

# IMI Case Studies:



## Engineering advantage - Strategy in action / and Developing growth strategies to become a market leader

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### Introduction

A business will not become the market leader by chance. It takes careful planning to build an organisation that outperforms its competitors. In business, these plans are often called strategies. A business strategy can take many forms. For IMI, a leading engineering business, its strategies focus on growing the business within the niche markets in which it operates.

To become a market leader an organization must gain and sustain a competitive advantage over its rivals. However, achieving competitive advantage is not easy, particularly in global markets. Businesses that do well in these markets need to be able to use their systems, technologies and knowledge effectively across the whole of the organization and respond to local people, cultures and different ways of working.

One such organisation that uses its knowledge and expertise to achieve competitive advantage is IMI. IMI is a global engineering group involving many different engineering specialities. It is recognised worldwide for its innovation, expertise and global service and sells engineering solutions in over 50 countries to match customer needs.

IMI's competitive advantage comes from combining the knowledge and skills of its people with an in-depth understanding of what its customers want and need. IMI's strengths of expertise and innovation differentiate it in the markets it serves.

IMI is a member of the FTSE 100, a list of the 100 largest UK organisations listed on the London Stock Exchange. The Group manufactures products in over 20 countries and has over 15,000 employees worldwide. Its employees focus on creating unique solutions to specific problems. In fact, around 70% of IMI's products are engineered to order.

Its employees' global knowledge and skills are a key factor in its ability to differentiate its offering within a range of different markets including oil and gas, nuclear power and the food and drink industry. IMI's products help its sector-leading customers to become more competitive while enhancing responsible business practice in their specific markets, e.g. by improving efficiency, increasing output or reducing energy usage. IMI calls this Engineering Advantage.

IMI operates in a B2B (business to business) environment, providing tailored products and services to companies. These include large household names such as Chevron, Shell, Volvo Trucks, General Motors, Coca-Cola and McDonalds, as well as smaller niche companies dealing in specialised equipment or building materials.

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## Products and services

The company has a long history of working in valve and fluid engineering technology. It uses this expertise to design and develop products to control the flow of liquids or gases for organisations in a wide range of markets. These include nuclear, oil and gas, medical devices and the food and drink industry. By providing specialized products and services, IMI adds value for customers and helps them, for example, to reduce carbon emissions or improve energy efficiency.



The business spans five areas or ‘platforms’, most of which rely on IMI’s core skills and competencies in valve and fluid engineering:

- Fluid Power – develops precision-engineered valves to control air or fluid flow in many industries. Examples of applications include ventilators and anaesthesia machines; compressed air systems for train door control; and valve solutions for controlling emissions on heavy-duty trucks.
- Severe Service – develops specialised valves to control the flow of steam, gas or fluids in heavy industries such as nuclear, oil and gas, and petrochemicals. These industries require the highest levels of safety, operating in conditions of extreme pressure and temperature.
- Indoor Climate – produces valve solutions for heating and cooling systems to reduce energy consumption, for example, thermostatic valves for radiators or energy efficient heating systems for office blocks such as the Shard in London.
- Beverage Dispense – provides cooling and dispensing equipment for drinks such as carbonated soft drinks and smoothies for retailers, restaurants and hotels.
- Merchandising – develops innovative displays for shops to influence consumer buying decisions.

This case study looks at how IMI has developed its competitive approach of ‘Engineering Advantage’ by combining its skills and knowledge, customer insight and innovation to achieve global market leadership.

## Setting strategy

As suggested earlier, strategies are the long-term plans that a business puts in place to achieve its aims and objectives. IMI’s goal is to achieve market leadership in the global niche markets it serves. A niche market is a relatively small and often highly specialised segment of a market, which has few competing companies supplying it.

There are many different strategies an organisation can choose to achieve its goals. For example, these might include developing new products, growing by acquiring other companies or reducing costs. IMI’s strategy focuses on:

- increasing business in its chosen niche markets
- accelerating growth by investing in new products and emerging markets
- maintaining high operating margins and reducing costs of manufacturing and costs within its supply chain.

