How Nelo’s image is perceived in Germany

–An empirical investigation amongst their agents–

The authors:
Alisa Bektesevic
Grace Oloya
Tom Schöblom
How Nelo’s image is perceived in Germany
~An empirical investigation amongst their agents~
June 8, 2009

Alisa Bektesevic
Grace Oloya
Tom Schöblom

Abstract

Title: How Nelo’s image is perceived in Germany - An empirical investigation amongst their agents

Authors: Alisa Bektesevic, Grace Oloya and Tom Schöblom

Supervisor: Per Nordqvist

Date: June 8, 2009

Key words: Nelo, German furniture market, Segmentation, Positioning, Branding

Background: Germany is the biggest furniture market as well as the highest per capita spender of furniture in Europe. Nelo is a SME (Small and Medium Enterprise) Swedish family owned company that manufactures high-end chairs and sofas with unique design. Their products are sold in several countries. Not until recently they have started to sell their products in Germany. Being a SME wanting to succeed on the German market could be challenging since the market is a tough one to enter.

Purpose: The purpose of this research was to investigate how the German market is segmented and what the German consumers perceive of Nelo’s positioning by assessment of what the Agents corroborate. The insights derived from it points out if Nelo’s image is rightly perceived in the German market.

Method: In this paper a qualitative approach is used. Data collection method used was both interviews and documentation. Telephone interviews were conducted with three different agents operating in southern Germany. The secondary data the authors used were articles and books. Since it is a research based on a qualitative approach, the theories and the findings will be synthesized to make implication regarding the study.

Conclusion: The investigation has shown that the target segment for Nelo in Germany are the middle to high income group in the age 40+, but it is shown that the products offered by Nelo don’t attract this segment in southern Germany. Though product quality is good the design and material used, does not fit with the target customer rendering the brand unknown. Nelo is not well positioned in the target market because it has not been successful in communicating a clear image. To conclude Nelo’s position is not consistent with their image.
Abstrakt

Titel: Hur upplevs Nelo’s image i Tyskland – en empirisk undersökning bland deras agenter

Författare: Alisa Bektesevic, Grace Oloya och Tom Schöblom

Handledare: Per Nordqvist

Datum: Juni 8, 2009

Nyckelord: Nelo, Tyska möbelmarknaden, Segmentering, Positionering, Branding


Syfte: Syftet med denna forskning är att undersöka hur den tyska marknaden är segmenterad och hur de tyska konsumenterna upplever Nelo’s position genom att utvärdera vad deras agenter kan bekräfta. Kunskaperna som erhålls från detta påvisar om den tyska marknadens upplevelse utav Nelo’s image är korrekt.


Slutsats: Undersökningen har visat att Nelo’s målgrupp på den tyska marknaden är medel- och höginkomsttagare som är 40 år eller äldre, men att denna grupp i södra Tyskland inte finner Nelo’s produkter tilltalande. Även fast produktkvaliteten är bra tilltalar inte produktternas design och material, vilket leder till att märket Nelo är okänt. Nelo är dåligt positionerat på den tyska marknaden eftersom de inte har lyckats att kommunicera en tydlig image. Slutsatsen är att Nelo’s positionering inte överensstämmer med deras image.
# Table of Contents

1. Introduction .................................................................................................................. 1
   1.1 Background .............................................................................................................. 1
   1.2 Problem discussion ................................................................................................. 2
   1.3 Problem statement ................................................................................................. 3
   1.4 Purpose .................................................................................................................. 3
   1.5 Target audience ..................................................................................................... 3
   1.6 Delimitation ............................................................................................................ 3
   1.7 Reference system ................................................................................................... 3
   1.8 Definitions .............................................................................................................. 4
   1.9 Disposition ............................................................................................................. 5

2. Company information .................................................................................................... 7

3. German furniture market ............................................................................................. 9
   3.1 Products .................................................................................................................. 9
   3.2 Major players ......................................................................................................... 10
   3.3 Distribution Channels ........................................................................................... 11
   3.4 Showrooms ............................................................................................................. 11
   3.5 Consumption patterns ............................................................................................ 12
   3.6 Trends and fashion ................................................................................................. 13
   3.7 Material and color .................................................................................................. 14
   3.8 Services .................................................................................................................. 15

4. Research Model .......................................................................................................... 16

5. Method .......................................................................................................................... 17
   5.1 Choice of Topic and Research Area ......................................................................... 17
   5.2 Research approach ................................................................................................. 17
   5.3 Research strategy ................................................................................................. 18
5.4 Chosen theories .................................................................................................................. 19
5.5 How the data was presented and analyzed ................................................................. 19
5.6 Choice of collecting data ............................................................................................... 20
  5.6.1 Primary data .............................................................................................................. 21
  5.6.2 Secondary data .......................................................................................................... 22
5.7 Validity and reliability ..................................................................................................... 22

6. Theoretical framework ....................................................................................................... 23
  6.1 Segmentation ................................................................................................................... 23
    6.1.1 Demographic Segmentation .................................................................................. 24
    6.1.2 Geographic Segmentation .................................................................................... 25
    6.1.3 Psychographic Segmentation .............................................................................. 25
    6.1.4 Behavioral Segmentation ..................................................................................... 25
  6.2 Positioning ..................................................................................................................... 26
    6.2.1 Points-of-Difference (POD) and Points-of-Parity (POP) ...................................... 28
    6.2.2 Choosing POPs and PODs .................................................................................... 28
    6.2.3 Re-Positioning ....................................................................................................... 28
  6.3 Branding ........................................................................................................................ 30
    6.3.1 The role of Brands ............................................................................................... 30
    6.3.2 Brand equity ......................................................................................................... 31

7. Empirical investigation ........................................................................................................ 32
  7.1 Segmentation ................................................................................................................... 32
  7.2 Positioning ..................................................................................................................... 33
  7.3 Branding ........................................................................................................................ 34

8. Analysis ............................................................................................................................... 36
  8.1 Segmentation ................................................................................................................... 36
    8.1.1 Demographic Segmentation ................................................................................. 36
    8.1.2 Geographic Segmentation .................................................................................... 37
    8.1.3 Psychographic and Behavioral Segmentation ...................................................... 38
How Nelo’s image is perceived in Germany

An empirical investigation amongst their agents

June 8, 2009

Alisa Bektesevic
Grace Oloya
Tom Schöblom

8.2 Positioning ...................................................................................... ...................................... 39
  8.2.1 Points-of-Difference (POD) and Points-of-Parity (POP) ......................... 40
  8.2.2 Choosing POP: s and POD: s ............................................................... 41
  8.2.3 Re-Positioning ................................................................................. 41

8.3 Branding .................................................................................................. 42
  8.3.1 Brand equity .................................................................................... 43

9. Conclusions ......................................................................................... 44

10. References .......................................................................................... 46

11. Appendix ............................................................................................ 49
List of figures:

Figure 1: Financial statement and Key figures ...................................................................................... 8
Figure 2: Distribution in Germany ........................................................................................................... 10
Figure 3: Research model ....................................................................................................................... 16
Figure 4: Positioning map ....................................................................................................................... 29
1. Introduction

With this chapter the authors will present the introduction to the topic of the thesis which deals with segmentation, positioning and branding in an international context. The company chosen will be introduced briefly as more information will follow later in the company information. The reader will also be provided with the problem statement, the purpose and the discussion surrounding it. The following chapter, background, is taken from a previous work done by two of the authors of this thesis, Alisa Bektesevic and Grace Oloya.

1.1 Background

International marketing is the performance of the business activities that direct the flow of a company’s goods and services to consumers or users in more than one nation for a profit. The difference between domestic marketing and international marketing is that the marketing activities take place in more than one country (Ghauri & Cateora, 2005, p. 8). Firms often internationalize either when the home market has been saturated or when the home market is not big enough to generate profits. Most Swedish firms have been dependent on international trade for a very long time. This due to the small home market which today consist of about 9,2 million inhabitants. Germany has for decades been Sweden’s biggest export market in terms of value (SCB, 2002) and it still remains favorable due to EU laws, similarities in culture, population and it is geographically close to Sweden. Furthermore Germany is Europe’s largest economy consisting of 16 states (Bundensländer) and the second most populous nation in Europe with about 82 million inhabitants (The world factbook, 2008).

Germany is a very favorable country for furniture producers wanting to export and sell their furniture since it is the most important and largest market for domestic furniture in Europe (Market Enhancement Department, 2007, p. 4). It is also one of the largest producers of furniture in Europe (Jonas, 2003) whereby approximately 60% of all domestic sales is dominated by big buying groups. This in turn gives these big groups a very powerful position on the German retail market thus making it hard for other small companies to make it. Not only is it the biggest furniture market in Europe but Germany is also the highest per capita spender of furniture in Europe (The German furniture industry in a global context, n.d). It is also a very price sensitive country and one of the lowest priced countries in Europe. The disposable income plays a major role in the consumers’ expenditure on furniture where the key requirements when purchasing furniture are sound quality and sustainability of the furniture. Even though quality plays a vital role in the purchase, price however remains very crucial in the buying decision (Domestic furniture in Germany, 2004, p. 6-7).

Nelo is a SME (Small and Medium Enterprise) and a Swedish family owned company that first manufactured high-end chairs. They have been in the business since 1974. The company has since grown to include a collection of chairs and sofas. Their products are sold in countries such as France, Spain, Denmark, and United Kingdom but also in the USA. Nelo’s main office and showroom is located in the south of Sweden whereby handcrafted comfortable seating and
The unique design is what sets them apart from other competitors. Its products are assembled in its plant in southern Sweden. Their products are of high quality leather, wood, and steel that can cost from 12,000 SEK up to 30,000 SEK (Interview with Tommy Nyberg, 2008). Not until recently have they started to sell their products in Germany.

Being a SME wanting to succeed on the German market could be challenging since the market is a tough one to enter. Therefore, it is important for SMEs to take various factors into consideration if they are to have a chance of succeeding on the German furniture market. Segmentation, positioning, and branding are three factors a company can use in order to occupy a distinctive place in the mind of the target market.

1.2 Problem discussion

Since the German market is crowded with numerous furniture producers sold mainly and dominated by the large retail groups, this makes it very difficult for small enterprises from other countries to make it on the German market. Not only have these groups established a strong foothold in the German market but they also have products that reach wide customer groups with different needs and wants. Therefore, the size and the companies' strength are two important features one must have in order to succeed on the German market. However, SMEs wanting to enter the German market must distinguish themselves as unique and creative in a niche market. Therefore, it is important to find out what kind of customers with different needs exist in order to decide which one to target and serve. Like that, the company can specialize in meeting the needs of a specific group of customers which tends to be more profitable than trying to serve everybody.

Targeting a specific customer group in the German furniture market becomes of vital importance since the big buying groups have managed to cover a large size of the market. It will thus be more difficult to appeal to a segment that is already well served than to one whose needs are not currently being well served. Therefore, it is important for small companies (SME’s) to differentiate themselves in the German market if they are to succeed. Therefore, if a company is positioned well on the market it will have a chance to stand out from the rest of the crowd. In other words, it becomes of vital importance that the process of positioning is done in such a way that the firm’s offerings will appeal to the target customer. This is essential because it gives a company the opportunity to convince customers to believe that the marketer’s offerings are different from its competitors.

Since the German market is crowded with many furniture producers and retailers, the end consumer is most likely not to be familiar or remember the brand name of the furniture manufacturer (Jonas, 2003). Therefore, the use of “branding”, which in other words means developing and building a reputation of a brand, is therefore needed. This is important because creating a brand image in the minds of the target customers will in turn enable them to distinguish the company’s brand from another furniture producing company. The key here is to make the consumers not think that all brands in the category are the same. Therefore, building a good reputation of a brand that stands out from the crowd and that customers remember becomes important on the German furniture market. This leads to the strategic question.
1.3 Problem statement
How is the German market segmented, and is Nelo’s position on the market consistent with their image?

