

DELTA FAUCET: GLOBAL ENTREPRENEURSHIP IN AN EMERGING MARKET

CASE 2

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The creation of a new venture is a multidimensional phenomenon; each variable describes only a single dimension of the phenomenon and cannot be taken alone . . . entrepreneurs and their firms vary widely; the actions they take or do not take and the environments they operate in and respond to are equally diverse – and all these elements form complex and unique combinations in the creation of each new venture.¹

INTRODUCTION

Delta Faucet Company is a division of Masco Corporation and is the largest US manufacturer of residential and commercial faucets and related accessories. The company manufactures the Delta®, Brizo™ and Peerless® faucet brands and holds the number one market share position in the United States. The market-leading Delta line, with a strong half-century heritage, delivers exceptionally well-made, stylish faucets and related accessories that are precisely crafted to be beautiful both inside and outside. Brizo provides high-end customers with distinctively designed, innovative faucets and accessories that complement today's luxury kitchens and baths. Peerless offers value-driven, proven designs that don't sacrifice style.

Delta Faucet is a worldwide leader in the manufacture, sales and distribution of bathroom accessory products. Delta Faucet commenced operations in Indianapolis, Indiana in 1954. Since its inception, the

company has grown its operations to over 50 countries. This entrepreneurial orientation is underpinned by the pursuit of innovation, the willingness to take risks and a proactive stance towards understanding the global consumer and their needs. In 1999, as part of its global expansion, Delta Faucet commenced operations as a wholly owned subsidiary in the People's Republic of China. This case considers Delta Faucet's expansion and operation into China.

An entrepreneurial venture can be identified by the strategic behaviour of the organisation. Vesper² supports earlier theory that there are five categories of behaviour that are characteristic of an entrepreneurial venture. These are:

- 1 introduction of new goods
- 2 introduction of new methods of production
- 3 opening of new markets
- 4 opening of new sources of supply
- 5 industrial reorganisation.

Of these, Delta's expansion into China represents characteristic number three. Most entrepreneurial organisations venture into new overseas markets for two reasons. First, to use organisation-specific knowledge, primarily for manufacturing and sales activities, or second, to increase the stock of the organisation's knowledge, primarily through research and development (R&D) activities. Delta Faucet's foray into China embodies the manufacturing and sales activities reason. Many of the products that Delta Faucet markets in China are made from their manufacturing plant in Guangzhou, southern China. The Guangzhou operation also serves as a distribution centre for the agent intermediaries who buy and on-sell Delta Faucet's products.

* This case was written by Nicholas Grigoriou as the basis for discussion rather than to illustrate an effective or ineffective example of global entrepreneurship.

EXTERNAL ANALYSIS

INDUSTRY DEFINITION

Delta Faucet competes in the residential and commercial bathroom and kitchen accessory industry. This industry is characterised by the manufacture, sales and distribution of kitchen, bath and laundry products such as vanity basins, taps, and sinks to the building and construction industry as well as to various retailers throughout China. Delta Faucet serves two main customer types, namely, dealers who purchase and then resell to the building contractors in the construction industry and second, retailers who purchase and then sell goods to private individuals who seek to renovate their bathroom or kitchen areas.

GENERAL ENVIRONMENT ANALYSIS

ECONOMIC

China's economy has experienced double digit compounded growth since she opened her doors to foreign trade in the late 1970s. This growth can be found in various areas of China's economy including manufacture, exporting and the services sector. As a result of the dynamic growth in China's economy, China's consumers have also experienced increases in their individual wealth, especially in larger cities on China's eastern seaboard. Increasingly, Chinese consumers are looking to foreign

branded goods to satisfy their individual needs. These products are made more affordable by the steady increase in disposable income of Chinese consumers.

SOCIO-CULTURAL

As their wealth increases, Chinese consumers are looking to foreign brands to satisfy their needs. Younger consumers no longer subscribe to the ethnocentric view that they should buy home-made products to support local industry. Foreign branded goods are seen as being superior in their quality, design and performance. The purchase and use of foreign-made goods is seen as a status symbol of wealth and affluence.