Few competitors can provide the specialist knowledge and tailored fluid engineering solutions IMI offers, so it is able to command higher margins for its high quality products and services in its chosen niche markets.

## Mission and goals

IMI's strategies are set to help achieve its mission and goal. A company's mission communicates the organisation's core purpose to its stakeholders. IMI's mission is:

*'To become the most admired engineering solutions company of our size anywhere in the world.'*

A company's goal outlines what it hopes to achieve in the long-term. IMI's goal is:

*'To become the world's leading engineering company in each of the global niche markets we serve and to be admired for our innovation, applications expertise and global service.'*

An organisation's mission and goal provide a framework in which the strategies are created. This case study shows how IMI uses a variety of strategies to grow each platform of its business to work towards achieving its mission and goal.

Each business is different. Strategies are heavily influenced by the business' values. Values outline its behaviours, often referred to as 'the way we do things around here.' An organisation's values underpin all decision-making and play a vital role in setting strategies and goals.

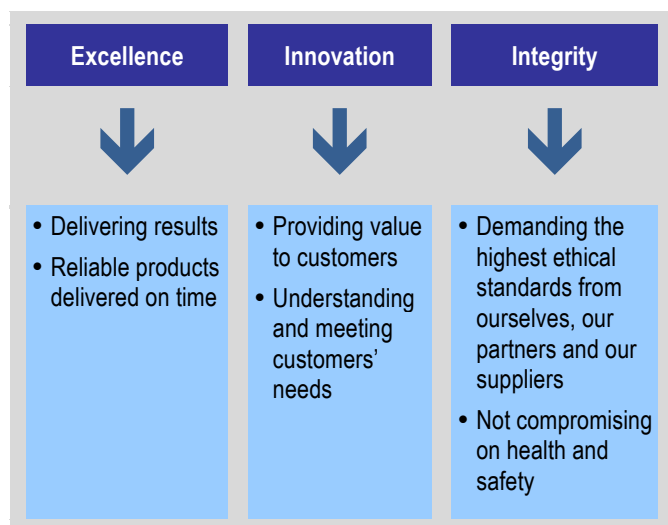
IMI's values are part of its unique selling proposition (USP). A USP is something the company offers that its competitors do not. For IMI, this code of conduct is referred to as 'The IMI Way'. This states that an IMI employee:

*'Pursues excellence and delivers results; innovates and provides value to our customers and acts with integrity.'*

This is true for IMI employees around the world and demonstrates their commitment to doing the right thing for the business and for its customers.

## Internal values

IMI believes in behaving responsibly to all its stakeholders, including its customers, shareholders and employees. Its values of Excellence, Innovation and Integrity guide behaviours of all employees. Values are beliefs shared by those in an organisation which underpin its strategies.



IMI's values translate through its processes to increase the value of its products and services to customers. They also define the high standards for how the business and its employees deal with customers and stakeholders. This commitment to the business behaving in a responsible manner is a critical component of the IMI Way.

## The IMI Way

The IMI Way is an integrated approach across the company and enables the business to achieve sustainability in its management of:

- Health and safety – IMI promotes a strong health and safety culture. This minimises risks to people as well as to communities and the environment.
- Energy efficiency – IMI has an internal commitment to become more energy efficient in developing its products and processes.
- Risk in the supply chain – IMI sources materials and components from many countries.
- To make sure that products are sourced responsibly, it sets out standards for its suppliers as part of its Supply Chain policy. This includes aspects such as minimum working conditions.
- Supporting customers to act responsibly in business – IMI helps its customers to recognise and develop opportunities for sustainability.