1.4 Purpose
The purpose of this research was to investigate how the German market is segmented and what the German consumers perceive of Nelo’s positioning by assessment of what the Agents corroborate. The insights derived from it points out if Nelo’s image is rightly perceived in the German market.

1.5 Target audience
This paper is mainly written for the management of Nelo. It will give them an insight of the overall German furniture market and factors surrounding operation in foreign markets. This in turn can provide them with valuable information that could be considered suitable in their decision regarding positioning and branding with activities particularly in the German market. What needs to be considered and done surrounding these issues and if adjustments are needed in the German market or not, will be provided in this paper. The paper could provide insights for other furniture producing SMEs facing similar situations.

1.6 Delimitation
The scope of this paper will cover assessment of what the agents describe as being the consumer’s perception of Nelo. Since the investigation involves only interviewing three agents and not the consumers, it will be a limited empirical investigation. Nevertheless, the authors consider it to give a good picture of the market as the agents are in contact with the market and have good knowledge. However, the three agents’ interviewed are located in the southern Germany. This approach is used because it is equally viable and provides the required information. This will allow the thesis to be completed within the time frame while providing minimum constrains on collecting data, since it involves a foreign market. The authors are confident that the empirical data needed for the research can be achieved through this approach.

1.7 Reference system
The reference system used in this paper is the American Psychological Association (APA) system which is a policy of the institute (School of Sustainable Development of Society and Technology) as well as a system that is commonly used for business and management studies. Using the Harvard system means work is cited in-text where the surname of the authors are given first followed by the year of publication of the information and the page number (if the information can be located on a particular page) for example; (Burns, 2001, p. 15). Lastly, an alphabetical list of works referred to is given at the close of the text, which includes full details of all the in-text citations and its publication (Fisher, 2004, p. 268-9).
1.8 Definitions

*Brand* = a name, term, signs, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors (Kotler & Keller, 2006, p. G1).

*Brand equity* = the added value endowed to products and services (Kotler & Keller, 2006, p. G1).

*Brand Image* = the perceptions and beliefs held by consumers, as reflected in the associations held in consumers memory (Kotler & Keller, 2006, p. G1).

*Branding* = endowing products and services with the power of a brand (Kotler & Keller, 2006, p. G1).

*Competitive advantage* = a company’s ability to perform in one or more ways that competitors cannot or will not match (Kotler & Keller, 2006, p. G2).

*Market segmentation* = is the division of a market into different groups of customers with distinctly similar needs and product/service requirements (Baines et al. 2008, p. 217).

*Niche markets* = a narrowly defined customer group seeking a distinctive mix of benefit (Kotler & Keller, 2006, p. 242).

*Positioning* = the act of designing a companies offering and image to occupy a distinctive place in the mind of the target market (Kotler & Keller, 2006, p. 310)

*Target marketing* = breaking a market into segments and then concentrating your marketing efforts on one or a few key segments (Ward, n.d).

*VALS system* = it is a framework that classifies US adults into eight primary groups based on personality traits and key demographics (Kotler & Keller, 2006, p. 252).
1.9 Disposition

A general overview of the thesis continues after the Introduction with the following chapters:

- **Chapter 2**
  *Company information*
  
  In this chapter background information is provided about the chosen company (Nelo) to be investigated and the products they produce and sell. This part mainly consists of primary data from an interview conducted with the CEO of the company.

- **Chapter 3**
  *German furniture market*
  
  Here an overall view of the German furniture market is described and presented. Topics such as products, major players, distribution channels, showrooms, consumption patterns, trends and fashion, material and color and finally services could be found here. The data presented here is mainly secondary data collected from articles and the internet.

- **Chapter 4**
  *Research Model*
  
  Here the research model is presented with a drawn figure that shows the general overview and the main topics to be covered in this thesis. A brief description of the figure could also be found in this section.

- **Chapter 5**
  *Method*
  
  In this chapter the authors have thoroughly described the process and the choices made in the completion of the paper. Questions concerning why, how and what was done are answered in this chapter. In other words how information was collected and why certain choices were made (chosen theories, research approach, data analysis, data collection etc.) are explained here.

- **Chapter 6**
  *Theoretical framework*
  
  Here the authors have presented the most relevant and appropriate theories for this particular paper. It mainly covers and explains three theories as followed; segmentation, positioning and branding.

- **Chapter 7**
  *Empirical investigation*
  
  In this chapter data from the interviews conducted is presented.
Chapter 8
Analysis

Here the collected data, both primary and secondary data, is analyzed with help of the chosen theories.

Chapter 9
Conclusion

In this chapter the authors draw the conclusion from the analysis and try to answer and fulfill the purpose of the thesis.

Chapter 10
Reference

An alphabetic list is given which includes full details of all the in-text citations made throughout the thesis.

Chapter 11
Appendix

In this chapter interviews conducted with questions are presented here.
2. Company information

In this section the authors will present background information about the company to be studied and analyzed. The whole chapter is taken from a previous work done by two of the authors of this thesis, Alisa Bektesevic and Grace Oloya.

“There is something about original design – something that is intangible and very difficult to create. NELO was founded on such a design (Company, n.d)”

Nelo is a small medium size (SME) company with its base in south Sweden where it also has its main office and showroom. It is a public company that was started in 1974. Nelo has eleven employees and they had a turnover of 26, 7 MKR in 2007 (see figure 1) and 30 MKR in 2008 thus showing turnover growth. The company has a production plant in southern Sweden where it specializes in assembling leather furniture, mainly chairs and sofas. Material used in their products is purchased from abroad whereby the end product is assembled in Sweden and afterwards exported to other countries. Other material that is used in the production of furniture is high quality wood and steel (Interview with Tommy Nyberg, 2008). Nelo has for 30 years continuously designed, developed and marketed unique chairs of supreme comfort. Their outstanding space efficient chair allows your body to relax completely in absolute comfort (Company, n.d). The market segment that is occupied by Nelo is the up-scale segment (Interview with Tommy Nyberg, 2008).

The products they produce are unique and are of high quality which demands premium price. The products are made for customers who are both design conscious and value comfort. Nelo exports around 94,5% of its products to west Europe and to the USA. According to the marketing manager this is because Nelo’s products are not attractive for the Swedish market. The Swedes prefer products from IKEA, Svenska hem, Mio etc. Nelo’s furniture is found in 300 outlets in 30 different countries. In London (UK) the furniture is found in stores like Harrods, which is a store that demands premium price (Interview with Tommy Nyberg, 2008). The chair named Kroken that’s designed by Åke Fribyter remains the company’s bestseller. The chairs produced by Nelo can easily become the favorite place to watch TV, read or just relax in, that’s why the chairs are most often sold in pairs with footstool as complement. The chairs sold by the company matches well with Nelo’s sofas as well with the sofas one already has at home. Nelo designs come with prime leather up-holstering where other options are also available. Åke Fribyter, Erik Marquardsen and Takasi Okamura are well-known designers that also are the present designers at Nelo. Swivel base, reclinebale back, adjustable head-rests, built in massage systems and side trays are extra features that come with many of Nelo’s chairs. On every chair comes a metal signet that indentifies the brand and thus guaranteeing the workmanship invested in it (Company, n.d).
The pricing strategy that is employed by Nelo is premium pricing. The company is not trying to sell to everyone, but focuses on a target group that is willing to pay the price for the comfort and sophistication offered by the products. The value added to the product warrants a premium price. The chairs and sofas they sell can cost from 12 000 to 30 000 SEK (Interview with Tommy Nyberg, 2008).

Regarding the distribution of its products, the company does not own its own stores but work with agents that collaborate with different outlets in the countries that they export to. It is via this way that the products get to the final consumer. The company has close contact with the agents and long-term relations which ensure stability in the market activities in the different countries (Interview with Tommy Nyberg, 2008).

Through the outlets the company carries out its promotional activities in form of catalogs and brochures. Advertisement is only limited to the outlets such that is the point on sales that is considered necessary to communicate to consumers. The company also has its homepage that provides pictures of the products and product information in four different languages. The website is currently under upgrading to ensure that it is user friendly and attract more customers to visit it. This will eventually when completed become one of the main platform to reach consumers. After sales services and guarantee which is six years for the products is offered through the outlets (Interview with Tommy Nyberg, 2008).

<table>
<thead>
<tr>
<th>Financial statement and Key figures</th>
<th>2007-12</th>
<th>2006-12</th>
<th>2005-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employees</td>
<td>11</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Turnover (SEK)</td>
<td>25 723</td>
<td>21 710</td>
<td>24 939</td>
</tr>
<tr>
<td>Res. e. financial items (SEK)</td>
<td>1 564</td>
<td>1 793</td>
<td>1 477</td>
</tr>
<tr>
<td>Net Income (SEK)</td>
<td>1 394</td>
<td>683</td>
<td>1 052</td>
</tr>
<tr>
<td>Total assets (SEK)</td>
<td>14 850</td>
<td>14 283</td>
<td>12 215</td>
</tr>
<tr>
<td>Profit margin</td>
<td>7,88 %</td>
<td>8,48 %</td>
<td>8,99 %</td>
</tr>
<tr>
<td>Cash Liquidity</td>
<td>124,18 %</td>
<td>133,51 %</td>
<td>112,85 %</td>
</tr>
<tr>
<td>Solidity</td>
<td>47,66 %</td>
<td>44,02 %</td>
<td>43,06 %</td>
</tr>
</tbody>
</table>

Figure 1: Financial statement and Key figures
3. German furniture market

In this section, a general study of the German furniture market is presented. The authors find this important since the authors believe that to be able to analyze the answers collected in the interviews according to the subject of the thesis the authors therefore need a basic knowledge of the German furniture market. The authors will review products, major players, distribution channels, showrooms, consumption patterns, trends and fashion, material and color and finally services. The whole chapter is taken from a previous work done by two of the authors of this thesis, Alisa Bektasievic and Grace Oloya.

In Europe Germany is the largest and the most important market for domestic furniture, accounting for 22% of all sales. In 2005 sales totaled €17,036 million (Market Enhancement Department, 2007, p. 4). Germany is also one of the largest producers of furniture in Europe (Jonas, 2003). Looking at the import climate for furniture one can see it as an attractive one. Furniture valued at €6, 9 billion was imported by Germany in 2006. This was an average annual increase in value of 2.2% since 2002 (CBI Market Survey, 2007, p. 1). This also makes Germany the largest importer of domestic furniture followed by UK and France (Market Enhancement Department, 2007, p. 4). As compared to previous years, the growth in 2006 was at its best performance. In the past five years the consumer expenditure on furniture has been relatively low (CBI Market Survey, 2007, p. 1). German consumers however spend substantially more money on furniture than the average consumer in Europe. On an average €500 was spent per year on decorating homes whereby €360 of this was spent on new furniture. This in turn makes Germany the highest per capita spender of furniture in Europe (The German furniture industry in a global context, n.d). A third of all imports in Germany came from the most important suppliers, Poland and Italy. Imports exceeded exports by 34% in value and by over 80% in volume. This only shows the importance of imports in the market (Market Enhancement Department, 2007, p. 4).

3.1 Products

The domestic furniture can be divided into several major product groups such as upholstered furniture (armchairs, sofas, footstools, recycling chairs, couches, seating elements upholstered with leather etc.), furniture parts (parts of furniture or seating including semi-finished furniture) kitchen furniture, dining and living room furniture and bedroom furniture (Domestic furniture in Germany, 2004, p. 1).