INTERNATIONALISATION

More open markets, lower communication and transport costs and the availability of staff with more international experience have created opportunities for smaller organisations to enter international markets. Entrepreneurial organisations distinguish themselves from other organisations by a higher level of alertness to business opportunities and by a stronger willingness to pursue them without regard to the resources they control at the inception stage of the entrepreneurial venture. Johansson and Mattsson³ have provided a framework by which to understand how entrepreneurial organisations expand their operation. This framework suggests that the degree of international entrepreneurship is a function of both the organisation and the (international) markets that it attempts to compete in (see Exhibit 1).

EXHIBIT 1

	Low degree of internationalisation of the market	High degree of internationalisation of the market
Low degree of internationalisation of the company	The early starter	The late starter
High degree of internationalisation of the company	The lonely international	The international among others

Source: J. Johansson & L. G. Mattsson, 1988, 'Internationalisation in industry systems – a network approach', in N. Hood (ed.), *Strategies for Global Competition*, London: Croom Helm: 298.

With a presence in over 50 countries, and China being a nation with a low (but growing) degree of internationalisation, Delta Faucet is considered a ‘lonely international’ in the China market. A ‘lonely international’ is a pioneering organisation that attempts to expand market opportunities in nations where it is considered to have a sustainable competitive advantage. In the case of Delta Faucet, its competitive advantage comes from an industry-recognised brand name and reputation for quality products.

OVERCOMING FOREIGNNESS

Many entrepreneurial organisations attempting to market overseas face a potential burden of being a foreign owned company. Many consumers have an ethnocentric view of buying products from locally owned organisations thus supporting local industry, preservation of jobs and keeping profits within the country.

To overcome the liability of foreignness and to compete successfully in China against both local and foreign owned firms, organisations must find an entrepreneurial means by which to use their foreignness to their advantage. Delta Faucet achieves this by the parent company providing the China operation resources and capabilities (for example, technical expertise) necessary to compete successfully. In addition, in many developing economies such as China, products from Western nations such as the United States are seen by consumers as being superior to the locally produced equivalent and are thus sought after for their quality in performance and design.

MARKETS SERVED

Delta Faucet serves two primary markets in China. First, the residential market that consists of end user consumers who wish to purchase faucets for their kitchen or laundry at home. Second, the commercial market that consists of hospitality venues, schools and nurseries. Products are sold through sales channels such as agencies – however, while the same markets are served in China, no such large sales distribution agencies exist. One challenge facing Delta Faucet in China is the recruitment of national and regional sales agents in China to further broaden their sales base.

An area of sales growth in recent times for Delta Faucet has been the do-it-yourself (DIY) market segment within China. This segment is characterised by end user consumers who wish to buy product and

install it themselves. With the economic boom comes a change in living. The lifestyle of consumers is getting faster, especially in the prosperous cities such as Beijing and Shanghai. Consumers also tend to value their spare time and are seeking out more ways to enjoy it, including developing hobbies. In this regard, consumers are changing their attitude towards DIY from one of work to one of enjoyment; an activity that gives them the opportunity to innovate and have fun. Major players such as Ikea have begun promoting the DIY nature of their furniture as a fun activity, in line with this attitude change.

COMPETITIVE ENVIRONMENT

Competitive aggressiveness refers to an organisation’s willingness to directly and intensely challenge its competitors to achieve entry into a market or to improve its position, that is, to outperform industry rivals in the marketplace.⁴ Delta Faucet’s main competition in the China market comes from US-based organisations as well as Japanese wholly owned subsidiaries operating in China.

INTERNAL ANALYSIS

RESOURCES TANGIBLE AND INTANGIBLE

PRODUCT INNOVATION

Many of the products that Delta Faucet markets in China are manufactured locally (in Delta Faucet’s Guangzhou manufacturing plant), while some are imported from the US for sale locally. The industrial design of the faucets is conducted in China. The mechanical design is conducted in China. Delta Faucet conducts reverse-exporting whereby many of the faucets manufactured in Guangzhou are exported back to the US for sales in that market.