### **IMI's Strategy in Action:**



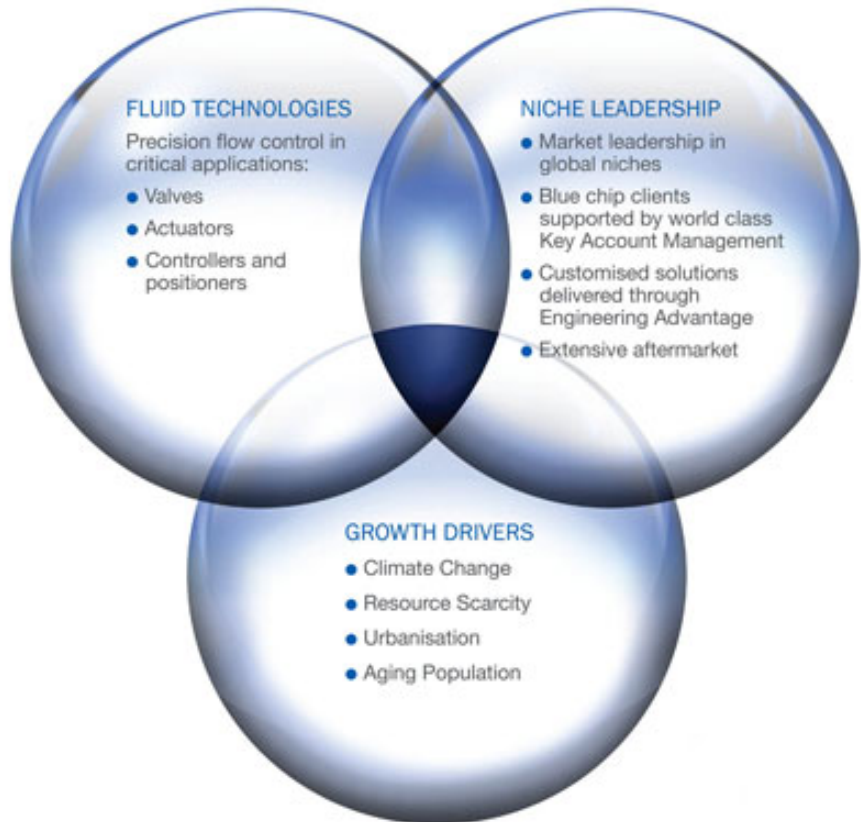
*Kroger is one of the largest US grocery retailers. Sustainability is one of its core values. In 2010 it introduced a new retail service area in which frozen beverages could be served. To support this service they wanted a sustainable frozen dispenser, with high performance and reliability. IMI's expertise produced a final product which reduced energy consumption and wear on components. The LED lighting used in the product provided seven times the life expectancy of traditional bulbs. The effect was to reduce their carbon footprint, eliminate waste and create energy savings of more than 25% over traditional equipment.*

## The IMI 'sweetspot'

IMI's strategy brings together three key aspects:

- its engineering skills in fluid technology and innovation
- its market leading positions in its chosen niche markets
- its exposure to markets which are benefitting from long term structural growth trends such as climate change and urbanisation

IMI calls the point of overlap between these three factors, the ‘sweetspot’. Where these three areas come together is known as strategic convergence. It is an area where IMI expects to achieve clear market leadership, higher profit margins, greater product differentiation, opportunities to meet global trends and to grow. Over half of IMI’s operations are positioned within the strategic ‘sweetspot’ today, with plans to increase this to over 70% over the next five years.



## Strategic convergence

Strategic convergence provides IMI with a clear focus. At the ‘sweetspot’ IMI’s knowledge and skills are delivering products and services that meet long-term customer needs and help to give greater product differentiation. This means offering products which do things competitor products cannot. This enables IMI to attract higher profit margins as well as gaining clear market leadership and creating barriers to entry for other competitors.

This strategy IMI defines as ‘Engineering Advantage’. By understanding the needs of its markets and customers, IMI is able to provide them with customised products and services. This creates customer loyalty and enhances competitive advantage.