Furniture parts are the largest product group of imports in Germany. In 2005 this group represented 40% of all imports. The second largest group is the upholstered seating. This product group was valued at €1,059 million in 2005 also representing 17% of the imports. Due in part to the increase in home cinema has lead to boosted growth in this product category (Market Enhancement Department, 2007, p. 4). This group also represents 25.4% of the market.
in Germany. In EU, Germany and UK are the largest upholstered furniture markets. The upholstered furniture segment grew by 3% between 2005 and 2006 along with the total German furniture consumption from €4,648 to €4,791 million. Combining furniture, new styles in finishing fabrics with trendy patterns are helping to stimulate sales (CBI Market Survey, 2007, p. 2). 40% of all upholstered furniture sold in Germany is made of leather (Jonas, 2003). The sales in the upholstered furniture product group saw a decline by 7.2% from January to May in 2008. This is partly due to the intense pressure from low-wage countries (Germany - Cosy zones in lavender and leather, 2008).

3.2 Major players

The distribution of furniture in Germany comes in fairly large units. Buying groups are the dominant trade channel in the furniture distribution. These buying groups account for approximately 60% of all retail sale of domestic furniture. They also purchase and provide other products and services which in turn give them a powerful position on the German retail market. The top five buying groups are Begros, Europa Möbel, Union, VME, and Atlas. Big buying groups have a very powerful position over the market, as one can see in figure 1. Size and strength of retailers such as IKEA, the market leader in Germany and Moebel Walter becomes of vital importance because small independent retailers are continuing to close down (Market Enhancement Department, 2007, p. 4-5). These independent showrooms and retailers have their own distribution network and different marketing concepts and are in the minority (Jonas, 2003). This in turn makes it difficult for exporters from other developed and developing countries to enter the market via this distribution channel.

Figure 2: Distribution in Germany
In the last few years Germany has suffered economically whereby the furniture market has been badly affected. This has lead to prices dropping and a number of retailers have gone bankrupt. Being a country that charges relatively high furniture prices, Germany is now one of the lowest priced markets in the EU (Market Enhancement Department, 2007, p. 4-5).

### 3.3 Distribution Channels

A study was conducted by the German research and consulting firm called Titze GmbH on past, current and future distribution channels for furniture in Germany. It tracks patterns from 1997 and forecasts up to 2010. The study forecasts a shift away from the classical sales, through furniture trade and showrooms, to new furniture distribution channels. This including mail order business, internet and e-commerce, virtual furniture purchase, TV shopping, direct sales and factory outlets. A growth from 8.1% market share in 2000 to more than 20% in 2010 is estimated to occur in these new areas of sales and distribution. This will come at the expense of the classical furniture trade whose market share in 2000 of 84.7% will drop to 69.8% in 2010 (Jonas, 2003).

It is however still possible to sell limited and highly defined furniture such as upholstered furniture through independent agents or distributors. Something that’s not possible for other segments. These distributors are most often structured by geographic regions and the furniture segments they are selling in Germany. Since distributors have to specialize in a few furniture items or styles makes it thus harder to find good distributors. The profit margins are very limited for both the furniture trade and the furniture manufacturer. However, high-end furniture requires classical distribution channels such as showrooms (Jonas, 2003).

The average customer or end-user of furniture will most likely not be familiar with the manufacturer’s name and the outlets where goods may be purchased. As more Germans are using the internet to pre-select furniture it in turn becomes more and more necessary for manufacturers to create a web site for their products and point on sale dealers. Brands that are unknown to the German consumer are very difficult and expensive to market. Additionally, very few companies have the resources to set up their own showrooms in Germany (Jonas, 2003).

### 3.4 Showrooms

According to experts Germany has the largest furniture showroom in term of total space share. It also has more than 22 million square meters of sales space. This overcapacity in term forces retailers to grow with competition. Showrooms in Germany keep on expanding in size. Due to the marginal price policy hinders medium-sized and smaller showroom to compete on volume. They in turn compete by offering special service which the big retailers are less able to provide. Net profits have fallen radically for both the manufacturer and the retailers. The distance between competitors is not large thus indicating oversize showrooms. In Germany around
12,000 showrooms of various sizes could be found. The largest retailers however accounted for more than half of all furniture sales in 2001 (Jonas, 2003).

### 3.5 Consumption patterns

In a research conducted in 2001 for the Confederation of German Woodworking and Furniture Industries by Allensbach Institute for Opinion Research showed that Germans would like to purchase more furniture despite the fact that Germans have the highest per capita consumption. 27% of the people interviewed would like a new sofa, 25% a new bathroom, having a new kitchen was up to more than 20%, 19% wanted a new TV-armchair and 16% wish to have a new walk-in-wardrobe thus indicating an ongoing demand in all segments. The study also showed that the main reason for buying new furniture was due to dissatisfaction with the currently owned one. Statistically the German household replaces sofas every eight year. Additionally, 20.41 million people in Germany set money aside for the purchase of new furniture. Consumers were also classified according to age groups were 49% in the 16-29 years age group would like to buy furniture, 44% represented the age group of 30-44, 31% in the 45-59 group and those 60 years and up represented 14% (Jonas, 2003). Younger people buying furniture at low price furniture stores has shown tremendous growth in 2002. Stores offering trendy furniture at a low price such as IKEA as well as other furniture discounters that offer huge discounts up to 50% are becoming the market leaders in Germany. This indicating more price sensitive customers in the younger age group segments (CBI Market Survey, 2007, p. 2).

However, by 2021 the population in EU is expected to decline with a further growth in the 45+ age group. These elderly groups form an interesting market segment for exporters due to the fact that they like to re-furnish their home interior after their children have moved out. Compared to other age groups, the elderly people have in turn more time and money to spend on furniture. Also, due to more divorces, career men/women and older people leads to the rise of single households in the major consuming countries in Europe. This in turn may result in an overall reduction in size of houses, apartments and rooms whereby the demand for smaller sized multifunctional furniture items will increase. Single and two-person households in Germany and other countries in Europe account together for about two-third of all households that is in addition expected to increase further. People in Germany live most commonly in apartments. A study conducted by French National Statistic Office showed that the number of home owners is more evident in southern parts of Europe while in the northern part housing is historically more rented (Domestic furniture in Germany, 2004, p. 6).

The major influence on consumer expenditure on furniture is the disposable income. Due to the falling economy which affects job security and the welfare state thus leads to the purchase of furniture to be postponed first. In Germany, consumers are critical and expect value for money. The key requirements when purchasing furniture is sound quality and sustainability of the furniture. Even though quality plays a vital role in the purchase, price however remains very crucial (Domestic furniture in Germany, 2004, p. 6-7). According to an analysis the German market is one of the most price sensitive markets in Europe (Ghauri & Cateora, 2006, p. 565).
Price competition between retailers has for a while been a significant feature in most European countries. Discount on furniture is becoming important and expected by customers especially after the cautiousness in spending and the change in currency that has in turned resulted in more critical consumers (Domestic furniture in Germany, 2004, p. 7).

A survey conducted in 2002 by the Emnid research institute showed minor difference in consumer age group classifications, on the other hand the results in buying desire of the consumer were similar with the ones for 2003. However, the main emphasis of the survey was regarding regional disparities in consumer buying behavior. Buying upholstered furniture was ranked first in northern Germany, in states such as Schleswig-Holstein, Hamburg, Bremen, and Lower Saxony. However in Berlin only 7% had the desire to buy furniture in the same product category. Berlin is the leading state in Germany to buy furniture in segments such as living room, bathroom, kitchen and bedrooms. Other states that have the above average desire to buy furniture in all categories are Mecklenburg-Western Pomerania and Thuringia. Germans most populous state North Rhine Westphalia and the southern states of Bavaria and Baden Württemberg are within the average field of the furniture segments. 17.8% fall into the category of upholstered furniture, 15.6% for living room furniture, 15.9% for bath and kitchen and 9.6% for bedroom furniture. States that are rated below the average desire to buy furniture is Rhineland-Palatinate. The research however forecasted that in 2003 more furniture will be bought in the northern part of Germany then in the southern part while a research conducted in 2001 showed the opposite results. In the southern part the demand has clearly been satisfying to a large degree and now more demand is evident in the northern and eastern part of Germany. It is mostly women that are the decision maker when it comes to the purchase of furniture as well as they are the major furniture consumer overall shown by most of the research conducted (Jonas, 2003).

3.6 Trends and fashion

Nowadays people take more pride in furnishing and styling their homes. Inspiration is found in magazines, TV programs, home improvement suggestions, talk shows and interior architects etc (Domestic furniture in Germany, 2004, p. 8). Mixing different interior styles, colors, furniture has become trendy like in fashion. Styles and colors change every season. Functional, individual and eye-catching design has become the current trend in furniture (Jonas, 2003). People try to create an original interior where they can relax from otherwise hectic lives and enjoy time with family and friends. Some people buy furniture whereby you can change fabrics each season in order to keep up with the latest trend instead of buying new furniture (Domestic furniture in Germany, 2004, p. 8).

A trend named “Cocooning” that was created by Faith Popcorn in the 1990’s that stands for stay at home in a nice cozy private atmosphere has in recent years become an important trend in the German furniture market. A further development of cocooning is “Homing”. It represents the home as a place of safe haven and center of all events in life. Creating a place that is under the consumers control and where he feels safe. Consumers want to shape things at home and
this is done by multifunctional furniture with the ability to re-design and arrange the home environment. Achieving wellness and a balance in consumer’s life is becoming more and more important (Jonas, 2003). Home interior fairs held for consumers and businesses are also a source of inspiration to many people (Domestic furniture in Germany, 2004, p. 8).

Companies increasingly have to adapt to new demand patterns because trends survive only for a short period of time. However, some furniture styles that are on the market can for years still sell well. Those types of furniture styles for living rooms are classical furniture product lines that have established brand names in most cases. The short life cycle and the classical lines must however support and complement each other (Jonas, 2003).

“Manufacturers of upholstered furniture in Germany need to capture new markets and lead in exports in order to remain competitive in future,” states Frommholz, the chair man of the board of the German association of the upholstered furniture industry. The main players that stand a chance are German producers that have established themselves as unique and creative in the niche market. Environmentally friendly products with natural untreated leather will be the latest trend shown in the top-grade segment on the IMM Cologne fair. In order to make the products marketable strong emphasis will be placed on ecological commitments by companies (Germany - Cosy zones in lavender and leather, 2008).

3.7 Material and color

For 2008 and 2009 fruity colors are becoming popular. Leather sofas and chairs will always be the central point of any room (Karimi, 2008). At the IMM Cologne which is the world’s leading furniture fair held in Germany new trends and innovative design are presented. This is where the coming year’s trends will be presented and where innovative design ideas become international bestsellers (The world of furnishing and interior design, n.d). White leather sofas are making a comeback from the 80’s (Holmes, n.d). The trendy color scheme in home furnishing for 2008 but also in 2009 is black and white themes (Karimi, 2008). Clear design and round organic sofa forms are key features of sofas and easy chairs. Woven fabrics are increasing in number with a texture-like surface as far as new cover fabrics are concerned. High quality of leather is also very much featured. Quality as mentioned before is of high priority (Market Enhancement Department, 2007, p. 4).

In 2002 furniture made out of wood accounted 67% of the total volume of furniture sold in the EU. Other materials such as metal accounted for 26% and 9% were made out of plastic and other synthetic materials. Wooden furniture is in addition more often combined with metal or chrome. An eye catching element that is popular in furniture is the metallic hi-tech industrial look. In the past few years stainless steel, chrome, shaped iron, aluminum and copper have also become more popular (Domestic furniture in Germany, 2004, p. 9-10).
3.8 Services
It is very crucial to have well trained employees that can offer good services to the customers. This was another point showed by the survey being conducted for the industry. The sales staff at the point on sales is of high importance. Communicating different philosophies to the customers is needed and very important. To the German customers display, and arrangement of product lines, product information is of high importance. High level of service is an area German consumers have not been keen on, this is however becoming more and more important in the furniture industry, especially when dealing with high-end products (Jonas, 2003).
4. Research Model

This model depicts the framework for the investigation. It is an account of how the authors conducted their investigation. Through contact with Nelo the authors obtained information about three of their agents in Germany. The authors contacted the agents and requested to conduct interviews with them. The interviews were carried out by telephone and the questions were e-mailed to the agents a couple of days prior to the interview. This was done so that they would be prepared and have a chance to seek up all necessary information. The questions were designed by the authors and are included in the appendix. The answers gave the authors information about Nelo’s image in Germany, based on segmentation, positioning and branding. This formed part of the empirical investigation that was used for the analysis.

