage. In conclusion: Hilti is the best choice when fast and reliable service is desired, and, in our opinion, shares the first place with DeWalt when looking at performance compared to cost. But don't expect friendly prices.

- 9. Hilti adviser, Hilti The Hague department
- 10. Hilti (www.hilti.nl)
- 11. DeWalt international (www.DeWalt.com)
- 12. DeWalt Nederland (www.DeWalt.nl)
- 13. Bosch internationaal (www.boschtools.com)

- 14. Bosch Nederland (www.bosch-pt.nl/professioneel)
- 15. Vergelijk.nl (www.vergelijk.nl/boormachine)
- 16. Kieskeurig.nl ([www.kieskeurig.nl/nl/product.nsf/product/accu\(schroef\)boormachine.htm](http://www.kieskeurig.nl/nl/product.nsf/product/accu(schroef)boormachine.htm))



5. BRANDING

The only brand that is registered for the Hilti Corporation is 'Hilti'. In this way the company tries to face in one direction and think big.

5.1 BRAND IDENTITY

Red logo

The distinctive feature for Hilti as a brand is the outstanding red logo with angular lettering. The logo stands out for its simplicity. Everywhere Hilti shows up, the logo is present. The red feature turns up in everything they do. For example, Hilti doesn't use resellers to sell their products to customers: they have their own Hilti centers. They will occasionally use a shop-in-shop model if that seems profitable, but in that case Hilti ensures that their shop-in-shop appearance accurately matches that of the Hilti centers. Uniformity is a great issue.

The red also comes back in the products. The man with the red case finds himself at home on the construction site. Every product or package of the product stays consistent to this red feature.



Marketing

The way of working at Hilti is based on living strong values. It's not only the way they work but also their main point in advertising. They act accordingly and show the customers to go beyond the normal borders; the customers should feel that Hilti reaches further than its competitors. They outperform through good teamwork and have commitment to personal and company growth.

This is how the slogan; Hilti, outperform, outlast is born. It shows what the company tries to radiate in accordance to the company goals. Meaning: They try to be the customers' best partner, show competence and concentrate on their leadership position.

The marketing of Hilti is not directed towards simple handymen, but towards the building industry. This is accurately portrayed in their advertisements. Hilti shows big, tough, strong men heavily armed with their products working at the construction site. The customer should identify himself with that construction worker. You can conclude that after looking where Hilti advertises or shows up, which isn't in normal papers or magazines, but especially in specialist journals.

Likewise the high prices of Hilti stand out for guarantee of top quality, service and customer oriented marketing.

5.2 BRAND IMAGE

Hilti doesn't use a great amount of visual advertisements, but in the imagery on their website it is clear that they emphasize the products and their use. You could imagine that if Hilti were a prestige brand, they would emphasize the user and the intended emotions derived from use, for example a feeling of robustness or expertise. Instead, by focusing on the functionality of the product, they achieve a brand image with greater analogy to their corporate strategy and mission statement. Again uniformity is the issue.



6 SUSTAINABILITY

Part of Hilti's mission statement is: Build a better future
"We embrace our responsibility toward society and environment.
We aim to achieve significant and sustainable profitable growth, thus
securing our freedom of action." (17)

Hilti is committed to improving their environmental impact, not only within the business world, but also by motivating their staff to change their travel behaviour. In July 2008 they entered a travel awareness week with what they hope will encourage their staff to start commuting using more sustainable methods of transport in the future.

They initiated an internal sustainability management project in 2004, agreed to the UN Global Compact in 2006, signed the Caring for Climate Convention in 2007 and speaks out against all forms of corruption. And since 1998, all production plants as well as product development of the individual Business Units, and now some of their national organizations too, were certified to the ISO 14001 environmental standard.

Drivers for D4S for Hilti:

- Intrinsic motivation - it is part of their mission statement
- New markets - because sustainability is becoming a more and more important issue in the building industry, it is a good way for Hilti to act sustainable so that new companies are more likely to cooperate with them
- Improve image - one of the aspects what customers like about Hilti, are their green products and services they promise to provide.

For many years now, Hilti have firmly believed that economic success can only be sustained by meeting the needs of all major stakeholders, including their society and the environment. For this reason, acting with a sense of social and ecological responsibility is a fixture of their Mission Statement. So when they talk about "building a better future," they mean every word of it. And this same conviction is behind Hilti's decision to publish information about their economic development together with an account of their sustainability in one single report, as you can see in their Annual Report of 2007.

They stand by the principles of the UN Global Compact, which they signed in early 2006. Hilti strive with resolve to make them a reality – increasingly and with ever greater insistence in the case of their suppliers too, training their own auditors for the task as well.

Hilti considers their progress towards social and ecological sustainability a journey, just as they do the development of their corporate culture. As they continue on this road they are constantly capable of further improvement and can continuously enhance the interaction among the economic, social and ecological aspects of their business.

17. <http://media.hilti.com/2006/Sites/EN/OurMission.aspx>

APPENDICES