BRANDS

Delta Faucet markets its goods under three distinct brand names. The flagship Delta® brand delivers exceptionally well-made, stylish faucets and related kitchen and bath accessories. This market-leading product line features a unique combination of stylish looks and excellent quality, and is available in a wide variety of finishes. In addition, Delta markets under the Brizo™ brand name. Brizo™ is

the new premium faucet brand crafted by Delta Faucet Company that meets the demand for products that provide aesthetic beauty and superior performance. Brizo™ promises customers distinctively designed, inventive faucets and accessories that will live up to homeowners' expectations of elegant style and performance. Finally, Peerless® is a Delta Faucet brand that offers value-driven, proven designs that do not sacrifice style. Each faucet is designed to give consumers confidence in their purchase.

By using multiple brands in the one market, Delta Faucet is able to target different segments of that market with a view of satisfying a broad range of consumer needs.

CAPABILITIES IDENTIFICATION

The strength of Delta Faucet's China operation lies in the following areas:

- *Technical/engineering:* Delta Faucet invests resources in product innovation to ensure that the company develops, with technical expertise, state-of-the-art products that embody both modern and classical designs.
- *Quality assurance:* Delta Faucet employ strict internal quality assurance processes to ensure its products not only meet the company's high expectations for quality, but also to ensure that products meet industry expectations of excellence.
- *Supply chain:* Delta Faucet's integrated supply chain is located close to its manufacturing base in Guangzhou. This enables Delta Faucet to enjoy just-in-time (JIT) procurement, materials handling and manufacturing of its products for timely distribution to its consumers.

CORE COMPETENCY ANALYSIS

Dedicated to a total customer experience, Delta Faucet invests heavily in internal processes and systems to ensure exceptional customer satisfaction. From its integrated supply chain to its industry benchmarked quality assurance processes, Delta Faucet competes in its international markets on the basis of using its expertise in engineering to manufacture, distribute and market world class bathroom, kitchen and laundry accessory products.

DECISION MAKING

Early in its China operations, the decision making was decentralised, that is, most decisions regarding the China operation were made in Delta Faucet's Guangzhou base. Gradually since then, much of the decision making has moved back to its Indianapolis headquarter base. All of the human resource decisions are still made locally, as are the decisions on the conduct of local market research. Head office in the United States has a high involvement in the decisions related to which Delta Faucet brands are sold in China.

CURRENT STRATEGIES

Delta Faucet uses product-based aggressive marketing strategies to increase its presence in the China market. This strategy is reliant on educating the market on the benefits of using Delta Faucet's product range. The market emphasis is on promoting award-winning products that set industry standards in design, function and quality.

COMPETITION

The competition in China for bathroom accessories may be described as monopolistic competition. Nationally, there are numerous well resourced manufacturers of bathroom products. Barriers to market entry are low and many of the competitors, like Delta Faucet, are from overseas. At a retail level some of the competitors offer a comprehensive line of products (shower compartments, bath tubs, etc.) while others focus on a limited product range (for example, taps).

ISSUE

The main issue facing management at Delta Faucet is further expanding their brand presence in China's booming construction market. Product innovation and increasing national distribution through reputable retailers are two drivers of the company's expansion. This is occurring at a time when competition from overseas manufacturers is strong and buyers are becoming aware of their increasing choices for bathroom accessories.

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NOTES

- 1 W. B. Gartner, 1985, 'A conceptual framework for describing the phenomenon of new venture creation', *Academy of Management Review*, 10: 697

- 2 K. H. Vesper, 1980, *New Venture Strategies*, Englewood Cliffs, N.J.: Prentice Hall.
- 3 J. Johansson & L. G. Mattsson, 1988, 'Internationalisation in industry systems – a network approach', in N. Hood (ed.), *Strategies for Global Competition*, London: Croom Helm.
- 4 G. T. Lumpkin & G. G. Dess, 1996, 'Clarifying the entrepreneurial orientation construct and linking it to performance', *Academy of Management Review*, 21(1): 135–72.