Figure 3: Research Model
5. Method

This part is a description and explanation of the methodology used in the thesis. The authors begin by giving a brief description of the choice of topic followed by the research approach and research strategy and finally choice of data which forms part of the basis for information gathering; primary data and secondary data is presented.

5.1 Choice of Topic and Research Area

The inspiration came mainly from earlier studies in business administration particularly marketing which captures a wide range of issues. International marketing and how companies deal with operating in foreign countries was of interest to the authors. All these aspects set the theme to this study. The literature review highlighted some of the challenges faced by SME in their operation abroad so it became of interest to investigate this area. Taking this into account, the authors arrived at the formulation of research question the contents of which is expressed in the introductory section.

Studying Nelo was of interest since the study would contribute to information that would benefit the company thus their willingness to cooperate. The positive attitude from the company allowed for easy accessibility to company information. According to Fisher a topic should have both interest and relevance. Not only does the choice of topic fulfill the interest and relevance criteria but, the issues involved are broad enough to sustain the work needed for the project (Fisher, 2004, p. 25-27). Positioning and branding are well researched areas, available in numerous marketing literatures thus making the subject interesting. Usually issues related to branding are studied using big well established companies so looking at a SME provides a different perspective. This helps to highlight the issues faced by SMEs as opposed to big companies. Usually big companies do not have the resource constraints that are faced by SMEs. Furthermore, Germany as a market is interesting because of its dynamics due to the difference in regions and differences in these regional markets. These may affect the marketing strategies used. Lastly, prior contact with the manager had shown a willingness to provide relevant information about the company. All these aspects contributed to the authors’ choice of the topic and the company studied.

5.2. Research approach

In this paper a qualitative approach is used. The authors choose this approach since the aim with the research question and purpose focuses on uncovering and understanding events and social process. The emphasis is, understanding from the respondent’s point of view as well as maintaining a holistic perspective (Ghauri & Grønhaug, 2002, p. 86-87). A qualitative research approach involves data based on meanings and is expressed through words other than numbers which is expressed by quantitative approach. Moreover, this approach includes collection of results in a non-standardized data, which requires classification into categories.
The analysis of data is conducted through the use of conceptualization (Saunders et al. 2003). Issues regarding consumer’s perception about a brand and its position in the market require studying a number of relationships as well as expressing them in attitudes and perceptions which can be analyzed qualitatively. In other words conceptualizing and analyzing the data to arrive at empirical data.

5.3 Research strategy

In a qualitative research the results cannot be evaluated in numbers. It faces a multiple changing of situations, meanings and actions as well as using holistic analysis. The challenge is to analyze the findings by categorizing or classification of the meanings and situations unlike quantitative research whereby numbers and statistics forms the basis of analysis. As researchers we are compelled to enter the field and seek information, the interrelationship of concepts and detecting complexities (Ghauri & Grønhaug, 2002, p. 86). A qualitative research allowed the authors to seek view and explain the issues pertaining to segmentation, positioning and branding from the perspective of the agents and the company that we examined. The authors’ objective was to seek for people’s account and behavior to enable internalization and understanding of the view point of the “observed respondents.”

The study the authors conducted takes a deductive character. This is characterized by testing of theory out of data, whereby the researcher often uses hypothesis based on existing theoretical findings and try to test them (Bryman, 2004, p. 4). This approach is different from the inductive approach where the researcher draws theoretical conclusions from a specific object. In conducting the thesis the authors study a relationship and test the theory out of data using hypotheses based on theoretical findings and compare them to the chosen relationship. Although Bryman (2004) argues that the qualitative approach is not usually related to the generation of theory, it sometimes serves as a background to qualitative research.

An interpretive approach is also used. According to Fisher the interpretive research sees the link between understanding and action as an indirect one. To account for events and explain the relationship between things, it is invaluable to understand a situation so that better judgment is arrived at. This may not necessarily provide the best, choice of action. The interpretivist forms structure out of interpretations (Fisher, 2004, p. 41). The authors study involves collecting data concerning an account of what the agents respond to regarding consumer attitude as well as the target market (findings). The empirical data collected is presented as an account to build understanding of the situation being investigated. The indication given by the research would most possibly become the basis for future decision making.

Furthermore Fisher (2004) argues that the interpretive research often takes a processual perspective this due to the recognition of the complexity in the subject of research. This view corresponds to the authors study since it involves describing the interrelationship between variables, which involves segmentation, positioning and branding. Interpreting the relationship between these concepts in relation to the research question forms the complexity of the
subject. There is no straightforward answer but many aspects have to be explored in order to arrive at what the implication of the study is. Conclusion is made by deduction since it is based on a qualitative approach. Statements about relationships are arrived at through making inference and drawing conclusion (Fisher, 2004, p. 75).

5.4 Chosen theories
The source of theories that is used for this thesis comes mainly from secondary data. Books used are the “Marketing Management” book by Kotler and Keller, with a focus on segmentation, positioning and branding. Kotler’s Marketing Management provides a broad and in depth discussion about the theories as well as having practical examples which helps to relate to the research subject. Other books have also been used to complement Kotler’s especially where the authors felt the argument was not strongly developed. “International Marketing” by Ghauri is also used to explain the international context regarding segmentation, positioning and branding. The relevance of international marketing is due to the company chosen dealing in export activities. So in order to highlight the international aspect of the study it is necessary to include the international perspective. The main focus was how the target consumers perceive Nelo as a brand and if it is rightly positioned in the customer’s mind. To get a broad and a more critical view of the theories chosen, academic work, journal and articles were used. This in turn enabled analyzing the empirical findings and provided a broader perspective as argued by different academics authors.

5.5 How the data was presented and analyzed
The nature of the research provides the direction taken to analyze the data collected. Since it is a research based on a qualitative approach, the theories and the findings was synthesized to make implication regarding the study. A descriptive approach is used to present the data collected because the questions asked are well understood and structured by the authors. Also since the interview is semi structured, the topics and issues to be covered, sample sizes, people to be interviewed and questions to be asked have been determined beforehand (Ghauri & Grønhaug, 2002, p. 101). This corresponds to the descriptive approach. The data collected from the interviews with the agents provided information for interpretation and explanation of the condition existing in the German market. The data in the empirical investigation is presented in such a way that it follows the structure of the chosen theories; segmentation, positioning and branding. This will make the thesis in line with the remaining sections which also makes it easier for the reader to follow. Therefore the data was not presented by each question asked followed by the answer. This also made it easier for the authors to analyze the collected data with help of the chosen theories. Analyzed data allowed the authors assess and explain how the current market is in terms of how the target consumers perceived Nelo’s brand. This in turn was pointed out in the conclusion whether the company had the right image according to the German market in order for them to operate successfully.
5.6 Choice of collecting data

Data collection method used was both interviews and documentation. Interviewing is one of the most commonly used research method in business and organizations. After considering the strength and weaknesses of the different forms of data collection the authors choose to use interviews and documentation. Telephone interviews were conducted with three different agents operating in southern Germany. These were the agents we got access to via Nelo’s CEO. They are the ones handling the distribution of Nelo’s products. This choice is to allow obtaining access to the respondents which would otherwise be difficult. It also provides an efficient method to find out how three interviewees will respond to specific issues. To find out what Nelo’s image in the German market is, the phone interview provided an overview of the perception. Documentation offers stability since it can be reviewed repeatedly. It also offers broad coverage of data due to the long span of time. Conversely, irretrievability can be due to deliberately blocking access. More weakness could be reporting bias of the respondents or authors. With interviews the strength lies on it being targeted thus focusing directly on a specific topic.

In order to cover the subject thoroughly, the source of information for this paper is built on both primary data and secondary data. Primary data which forms the main body of empirical data is material gathered from the interviews. But before gathering the material from the interviews with the agents, pre-interviews were carried out with Nelo’s marketing manager (CEO). This was to enable collecting necessary information that would help in conducting the final interviews. The interview with the respective company which can be considered as pre-investigation provides material as well as the researchers gained deeper insight into the company’s organization and marketing activities. Telephone interview offers the ability to gather information quickly and clarify questions respondents do not understand, it also offers a higher response rate than mail questionnaires. The disadvantage though is that they have to be short (Fisher, 2004, p. 142-143). Interviews with the three agents were organized by phone. Though, questions regarding the interviews were e-mailed before hand to allow reviewing by the agents. Semi-structured questions were asked to allow flexibility and better interpretation of the results.

The secondary data the authors used were articles, Kotler’s “Marketing Management” book, “International Marketing” by Ghauri, “Furniture Marketing” by Bennington, other research work, periodicals, news bulletin and lecture power points, all which provided valuable information for analyzing the research work. The secondary data was collected by first reviewing the material relevant for the authors’ subject and then selecting the most appropriate that relates to the research topic. Hours of literature review to help map the main writers in the field and their arguments and recording and saving the necessary materials that will be used for this thesis. The list of the books, articles and other literary materials are all provided in the reference list.
5.6.1 Primary data

For collection of primary data the authors used interviews and a semi-structured approach. The interview contributed to an important part of information source. The interviews were conducted as phone interviews. The interviews were recorded as means of documentation to allow easy use during the process of the research. In the interviews the questions were structured in line with segmentation, positioning and branding in order for the authors to gain insight about Nelo’s image in Germany. This was done by focusing the questions on Nelo’s segmentation, positioning and branding. The authors chose semi-structured approach since the authors wanted the agents to talk free around the questions, but still needed all three agents to have the exact same questions so that the answers would give the authors information related to Nelo’s image. Bryman writes: "The scientist then has a list of relatively specific themes that should be touched, but the interviewee has great freedom in formulating the answers in their own way" (Bryman, 2002, p. 301). The questions were e-mailed a couple of days prior to the interview so that the interviewee would have the opportunity to prepare and thereby have more thought-out answers which provides more useful information.

The interviews were carried out by telephone since face to face contact was difficult and costly as the agents are in Germany. According to Fisher (2004, p. 142) it is advantageous to obtain access to people by phone who would never find time to give an interview. Taking into consideration that agents were very busy and to minimize the risk of not getting interviews answered prompted the authors to do a telephone interview. Fisher (2004, p. 143) also says telephone interview is an efficient method to find out how a number of people respond to specific issues. In the authors case it was appropriate to find out the agents description on how the German market sees Nelo. The agents through the interviews were able to give a good account of both the furniture industry in Germany as well as the segment that buys exclusive furniture since they work for a number of companies. Because agents usually carry products of competitors they were able to provide a critical view of where in the market Nelo is positioned. Also interviewing three different agents provided the difference in view and helped the authors to make a strong argument which is not based on one source.