## Business competencies

IMI’s technical focus is on the precise and reliable control of gases and fluids. However, to retain its leadership position IMI needs its people to develop business competencies such as:

- Key Account Management (KAM) – which requires highly talented and customer focused people to maintain the company’s in-depth insight into what its markets need.
- Project management – translating the insight offered through KAM into products and services which deliver real commercial advantage for its customers. That advantage could be unique selling features to increase market share or lower supply chain costs.
- Seizing the initiative in emerging economies – IMI invests in emerging economies – areas of the world that are rapidly growing and industrialising such as China, India, Brazil and Eastern Europe. These offer great potential for growth, so IMI needs people with strong commercial skills and local market knowledge to win new business.



IMI's people are a key factor in helping to deliver its strategy and their skills are a core competence for the business. Engineering and technical know-how is important. However, IMI looks for people who also have an entrepreneurial spirit. This mindset helps the company to look for new and creative to add value for customers and the business.

IMI also supports ongoing development of its people in various ways in order to maintain its innovative edge. For example, the IMI Key Account Management Academy not only provides training for employees but also establishes best practice across the Group. This also helps the company to transfer knowledge from one part of the business to another.

## IMI's Growth

Growth is a common goal, also known as a business objective, for many organisations. A business may pursue a growth to increase its market share, improve efficiencies through economies of scale or to increase revenue.

IMI's growth goals focus on the markets where it is, or has the potential to become, the market leader. It uses innovation and its expertise in the four growth drivers to enhance its position in these markets. The benefit to IMI is that the business achieves higher margins (profit once costs are subtracted), greater product differentiation and improved customer intimacy. IMI's objective is to focus on these markets over the next five years. This objective drives all of IMI's investment decisions and supports its goal to grow to become market leader in its niche markets.



## External drivers for growth

### SLEPT analysis

Businesses need to take account of and react to what is happening outside the company – the external environment. These environmental factors may be analysed through the acronym SLEPT. These stand for:

- Social factors – for example, the UK's ageing population is affecting the availability of skills
- Legal factors – regulatory standards or legislation such as Health & Safety might lead to increased training needs
- Economic factors – the current global recession is causing downturn in demand
- Political factors – government initiatives are requiring businesses to address the issues of climate change
- Technological factors – the impact of the internet makes it easier to compare the value of products and services.

These external factors may influence how a business will achieve its strategies. By monitoring the external environment it is possible to identify whether factors represent either an opportunity or a threat to achieving its strategies. IMI has identified four clear global trends within its external environment. These trends are shaping the direction that the business is taking to achieve growth.



## 1. Climate change

IMI has responded to this global issue by developing products to provide cleaner energy as well as helping organisations to reduce their energy consumption.

*IMI is supplying severe service valves into a number of major liquefied natural gas projects (LNG) in Australasia. The demand for LNG has been growing because gas is a much cleaner fuel to use for power generation than coal. IMI has a market-leading position in applications such as anti-surge valves. These valves have to be able to provide very precise control at very low temperatures down to minus 162°C.*

## 2. Resource scarcity

There is a global need to manage resources such as water and energy more efficiently in order to ensure sustainability. IMI is developing a range of engineering solutions to manage the use of energy, water and waste more efficiently. IMI's innovative engineering has also developed ways of controlling building environments.

*In France IMI has developed the country's first 'energy positive' building which produces more energy than it consumes. IMI's technical skills in valve and fluid control have produced a new pressurisation and heating control system. This allows the building owner to control the temperature of each room depending upon heating requirements. This not only gives better comfort to users, but the building has been designed to reduce energy consumption by 65% compared to buildings constructed under current standards of regulation.*

## 3. Urbanisation

The rapid urbanisation taking place around the world, particularly in emerging markets such as China, requires significant investment in mass transit infrastructure. This is to ensure that the rapidly expanding urban population have reliable transport options to enable them to travel easily around the cities and, of course, to work.

*CSR Zhuzhou in China services main line electric locomotive trains. They required a new type of pantograph (the equipment which links the train to the overhead electricity cables) as their existing pantograph could only cope with speeds of up to 200km per hour. IMI's subsidiary, Norgren, was able to create a new pantograph which could operate effectively at 400km per hour in addition to coping with temperature fluctuations from - 40°C to +80°C – without affecting performance. The new technology and design not only met the high standards of the Chinese Ministry of Rail, but also effectively utilised both standard and bespoke Norgren technology to set it apart from the competition.*

## 4. Ageing population

IMI's technical expertise is also used to support many different types of medical equipment. As the global population is living longer, more support is needed to keep people healthy. IMI is delivering specialised products to support this.