The process of conducting the interview turned out to be more difficult than expected. As stated by Ghauri (2002), collection of primary data can take longer time than anticipated. Sometimes getting access to respondents can turn out to be difficult (Ghauri & Grønhaug, 2002, p. 82). This is exactly what the authors confronted in the process of collecting primary data. The agents that were supposed to respond to a decided interview date were not available for the interview. This took a number of back and forth communication involving Nelo’s CEO as well to accomplish the task. At last with convincing from Nelo’s CEO the authors managed to conduct the interviews with the agents on the dates; May 18, 2009 and May 31, 2009. Another issue that was encountered in the process of conducting the interview was the extra task associated with translation of the interviews since it had to be conducted in the German language. This increased the level of uncertainty since the authors had to rely on a third party to both conduct and interpret the results of the interviews.
5.6.2 Secondary data
Due to the nature of the research which takes a deductive approach, secondary data forms an important part of the theoretical part. Ghauri (2002), states that research is closely related to findings, selecting, structuring and solving problems. In order to grasp, represent and understand problems; concepts, theories and models are crucial (Ghauri & Grønhaug, 2002, p. 35). With this in mind the authors carried out an extensive literature review on the subject and the ones that were relevant for the research were included as secondary data. There are numerous research and literature that have been conducted in the area of the research. The authors took advantage of these materials and data and used it in the research. The materials used for secondary data were various literatures connected to the topic of choice, mainly Kotler and Keller’s book Marketing Management. Arguments regarding segmentation, positioning and branding is well developed by Kotler. A furniture marketing book, “from product to distribution,” has also been used because is more focused on the subject. Also other research work connected to the subject, articles and internet. These were the most suitable materials to use for the analysis as they cover the topic of choice which is mainly based on Segmentation, Positioning and Branding.

5.7 Validity and reliability
Since the authors’ research is of qualitative nature the problem under scrutiny is only partly understood, therefore the prime purpose is to obtain understanding. The choice of approach was influenced by the research problem. Wanting to know what the German consumers perceive of Nelo’s image lead the authors to the decision to interview the agents who shaded light on this subject. The research model was used as a systematic guide to carry out the investigation. It also maps out and frames the problem under scrutiny. The empirical data collected through interviews was to map “reality”. The responses from the interviews were related to the authors’ knowledge base and reasonable explanation were produced. In order to demonstrate validity of the findings, evidence was supplied that includes; report of the questions, responses and inferences made and what supports these inferences. Thus the credibility of the work can be established. The procedure that constitutes what is being measured is replicable therefore ensuring its reliability. It is important to point out that the interviews conducted were carried out by a third party since language barrier hindered the authors from conducting the interview themselves. This may be risky for the work because when translations made from German to English interpretations might be different. Thus, affecting the reliability of the work. But to make sure that the interview was well conducted, the third party was both well spoken in the German language and works with marketing. This ensured that the translations were properly conducted. 
6. Theoretical framework

In this section the authors are going to explain and give an insight into the chosen theories for this thesis that mainly focuses on segmentation, positioning and branding.

6.1 Segmentation

This is a marketing technique which is based on the knowledge that markets are not homogenous. For a company to satisfactorily market its product/service it must identify market segments that it want to target to successfully tailor what it wants to market to those customers. Consumers vary on many dimensions and can be grouped according to one or more characteristics. Identifying what market to segment to serve effectively is one of the marketer’s crucial tasks. The marketer should know who is within the segment and be able to identify those characteristics that make a person or company a member of this segment (Bennington, 2004, p. 129).

Market segmentation means breaking up the market into self contained and relatively homogenous sub groups of customers each possessing its own characteristic and special requirements. This enables the company to modify its output, advertising messages and promotional methods to correspond to the need of a particular segment. Accurate segmentation allows a company to pinpoint selling opportunities and to tailor its marketing activities to satisfy consumer needs. Traditionally markets have been segmented with respect to geographical location, socio-economic structure, age, sex, ethnic origin, religion, etc. Increasingly however, attention is being paid to the behavioral aspects of target segments, especially the relationship between spending patterns and the life styles (actual or desired) of various consumer groupings (Bennet, 1999, p. 307).

Data on consumers’ age, sex, income levels, occupations, educational backgrounds, marital status and social class can be extremely useful in identifying the whereabouts of potential markets. Specifying customer type being sought helps the company to identify the assortment of promotional methods which cater to this segment. Marketers need to be aware of the problem associated with defining a market in a narrow way. This can create the exclusion of a large group of genuine prospects, due to messages not being drafted to appeal to these customer groups. The objective of segmentation is thus to subdivide the market accurately without precluding bona fide opportunities (Bennet, 1999, p. 307).

Maslow’s hierarchy of needs can be used to identify the different motivational hierarchy that reinforces consumers’ motivation. These needs can be used as a tool to segment particular group of consumers thus creating a specific segment. Identifying which needs are especially significant within different market segments is a task for marketers and market researchers. Consumers may be assigned to different segments for a variety of reasons, one of which may relate to targeting with different marketing mixes (Evans et al. 2006, p. 9). The consumer
market is made up of diverse segments, each with its own unique characteristics and requirements. Successful marketers do not try to sell to the entire market, but instead focus their product offerings towards the needs of specific market segments, which become a company’s target markets. The target market would be a segment that is fairly homogenous in its need for products and style preferences, and its probable response to advertising, sales promotion, and personal selling techniques. It is important for the company to have a clear image in the marketplace so the consumers will know what products and services to expect (Bennington, 2004, p. 162).

When it comes to marketing strategies, most people spontaneously think about the 4Ps (product, place, price and promotion). Market segmentation and the identification of target markets, however, are important elements of each marketing strategy. They are the basis of determining any particular marketing mix. Market segmentation as defined by Kotler (2006) is the segmentation of markets into homogenous groups of customers, each of them reacting differently to promotion, pricing and other variables of the marketing mix. Market segments should be formed in a way that those differences between buyers within each segment are as small as possible. Thus every segment can be addressed with an individually targeted marketing mix. Consumer markets can be segmented through looking at descriptive characteristics such as: geographic, demographic and psychographic. Customer segments exhibit different needs and product responses. Sometimes attitudes towards products can be used as the variable to segment the consumer market while on other occasions “behavioral” considerations attributed to consumers’ response to benefits may be used. Irrespective of what type of segmentation method is applied, it is vital that the method is adjusted to recognize customer differences (Kotler & Keller, 2006, p. 247).

6.1.1 Demographic Segmentation
Demographic segmentation is where the market is divided by using variables like sex, age, income, household size, occupation social status, etc. Demographic variables can help identify consumers needs, usage rate and product preference. In different countries definitions regarding social class vary. This creates incompatibility which requires marketers to observe the definition used in the country of operation. In Germany the authorities segment Germans when it comes to social status in terms of monthly household income (Bennet, 1999, p. 308). The variables also provide easier measurement for personality type and thus allowing estimation of market size and effective promotional method. For example the needs and preferences of individuals changes as the progress through the life–cycle-stage. Life stages thus present opportunities for marketers to help people cope with their major concerns. Nevertheless, marketers have observed that it is not clear cut because sometimes the targeted age group may not be the buyers but rather groups influenced by nostalgia (Kotler & Keller, 2006, p. 250).
6.1.2 Geographic Segmentation

The geographic location affects the type of product purchased and the method of purchasing. Geographical variables include; regions, countries, states, rural, urban, cities, population, etc. A common example of geographic-related variables affecting product choices includes the color and weight of decorative fabric covers. Weather plays a major role in the choice of color and fabrics. In warmer sunny weather lighter fabrics are chosen, while in colder areas darker colors and heavy fabrics are chosen. Certain regions of the country may affect the style of products purchased (Bennington, 2004, p. 130-131). Some approaches tend to combine both demographic and geographic to yield even richer description of consumers. A group of people living in a cluster tend to live similar lives, drive similar cars, have similar jobs etc (Kotler & Keller, 2006, p. 249).

6.1.3 Psychographic Segmentation

This is the act of dividing buyers into groups on the basis of personality trait, lifestyle or values. People within the same demographic groups can exhibit different psychographic profiles (Kotler & Keller, 2006, p. 249). Some of the more typical factors like personality factors and life styles are reflected through consumer’s activities, interest and opinions. All of these affect the choice of products purchased. The active outgoing person may choose more vivid colors and unusual style while the more cautious, retiring person may choose softer “safe” colors and more conventional styles. When it comes to furnishing it is assumed that a person’s home reflects his or her personality. Therefore it is important to distinguish different personality types. Lifestyle is very important in determining personalities and types of products selected. Using psychographic variables to identify target markets provides opportunity to develop a combination of marketing efforts that will motivate consumers towards buying the company’s product (Bennington, 2004, p. 131).

One of the most popular commercially available classification systems based on measurements is the VALS system. The VALS segmentation system uses two variables; personality trait and key demographics. There are two spectrums of the system; the innovators and the survivors. The innovators major tendency is high resources while the survivors have lower resources (Kotler & Keller, 2006, p. 253-254).

6.1.4 Behavioral Segmentation

This classification of segmentation is a method of dividing buyers into groups on the basis of their knowledge of; attitude towards, use of, or response to product. Kotler (2006, p. 255) states that many marketers believe that behavioral variables – occasions, users’ status, usage rate, loyalty status, buyer readiness stage, and attitude– are the best starting points for constructing segments. Buyers can be classified according to the benefit they seek. A marketer may classify buyers according to; service level sought, product quality sought (premium or standard), convenient level sought and price level desired. User’s status can be used as a basis for determining the required marketing strategies. User rate will help segment a market into
light, medium and heavy product users. This ultimately affects marketers’ decision on attracting the kind of users since it may indicate loyalty to a brand. Nevertheless, it should be noted that heavy users may be interpreted as brand loyal yet they may be looking for lower prices. Buyer readiness stage influences the type of marketing effort used to capture the prospective customers. For example offering free samples may motivate consumers from being potential buyers to actual buyers. Combining different behavioral bases can help to provide a more comprehensive and cohesive view of a market and its segment (Kotler & Keller, 2006, p. 254-256).

6.2 Positioning
All marketing strategy is based on STP – segmentation, targeting and positioning. A company discovers different needs and groups in the marketplace and targets those needs and groups that it can satisfy in a superior way (Kotler & Keller, 2006, p. 310). Once that is achieved the third part of the STP process is to position a brand within the target market (Baines et al. 2008, p. 251). If a company does a good job of positioning this in turn makes it easier to work out the rest of its marketing planning and differentiation from its positioning strategy. However, if the job of positioning is done poorly, the outcome will be that the market will be confused. The goal of positioning is to locate the brand in the minds of the consumers to maximize the potential benefits to the firm (Kotler & Keller, 2006, p. 310). Additionally it is the means by which products and services can be differentiated from one another so as to give consumers a reason to buy the product (Baines et al. 2008, p. 251).

There are two fundamental elements in positioning. The first element is about the physical attributes, the functionality and capability that a brand offers. The second element of positioning is how a brand is communicated to consumers and how consumers perceive the brand in relation to other competing brands in the marketplace. This element of positioning is of vital importance as it is not what you do to a product but rather what you do to the mind of a prospect that in turn determines how a brand is really positioned in the market. These two elements of positioning are further on brought together by Kotler (Baines et al. 2008, p. 251-252), “Positioning is the act of designing the company’s offering and image to occupy distinctive place in the mind of the target market” (Kotler & Keller, 2006, p. 310). Thereby one can determine that positioning is about a products attributes and design, how the product is communicated and the way these elements are compound together in the mind of the consumers. It is also important to notice that it is not just the physical nature of a product and the communication that leads to successful positioning but in the bottom line it is about how customers judge a products value in relation to competitors and its ability to deliver against the promises made (Baines et al. 2008, p. 252).

In order to choose the right positioning strategy, it is thus of most importance that the company has a clear view of what the target consumers needs and wants are. In other words it is important to know what tangible and intangible attributes customers are looking for when buying particular products. In order to have a successful positioning strategy the consumer must know why they should buy the product and what value they will obtain. This is called
"customer-focused value proposition", and is what distinguish a company from their competitors (Kotler & Keller, 2006, p. 310). By understanding what customers consider to be of value and how they rate this value in relation to other brands on the market it becomes thus possible to see how a brands attributes can be adapted and communicated in order to become more competitive (Baines et al. 2008, p. 252).