*Shenzhen Mindray Electronic Co Ltd is a developer of medical devices for patient monitoring in China. The company needed a regulator to control the flow of inlet gas for a life support ventilator. This had to meet very strict size dimensions and performance specifications. IMI's new regulator is 15% lighter and 20% smaller than those previously available, which makes the device more portable and convenient. The new regulator is also 60% quicker to assemble and is 10% cheaper than previous models. This has enabled Mindray to supply more ventilators across China and the world and meet the increasing need for life support systems.*

## Organic growth

One method used to grow a business is organic growth, sometimes called internal growth. Organic growth occurs when a business grows by selling more products or services. Ansoff's matrix outlines four ways this can be achieved:

- market penetration – selling more of its products to existing customers
- market development – selling its products to a wider market, either at home or abroad
- product development – increasing the product portfolio by selling new products or services to existing markets
- diversification – selling new products or services to new markets.

Organic growth is a long-term strategy. It is a lower risk than inorganic growth as it is building on the company's strengths to increase sales. For IMI, growth of each of its five platform businesses is driven by:

- innovation
- new product development
- market development – seeking opportunities in a variety of emerging markets.

## New product development (NPD)

IMI seeks to maximise organic growth opportunities by focusing its innovative new products on the four growth drivers. IMI's strategy for growth has seen increased investment in new product development, as well as sales, to increase exposure to the higher growth emerging markets. For example, IMI's Severe Service division has experienced growth in emerging economies such as Argentina where its market-leading control valve technology gained new customers in the oil and gas industry. Using IMI's technology, Pan American Energy eliminated high vibration and poor fluid control in its water injection control valves and pumps, avoiding expensive shutdowns and maintenance costs.



In recent years climate change has been a key growth driver for IMI's Severe Service division in a variety of markets. For example, in Spain IMI worked on 'Andasol 1', Europe's first trough commercial power plant. The plant supplies environmentally-friendly solar electricity for up to 200,000 people using steam powered turbines. IMI engineered valves to control the flow of steam, eliminate the emission of greenhouse gases and improve efficiency.



New product development also drives IMI's organic growth in all divisions. For example, IMI's Beverage Dispense division engineered a premium juice dispensing unit for McDonalds. Focusing on the ageing population and climate change growth drivers, this new product has the capacity to double the existing number of juice brands McDonalds can offer, giving customers greater choice of healthy beverages. The unit helped McDonalds' sustainability goals by using hydrocarbon to reduce negative impact on the environment and LED lighting to reduce power consumption.

IMI's organic growth, in each of the five platform businesses, is a result of carefully planned strategies and the expertise of its global workforce to deliver innovative solutions to the challenges facing its customers.

## **Inorganic growth**

Inorganic, or external, growth is another method used to grow a business. The main sources of inorganic growth come from mergers and acquisitions with other businesses. A merger is when two companies join together to create a new company. An acquisition is where one company buys another company which it then controls.



Although a much faster method of growth than organic methods, inorganic growth carries greater risks. It is often very expensive to buy a business, even if the business being acquired is in financial trouble. Acquisitions must be carefully planned to ensure the venture is viable. If acquiring a business that strays away from the organisation's core competencies it must ensure it has the skills and knowledge required to run the business profitably. When analysing an acquisition, it is essential to recognise that a business is not just purchasing tangible items such as employees, stock and buildings, but also non-tangible ones such as reputation, intellectual property, liabilities and goodwill. Once an acquisition has been finalised the process of integration must be carefully managed so that a smooth transition takes place without a loss of value in the acquired company.

## Acquisitions

Carefully planned acquisitions are key to IMI's growth. IMI focuses its acquisitions on companies that are complementary to its existing businesses and will help it achieve its mission and goal. This involves acquiring companies that are leaders in their respective fields to strengthen IMI's market share. Two examples are IMI's Severe Services platform acquisition of German industrial valve maker Zimmermann & Jansen in 2010 and the leading Italian engineering business Remosa in 2012. These enabled IMI to become the leader in custom engineered valve and control solutions for critical in-plant processes. Both companies operated in power generation and oil and gas, industries in which IMI already had a wealth of expertise. They also gave IMI a strong presence in emerging markets, including South America and Asia, where Remosa, for example, was already highly active.

Another example of inorganic growth is IMI's acquisition of InterAtiva in 2012, a Brazilian isolation valve business serving various end markets including oil and gas and water treatment. This acquisition also supports IMI's market development strategy. InterAtiva had strong customer relationships in Brazil so IMI has been able to increase its customer base and presence in this core emerging market.

## Measuring growth

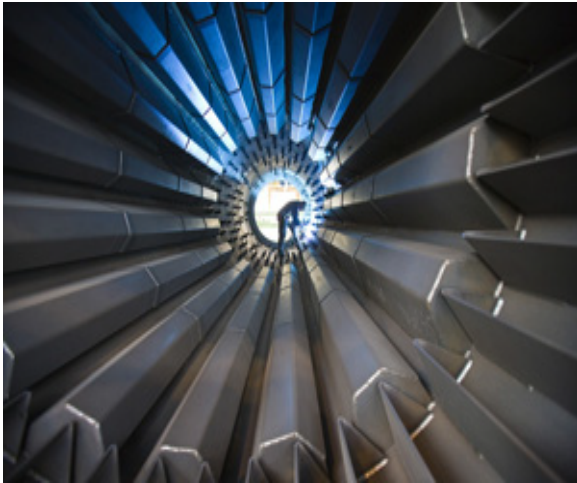
Organisations can measure growth in a variety of ways. For example, growth can be measured against revenue, profit, market share or the number of geographical markets in which a company operates. Comparisons can then be made between this data and data from previous years to determine if its aims and objectives have been achieved. IMI measures growth against its goal to be the global leader in each of its niche markets. IMI monitors its global competitors to determine whether it is the market leader.

IMI sets growth objectives at a Group level as well as for each of its divisions. The annual results enable IMI to measure the percentage of growth in each division, both organic and inorganic growth, to ensure objectives have been achieved. For example, in 2012, IMI's organic and reported revenues rose 3% to £2.19 billion. IMI's Severe Service revenues, boosted by the Remosa and InterAtiva acquisitions, were up 20%. The results also demonstrated that IMI achieved strong growth in emerging markets with a 24% increase in revenue in 2012 and organic growth up 14%. This information is used by IMI senior managers to determine growth trends and to set future growth goals and objectives.

Alignment of these objectives is key for IMI to meet its target to invest the percentage of revenue from new product development, and to achieve a corresponding increase in investment in research and development.



# Conclusion



By using a powerful combination of knowledge, skills and market insight enables IMI not only to develop innovative solutions for its customers, but also to create a competitive advantage.

IMI's strategy of Engineering Advantage enables IMI to support its customers in niche markets across the globe in a responsible way. It brings together the company's values, expertise and knowledge in order to meet the challenges of the global drivers it has identified. Its strategy brings together its people and processes to maximise the capabilities of the business, provide more value for customers and make the organisation distinctive.

IMI's growth is driven by market and product developments that focus on its long-term goals. Using the global expertise of its workforce, IMI is able to develop innovative solutions for the challenges faced by its customers. These challenges are driven by IMI's growth drivers; climate change, resource scarcity, urbanisation and ageing population.

IMI has a five-year map of its new product developments. This map allows the company to identify opportunities to increase market share as well as market development opportunities in sectors where the company already has knowledge and expertise. Alongside organic growth, IMI's well targeted acquisitions strategy aids the achievement of its goal to be the market leader in the niche markets in which it operates.