The steps in targeting marketing involve designing the offers so that both the company and products are properly positioned in the consumers’ mind. It is vital that attributes of products and accompanying services provided are important to consumers so that they will be favorably influenced to purchase when the need arise. Positioning variables must be carefully identified because positioning takes place over time and results from cumulative effect of all marketing efforts. All the elements of the marketing mix must be effectively carried out and fit together cohesively for the marketer to achieve the desired place in the mind of their targeted consumers. Companies should not only be concerned with positioning their offerings in the minds of the targeted consumers but also to dealers who place the products in their stores where they can be seen and purchased by consumers. The furniture industry is a fragmented industry, meaning small and a few really large, position variables. It is important that both companies and their dealers identify positioning variables that are important to their customers match their abilities, and will differentiate them from their competitors (Bennington, 2004, p. 140-141).

Companies use image as a positioning variable. Their image is likely a combination of products services, and other activities used to differentiate their offers from the offers of competitors. A company may differentiate itself through the use of licensed collections. Advertising and promotional campaigns contribute to creating good image in the market place if done effectively. Choosing specific consumer groups to serve can be a company’s set of positioning its offering. For example a company may choose to serve consumers with special needs like high quality and exclusive design. If this group is under served then positioning to serve this group will be favorable (Bennington, 2004, p. 141-142)

In order to achieve an ideal positioning the company needs to define their frame of reference; this is done by studying the market in question and identifying what competition that exists and determine their target customers. After this the company can move on to determining if they should have a Points-of-Parity or a Points-of-Difference strategy, or try to have both (Kotler & Keller, 2006, p. 311-314).
6.2.1 Points-of-Difference (POD) and Points-of-Parity (POP)

POD is the uniqueness that the company has, what they can offer that no one else can. This is the key factor when a company position themselves; what do we have that make us superior to our competition? This attribute can be almost anything depending on the branch of the company; it can be tangible things such as performance, looks, price, quality, or taste or it can be intangible things such as prestige, exclusiveness, and reputation. In order to achieve POD the consumer must associate the company’s brand or product with an attribute they think no other company can match (Kotler & Keller, 2006, p. 312-313). Points-of-Parity have two different types of attributes:

1. Attributes that the consumers consider are to be taken for granted when buying a product or service, from a product group or branch. This could be guarantees, services, and included meals when flying, 24 hour customer support phone lines, and so forth. These attributes are called category POP.

2. If a company can efface their competitors POD they have achieved a competitive Point-of-Parity. That is when the consumer are considering to buy a product or a service, they compare the benefits from let’s say two different companies. Company A:s POD is that their product is cheap, but company B:s product is almost as cheap as company A:s, but company B:s product has more features than company A:s. Then company B have derated company A:s advantage, and can offer another superior attribute (Kotler & Keller, 2006, p. 312-313).

6.2.2 Choosing POPs and PODs

When a company wants to create their positioning strategy, their PODs and POPs, there are two variables that need to be considered. Firstly; is our superior advantage something that will fulfill a need and want of the consumers? Secondly; do we have the ability to fulfill these needs? According to Kotler (2006) the consumers have three criteria’s that need to be fulfilled in order to consider the company to have a superior advantage:

1. **Relevance.** Target consumers must find the POD personally relevant and important.
2. **Distinctiveness.** Target consumers must find the POD distinctive and superior.
3. **Believable.** Target consumers must find the POD believable and credible (Kotler & Keller, 2006, p. 315).

6.2.3 Re-Positioning

The company might have a clear view of what they want their brand and product to convey to the consumers. They may think that their brand and products are considered very exclusive and luxurious, and thereby focus their marketing emphasizing these qualities. The company believes that the value their product offers to the consumers is quality and a feeling of exclusiveness. This gives the company a very clear strategic approach opportunity, where they can advertise in exclusive magazines and selling in high end stores. The problem that can occur in these situations is that a company’s positioning as desired from the management point of
view, may not coincide with the target consumers perspective of the brand or product. This difference in perception could be due to a change in taste of the consumers, new competitors, new technology, or a misconception between the company and the consumer. When this situation occurs there are only one solution; Re-positioning. This is depicted in the graph below (Figure 4) where there may be a mismatch between managements view and the consumers thus the need for the company to reposition. The market is a dynamic place and there are always changes going on which requires the company to adjust to, if it is to remain competitive.

Figure 4: Positioning map

There are two ways to approach a re-positioning; either by trying to position the brand according to how the consumers have positioned the brand or product, or by re-positioning the brand or product according to how the management wants the consumers to perceive the brand or product (Baines et al. 2008, p. 253-255).
According to Baines et al. (2008, p. 255-256) there are four ways of re-positioning a brand or product;

- Change the tangible attributes and then communicate the new product to the same market.
- Change the way a product is communicated to the original market.
- Change the target market and deliver the same product.
- Change both the product (attributes) and the target market.

### 6.3 Branding

*Building a strong brand requires careful planning and a great deal of long-term investment. At the heart of a successful brand is a great product or service, backed by creatively designed and executed marketing.* (Kotler & Keller, 2006, p. 273)

Developing and building reputation of a brand name is called branding. Through branding companies can occupy a specific position in the market. An important factor in branding is about creating differences. This is achieved by understanding the customer segments and creating a brand that can be perceived to satisfy these segments. This is further on expressed through communication, advertising and other means that reach out to customers (Ghauri & Cateora, 2006, p. 256). The key of branding is that consumers must not think that all brands in the category are the same and that they are able to distinguish the goods of one producer from those of another. Therefore it is necessary to convince them that there are meaningful differences among brands in the product or service category. Features or benefits of a product are often what differentiate brands. Teaching consumers “who” the product is in other words giving it a name and using other brand elements to help identify it, “what” the product does and “why” consumers should care becomes thus important. Helping consumers organize their knowledge about products in a way that clarifies their decision making will thus lead to providing value to the firm. By understanding consumer motivations and desires and creating relevant and appealing images around a companies’ products has enabled big established companies to become market leaders within their product categories (Kotler & Keller, 2006, p. 275-276).

### 6.3.1 The role of Brands

Brands are the most valuable resource a company has. Company brands are used in order to communicate marketing strategy and positioning to a specific market (Ghauri & Cateora, 2006, p. 256). A brand in other words adds dimensions to a product or a service that differentiate it in some way from other products or services serving the same need (Kotler & Keller, 2006, p. 274). Brands that are well-managed increase thus in value over time and develop personalities of their own (Ghauri & Cateora, 2006, p. 256). Using a global brand, the worldwide use of a name, allows a company to save money and gives a company uniform worldwide image that
enhances efficiency and cost savings when introducing other products under the same brand name (Ghauri & Cateora, 2006, p. 312).

Utilizing existing customer base is also a possibility. Brands can signal a certain level of quality so that satisfied buyers can easily choose the product again (Kotler & Keller, 2006, p. 275). Brands leading to customer satisfaction and customer loyalty are the most important impacts of a brand. In many companies brands are seen as the biggest value generators for the reason that they can lead to customer loyalty which in turn is also seen to be the biggest asset of a company (Ghauri & Cateora, 2006, p. 256).

Brand loyalty leads to customers being resistant to switching to another company’s products. The more a customer is satisfied the less inclined he/she will be to buy or even try a competing brand. Having loyal customers and a well established brand in a particular market automatically leads to barriers of entry for competitors as well as for new entrants (Ghauri & Cateora, 2006, p. 256). Loyalty can also lead to customers being willing to pay a higher price for a product—often 20 to 25 percent more. Even though competitors may easily duplicate manufacturing processes and product designs they cannot easily match lasting impressions in the minds of individuals. In that way, branding can be seen as a powerful mean to secure a competitive advantage (Kotler & Keller, 2006, p. 275). Companies trying to steal market shares from an established brand would require a lot of resources (Ghauri & Cateora, 2006, p. 256).

6.3.2 Brand equity

Brand equity is the added value given to products and services. This value depends on the associations made by the consumer. When a brand is well recognized and has positive associations in the mind of the consumer is in other words referred to as brand equity. It is an intangible asset that has psychological and financial value to the firm. Having strong brand equity can thus facilitate more cash flow by increasing market share and allowing premium pricing. The power of a brand lies in the minds of existing or potential customers and what they have experienced directly or indirectly about the brand. In other words it is what the customer has seen, heard, read or learned and felt about the brand. Brand knowledge consists of all the thought, feelings, images, and beliefs etc. that become associated with the brand. Understanding all the things that become linked to the brand and the customer in other words the consumer knowledge, is thus of vital importance because it is the foundation of brand equity (Kotler & Keller, 2006, p. 276-277).

Brand must create strong, favorable and unique brand associations with customers. It is important that marketers ensure that customers have the right type of experience with products and their marketing programs in order to create the desired brand knowledge structure for the brand (Kotler & Keller, 2006, p. 277).
7. Empirical investigation

*In the following chapter the authors will present the collected data from the three interviews conducted with the three agents.*

7.1 Segmentation

The consumers the agents are seeking to target in the German market, for Nelo’s products, are those customers that are more independent and that are not classified as the “regular” furniture buyer. In other words buyers that does not shop in large stores, which offer wide assortments, but that rather shop in small private and independent stores. In the upscale sector however German products with a strong and well known brand are more favorable over foreign products (Igges, 2009). For a foreign manufacturer to sell on the German market, they have to adapt their product to the consumer’s needs and wants or have something that differentiates it from others (Reinert, 2009). For the middle- and high income group it is mainly the design followed by quality that influences choice of furniture. It can be said that design is the most important factor since it is the first thing that attracts the consumer to the product. Regarding comfort it is highly valued and is related to quality. For this group price is a third factor influencing purchase decision and normally has to go hand in hand with the quality. If design and quality is considered high and desirable, then the price and the brand will not be an issue. This is the type of customer group that Nelo is focusing on (Igges, 2009). The customer group that desires luxury furniture, such as Nelo’s, is a small segment of the southern German market (Baute & Reinert, 2009).

According to Gerd Baute, one of the agents, there is a big difference in the buying behavior between the northern and southern parts of Germany. This can be seen in the individual states whereby there are strong difference in preference and the purchasing power (disposable income). For example; in southern Germany the consumers prefer furniture made of oak and birch and in the northern part it is mahogany and walnut. The segment that buys high quality is willing to pay a high price. This group normally consists in the age of 40+ that have the disposable income to spend on expensive products. For these buyers they consider buying furniture to be an investment and the brand plays a very important role because it is in a way linked to prestigious objects like art and collectibles (Baute, 2009).

Hubertus Igges and Gerd Baute points out that in the area of Baden-Württemberg (southern Germany), which is a region dominated by the car industry, the working class which constitutes the middle income group is afraid to lose their jobs due to the financial crisis. In accordance to that the consumption behavior of the consumers in this area has changed such that there is a tendency of not consuming especially furniture. Potential consumers who live in fear of losing their job are less willing to spend money. This is also related to the fact that usually furniture constitutes a relatively big portion of the disposal income. Furthermore banks are less willing to offer credit as they are not sure of how long people will hold their jobs.
7.2 Positioning

Regarding how the consumers view Nelo’s products it can be said that the price and quality of the products has been taken well on the market. One of the agents strategy concerning on how to get Nelo’s products on the market consist of taking the products directly to the retailers instead of showing pictures of the items, like this the retailers can test the products right then and there and see whether they have a chance on the market and if, in their opinion, they will appeal to the targeted customers. Furthermore, these products remain in the retailer’s store so the consumers can test and view the products in order to build product awareness (Igges, 2009). According to all three agents, independent stores are the main target; this is mainly because Nelo’s furniture assortments are limited and almost too impossible to sell in large retail stores. The larger stores require the producer to have a wider assortment of products in order for the store to consider carrying its product. In these big retail stores they either sell very cheap furniture or high-end furniture were the brands are well known to the customers. Both of these attributes is something Nelo does not have. All three agents stated that Nelo differentiates itself by offering a unique product of Scandinavian/Swedish design. However, this necessarily does not always fit in with the modern German furniture stores. Using Swedish design as differentiation strategy may not after all be so advantageous (Reinert, 2009). Normally Swedish furniture design is associated with IKEA which has a different price strategy (low price) and mass production and targets a different group of consumers (Baute, 2009).

“Whoever speaks about Swedish furniture in Germany, normally speaks about IKEA” (Baute, 2009)

The modern stores have a preference which is not offered by Nelo thus Nelo’s products can only be sold in specific stores limiting its distribution. Although the Germans like Scandinavian furniture it is important that the design fits with the assortments being offered in the stores. The trend in Germany for instance is such that sofas should have four legs in metal which is not what Nelo offers. Among Nelo’s product in its collection it is only one product that suits the style that is preferred by German consumers (Reinert, 2009). According to Walter Reinert Nelo’s products need to be adjusted to suit the German market better because right now the design only appeals to a very small market. Therefore the agent considers it to be important to contact and send designs to the CEO of Nelo that will be more preferred on the German market so that Nelo’s product design can be adjusted to better suit the customers taste and preference.

According to the existing trend in Germany, Nelo’s products are not considered to be modern enough nor exclusive although the products are unique. In order for small- to medium sized companies to establish them self in the German market they have to be better in some way. This is the chance Nelo has, since they are unique and sophisticated in such a way that they have a strong Scandinavian design and good quality (Baute, 2009).
"For real luxury furniture market the segment is very small. For this customer group the products have to be very exclusive and Nelo is not considered to be that," states Gerd Baute.

This group is yet not reachable by Nelo, since the products are not seen to be exclusive (Baute, 2009). This is explained as being mainly because of design and the material used. As mentioned above the Germans rather prefer a four legged armchair that has a metal leg instead of a wooden leg or an X leg, something that sets Nelo’s design apart. The German consumers also prefer light products that are mechanically adjustable although not necessarily electrical. Nelo’s products are seen as being wide and heavy and not desirable among the consumers. Most TV armchairs with a footstool in Germany have a metal standing that are light and not so big and wide (Reinert, 2009). The design “Kroken” is one of those products that do not fulfill these requirements and also it was a product that was popular 20 years ago. It is mainly sold in Germany because of the price advantage but will however never be a hit seller in the market. This is a view portrayed by the consumers. Therefore the reason for buying “Kroken” is not exclusivity but rather the price (Igges, 2009). Due to the current economical climate, it is very hard to sell foreign products even more foreign products that are unknown in Germany (Baute, 2009).

7.3 Branding

Nelo as a brand is in the introduction phase in the German market. The brand is not well known among the consumers but usually if the design is appealing and the quality is high then it will not take long for the consumers to get to know the brand (Igges, 2009).

“When you have a well known brand usually everybody wants to have it. But when you do not have a strong brand you have to have something that stands out from the rest of the crowd” (Igges, 2009)

But since Nelo is still establishing itself in the German market, the furniture can only be sold through small outlets. Most established brands are sold in big furniture stores. So since Nelo as a brand is being introduced on the German market it has to go through the normal process of being distributed through smaller stores, then when the brand becomes familiar to the market then it can be sold through the larger stores (Baute, Igges & Reinert, 2009).

Furthermore the Germans tend to buy brands that are well known so this influences the rate at which a new brand in the market can be accepted. But overall Hubertus Igges states that as long as quality and price is closely related then the chance for the brand in the market will be favorable. In absence of a strong and well known brand the opportunity to succeed on the market will depend on uniqueness of the product type, quality and price. Here the quality, price and product have to be better than the known brands. It is important that a brand that is not well known has some uniqueness in the product that differentiates it from the known brands so that it can be considered by the consumers (Igges, 2009). In other words Nelo’s products are currently the most valuable asset they have in comparison to their brand, since the German
customers are unfamiliar with the brand (Baute, 2009). According to Gerd Baute the question regarding brand loyalty is not emphasized when it comes to furniture, rather recognizable brands, so a manufacturer has to find other factors to attract and keep customers, for example when it comes to cars the German consumers exhibits more brand loyalty.

When it comes to Nelo they have opportunity on the German market due to their uniqueness, states Hubertus Igges. But overall one can say that the German consumers rather prefer German brands over international brands. Among foreign brands, Scandinavian brands are however considered to be favorable among the preferred brands since the German consumer perceives them to be of good quality as compared to furniture brands from Poland and East Asia. This is because furniture producers from these countries are associated with low quality and low price (Igges, 2009). According to Hubertus Igges, Nelo being a Scandinavian brand, could be considered to be an advantage for Nelo since they are becoming more and more international and can thus contribute to a much easier establishment of the brand on the German market compared to other foreign brands.

As mentioned previously consumers in the middle and upper class would rather prefer Scandinavian brands over Asian brands in terms of value and quality. It is easier for the consumers to make the connection between Scandinavia products and high quality while products from Poland and Asia are looked at differently, in other words they are not considered to be of high end products. Hubertus Igges also points out that Nelo still has some work to do regarding its marketing in Germany. Nelo is still establishing itself in the market so in order for the brand to become well known among consumers it needs to be marketed to appeal to them. Also, all Nelo’s marketing activities are controlled and done from Sweden, which are also very limited (Igges, 2009).
8. Analysis

This section presents the analysis whereby the authors relate the theories presented before with previous data and empirical data presented above in order to be able to answer the problem statement and fulfill the purpose of their thesis.

8.1 Segmentation

Bennington states that segmenting a market can be seen as one of a marketer’s crucial task. This allows potential customers to be identified thus allowing a company to target a specific group of buyers. Since companies are not trying to sell their product to everyone focusing on a specific segment would enable a company to better target a group of customers. The target market would be a segment that is fairly homogenous in its need for products and style preferences. According to Kotler market segments should be formed in a way that those differences between buyers within each segment are as small as possible. The up-scale segment is the group targeted by Nelo and here the main focus is on design and quality thus favorable for the company. However, in the case of Nelo the quality fits the target group but the design does not. It is evident that the consumers being targeted in the German market by Nelo are those that buy from small private and independent stores. Nelo’s furniture appeals to a small segment of the market. The German consumers in general prefer German furniture standard design. However in the up-scale segment if quality and design is top notch then brand awareness can be achieved among customers.

8.1.1 Demographic Segmentation

According to Kotler breaking up the market into submarket can also be done using demographic variables. Here the market can be categorized using variables like sex, age, income, household size, occupation social status, etc. It is vital for a manufacturer to be able to identify and describe what customers it wants to target so as to better develop marketing strategies suited for the group. In Germany social class is categorized according to monthly household income. This factor will be important for the marketer. The empirical data shows that the groups that are willing to spend more money are the 40+ age group. A CBI market survey further indicates that the groups that consist of the elderly which is a subgroup of the 40+ are an interesting group for exporters since they have a tendency of re-furnishing their living space. This can be seen as a potential customer group for Nelo. This can be related to the life-cycle stage as argued by Kotler, where by preferences change due to progress in life and thus their needs and wants change as well. Knowledge that this group is willing to spend more, allows for appropriate targeting and developing a suitable marketing program.

In Baden-Württemberg (southern Germany) which is a region dominated by the car industry, this consumer group can be seen as favorable and an attractive segment. Most of the people living in this area work in the car industry and have a reasonable income. But due to recession the car industry has been affected and the workers are worried they will be laid off. As stated
by one of the agent the result of this has been a change in the situation in the group whereby the purchase pattern has been affected. People worrying about losing their jobs means they will save more money for the future and spend buying furniture is less considered as an option. According to Kotler a marketer has to continuously work to identify how the segment changes or the conditions of the group so as to better target them. This helps to update the offerings in accordance to the segment’s demand. In this situation, Nelo will be highly affected since it is in the up-scale market thereby demanding premium price.

The middle-high income groups in Germany show a specific preference for design and quality. Quality, design and comfort are characteristic in furniture that this group value. The empirical result shows that Nelo’s products are unique but the consumers have a different preference. The design and material produced by Nelo is not consistent with what the consumers want. The consumers are looking for specific features in the products. The problem with Nelo’s product is that it does not offer the benefits the target group is looking for. According to two of the agents interviewed, Nelo’s furniture is only suitable for a small segment of the market.

8.1.2 Geographic Segmentation

According to the empirical evidence the German market and consumer vary in a number of ways. The buying behaviors between the northern and southern states are very different. An earlier survey by Emnid also shows that there is a difference in preference between the different states. Buying upholstered furniture was ranked first in northern Germany, in states such as Schleswig-Holstein, Hamburg, Bremen, and Lower Saxony. This shows how in different states preferences may differ. For a marketer this will provide information on how to target the different segments. Nelo produces upholstered furniture which makes targeting the northern states favorable since here the consumers’ preference fits with the company’s product. Bennington states that certain regions of a country have strong preference for a particular style of products purchased. According to one of the respondents there is a difference in preference and buying behavior between the south and north of Germany. Because these areas portray distinctive taste in furniture, the manufacturer can use this as guidance to segment the market into specific geographical area and better target the market.

Foreign manufacturers have to be observant of the segments that exist in the German market because this will determine what products the company can offer based on what the target group’s needs, wants and their preference. Because the German consumers prefer German furniture standard, foreign manufacturers have to adapt their product to the market if they are to remain competitive. Here Nelo has not been very successful since the product it sells does not entirely fit with the preference of the group. Although Nelo has identified a target group which is the up-scale segment, selling to this group is limited due to their preference. The problem remains that the furniture Nelo is selling does not appeal to this group. This shows the importance of identifying a target group and developing an offering that fits their needs and wants. Bennington states that the geographical location can also affect product choices. He even explains that certain regions of the country may affect style of products purchased. This is
shown by the German retailers who are reluctant to carry Nelo’s product because they see it as not fitting with the demand of the consumers. The consumers are the end users so it is important that what is being offered fits with their needs and wants.

8.1.3 Psychographic and Behavioral Segmentation

Kotler states that issues concerning psychographic segmentation focus typically on lifestyle-and personality factors which are reflected by consumer’s activities, interest and opinions. All these factors will influence the choice of furniture purchased. According to The CBI market survey, people in Germany live most commonly in Apartments. This to some extent will affect the choice of furniture bought. It may not be the only factor affecting consumers’ attitude and behavior towards purchase activity but it is an important motivator. Consumer’s living condition will influence what they take into consideration when buying furniture. The interview reveals that the 40+ purchase their furniture to represent prestigious objects since it involves reasonable amount of investment.

Following trend and fashion has become important part of furniture purchase. In the up-scale segment, life style and personality traits are linked to the products bought. According to Bennington a person’s home furnishing will reflect the kind of personality he or she has which makes distinguishing personality type important to segmentation. Kotler states that the VALS segmentation system that uses two variables; personality trait and key demographics, can be used to identify consumer groups to target effectively. There are two spectrum of the system the innovators and the survivors. The innovators major tendency is high resources while the survivors have lower resources. The 40+ can be seen as showing the category linked to innovators and high resources. The willingness to invest a reasonable sum on furniture further confirms this characteristic. This group presents an interesting segment for Nelo.

According to a study by Jonas, people want furniture that offers comfort, functionality and relaxation due to the hectic life that they live. It is becoming even more important to achieve wellness and balance in consumers’ lives and this affects the choices they make which includes home furnishing. The empirical result shows also preference of elements of functionality and comfort when it comes to choice of furniture. This is indicated by the statement; “Regarding comfort it is highly valued and is related to quality.” Elements of behavioral segmentation are also reflected here since attitude towards and response to the use of products can be identified. According to Kotler buyers can be classified according to the benefits they seek which involve factors like; comfort-response to use of product, quality- benefits sought. In the case of Nelo the products offered to the target group is considered as being of good quality. Although Scandinavian design is preferred among foreign design by the consumers, it still run short because some benefits sought are not fulfilled. Behavioral segmentation allows the marketer to identify segments like the high-end and niche market. Here through classifying for example product quality sought and price level desired a segment can be identified. Knowledge of the characteristics of the segment provides the marketer with vital information to design the right products and offerings suitable for the group thus promoting positive response from the consumers. It will also be the basis of formulating the marketing mix.
8.2 Positioning

Nelo has recently entered the German market and it may take time to get establish in a foreign market. The consumers would normally prefer domestic products or well-known foreign brands. Referring to Baines the last part of the STP (segmentation, targeting, positioning) process is to position a brand within the target market. Since Nelo’s product design does not appeal to the target customer, the process of positioning the brand becomes hard. Which also Kotler points out that if the job of positioning is done poorly, the outcome will be that the market will be confused. Here we can see that the company has not managed to locate the brand in the mind of the target consumer, since their products are not perceived to be attractive. Therefore giving the target customer no clear reason why they should buy the product.

Baines highlights the two fundamental elements in positioning. The first element is about the physical attributes, the functionality and capability that a brand offers. The second element is how a brand is communicated to consumers and how they perceive the brand in relation to others. Since Nelo’s brand is unknown on the German market the brand itself cannot be used in such a way that it transmits psychical attributes, the functionality and capability. Furthermore German customers prefer German and well-known foreign brands. However, Nelo’s product and its attributes are communicated as good Scandinavian/Swedish design and good quality which are the elements they want to transmit in the customers mind. The problem is Nelo’s attributes are not corresponding to what the target customer wants.

Kotler states it is of most importance that the company has a clear view of what the target consumer needs and wants are. In other words it is important to know what tangible and intangible attributes customers are looking for when buying particular products. It is clear that the agents know what the target group desires and want however Nelo’s products do not go hand in hand with that. This also hinders them to have a successful positioning strategy since the target customers do not see why they should buy the product since it does not correspond to the value they want to obtain. Therefore we can see that the “customer-focused value proposition” is not according to the customers’ wants and needs. The target customer value design and quality but since Nelo’s design is not appealing and outstanding, the customer cannot distinguish the company’s products from competitors.

According to the agents they have limited options on where they are able to sell Nelo’s furniture. The large retail furniture stores want a larger assortment of products, and are either carrying low-price or well known high end products. This forces Nelo to sell their products in independent furniture stores, and thereby getting less attention from the consumers in the furniture market. According to Bennington one of the most important elements in positioning is how the product is communicated to the consumer, and by being rejected from the large retail stores shows that Nelo’s products are involuntary positioned as not suited for these markets.
According to Bennington it is important not just to position a product or a brand in the mind of the consumer but also in the mind of the retailer that sells the furniture. This is done by Nelo’s agents whereby they do not bring catalogues and photos of the furniture to the retailers but instead they bring some samples of the actual furniture. According to the agents this is done for two reasons; since the Nelo brand is not recognized by the Germans it provides the retailers with a deeper understanding of Nelo’s product. They get a chance to examine the products more hands on, and thereby obtain a better chance to evaluate for instance the products quality, design, and comfort. This in turn provides them with the ability to conclude if the products are suited for their stores. The second reason is that if the retailer is not certain if they want the products in their assortment they can retain the furniture’s in their store, giving their customers a chance to also examine the product and getting familiar with it. This leads to opportunities for positioning Nelo’s products both in the retailers mind as well as in the consumers mind.

8.2.1 Points-of-Difference (POD) and Points-of-Parity (POP)

According to Kotler a company’s POD is what gives the company an advantage to their competitors, and is the key factor when a company positions. All of the agents pointed out that what makes Nelo’s products unique is their Scandinavian/Swedish design. In the German market Nelo’s Point-of-Difference is their design. Their advantage with Point-of-Difference is that the average German consumer believes that Scandinavia produces quality products; they have a good reputation in Germany. The German consumers put less faith in products from Eastern Europe and Asia; this gives Nelo an advantage against competitors from these countries.

When considering their Points-of-Parity that is reducing the competitor’s superior advantage it is clear that Nelo’s furniture is having problems with competing with other firms. Their brand is not sufficiently recognized in order to compete with the high end German competitors, because when a customer in Germany is faced with two products that hold almost the same attributes the customers are most likely to choose the domestic brand. According to Kotler a company that can neutralize their competitions POD:s and provide a unique POD, will have a superior advantage. Nelo can efface the competitions POD:s, if they are price contra quality, because their price and quality is considered to be fair and acceptable by the market. But their products are not being seen as exclusive. This leads to the fact that even if Nelo is able to match their competitions price and quality, they come short when the consumers want high end products that also conveys the feeling of exclusiveness. According to the agents the German consumer that buys high price furniture also want the product to be exclusive, and Nelo is not considered to be that.
8.2.2 Choosing POP: s and POD: s

When examining Nelo’s Point-of-Difference; the design, and the agent’s responses to this is that the German markets wants and needs are not being fulfilled by Nelo according to Kotler three criteria’s (1)relevance, 2)distinctiveness and 3)believable) for having a superior advantage.

1) The POD must be considered relevant and import to the target market, as Gerd Baute states: “For real luxury furniture market the segment is very small. For this customer group the products have to be very exclusive and Nelo is not considered to be that.” The design of high end furniture’s are not considered to be important and relevant unless they also convey exclusiveness. Since Nelo’s products are not perceived as exclusive they fail to be relevant and important.

2) The agents also brought up the fact that Nelo’s design is not corresponding to the trends in furniture’s on the German market. The products are not considered to be modern enough nor do they consist of the material that is popular in Germany for the moment. This implies that the German consumers do not find Nelo’s design to be distinctive or superior.

3) When German consumers think of Swedish design in relation to furniture, he/she thinks of IKEA. They have positioned the phrase Swedish design in the mind of the German consumer, to be associated with IKEA. IKEA is the opposite of Nelo; they mass produce low price furniture. Too immediately, involuntary or not, be linked together with IKEA in the consumers mind harms Nelo’s ability to create a believable and credible POD.

8.2.3 Re-Positioning

When analyzing the results from the interviews we can see that what Nelo is trying to sell to the German market, is not what the target consumers are looking for. The modern furniture stores think that Nelo’s products do not fit in with their assortment of furniture. According to Baines this is the result of change in taste of the consumer, new competitors, new technology, or a misconception between the company and the consumer.

According to Baines there are four ways of re-positioning a brand or a product. One of them is to change both the product (attributes) and the target market. This fits very well with the thoughts and ideas of the agent Walter Reinert. He states that Nelo’s products need to be adjusted to suit the German market better so that they can attract more customers. He has sent pictures to Nelo’s CEO of products that have a design that the German market appreciates, and is of the opinion that Nelo’s products need to be altered in order to sell.

During the interviews a lot of suggestions for attribute changes of Nelo’s products as well as what the trend in Germany is, was brought up. As Baines states; “the market is a dynamic place and there are always changes going on which requires the company to adjust to, if it is to remain competitive”. The agents felt that the design of Nelo’s sofas is not suitable to the preference of the German market as they should have four legs in metal, whilst Nelo’s sofas do
not offer this. The Germans also prefer arm chairs with four legs which should be in metal, and this is not consistent with Nelo’s armchairs. The products are also considered to be too large, heavy, and consist of too much wood, which according to the agents is not attractive to the German consumers whom prefer light products with metal standings. All these facts delivered by the agents suggest that they are in favor of Nelo making a re-position with changing their designs.

8.3 Branding
Due to Nelo’s limited marketing actives in Germany, it is hard for their brand to occupy a specific position in the market which according to Ghauri is done by communication, advertising and other means. This is something Nelo does not carry out. Since Nelo is an unknown brand in the German market this creates difficulties because consumers have a hard time distinguishing the brand from other existing brands on the market. Therefore using the brand as a mean to convince customers that there are meaningful differences among brands in the product category is hard for Nelo. However, according to the agents Nelo has a unique Scandinavian product design of good quality which could be seen as their attributes that differentiate them from other brands. This is an important factor in branding, creating differences. Teaching the customer “who” the product is with help of a brand is not the case for Nelo on the German market. However, “what” the product does could be seen as a positive feature for Nelo’s products since they are different from others. Here one can see potentials of helping consumers organize their knowledge about products in a way that clarifies their decision making. In other words Nelo’s Scandinavian design and quality becomes of vital importance if the brand is to have a chance to become and remain appealing to the targeted customers. On the other hand, even though Nelo’s products are considered to be unique and different, they do not fully match the target markets wants and needs. This in turn makes it difficult for Nelo to build a powerful brand because the products are not corresponding to the customers’ taste.

We can also see that building reputation around a brand is achieved by understanding the customer segment and thus creating a brand that can be perceived to satisfy these segments. In Nelo’s case it is rather their features such as good quality, comfort and uniqueness that create the value around the product, rather than the brand. However, according to Kotler by understanding customers’ motivation and desire and thus creating relevant and appealing images around a company’s product will lead to a company being very successful. As mentioned previously Nelo does not meet up to these desires which in turn becomes a negative factor for the brand in a way that it becomes even harder for a customer to associate their product with the brand.

Ghauri points out that brands are the most valuable resources a company has. In Germany Nelo’s products are currently the most valuable asset they have and not the brand. Since it is hard for foreign brands to become recognizable or successful in the German market, it is especially hard for Nelo to communicate marketing strategies and positioning to the specific
market since their brand is practically unknown to the German customer. Furthermore the brand itself “Nelo” does not add any dimensions to the product that would in turn differentiate them from other products serving the same needs, this due to customers not being aware of the brand but also preferring German brands over foreign brands. However, as long as quality and price is closely related to the products then the chance for the brand in the market will be favorable; the problem is that the design is not desired by the target customer.

Kotler points out that brand can signal a certain level of quality so that satisfied buyers can easily choose the products of that brand again. The brand “Nelo” not being known or associated with quality and high end products on the market, shows that it is difficult for customers to know what the brand represents or stands for. Therefore brand loyalty is something that is not applicable to Nelo. Additionally, German middle and upper class customers exhibit less brand loyalty. However, as stated above brands can signal a certain level of quality which is the case in Germany. German customers buy products that are of high quality and brands that transmit desired design and quality. This is however not the case for Nelo since the product quality and design clash, making the brand get stuck in the middle which leads to the brand being incorrectly transmitted to the target customers. According to Kotler loyalty can lead to customers being willing to pay a higher price for a product, often 20 to 25 percent more. Quality and design is what makes products appealing to the German up-scale customer, therefore the price and the brand will not be an issue. Here we can see that quality and design is in a way a loyal factor for the German customers rather than the brand itself.

8.3.1 Brand equity

Scandinavian brands, in other words the brand equity, according to the German customers are considered to be of good value. In other words the value given to products from Scandinavia is both positive and favorable whereby they are seen to be of good quality. As Kotler mentions this value depends on the association made by the customers. Even though most German customers associate Swedish furniture products with IKEA they still favor Scandinavian products over other brands coming from countries such as Poland and East Asia. This in turn could be seen as a positive thing and in a way favorable since Nelo is a Swedish brand exhibiting high quality. As one of the agents pointed out that Nelo’s brand is not well known among the consumers but usually if the design is appealing and the quality is high then it will not take long for the consumers to get to know the brand. However, we can see that even though products that are coming from Sweden are favorable to the German customers, Nelo has not reached that point whereby the customers link them to exclusive products. One can say that the brand knowledge is limited due to limited exposure and the customer considers the product to be more of a general version of any furniture product.
9. Conclusions

The investigation has shown that the target segment for Nelo in Germany are the middle to high income group with the age 40+, but it is shown that the products offered by Nelo don’t attract this segment in southern Germany. This is related to a difference in preference between different states in Germany. When a segment is targeted by a company, the image it wants to portray in regards to the products it offer has to be clearly communicated. Here Nelo has not been successful in communicating a clear image to the segment it’s targeting. Wanting to occupy a position in the up-scale segment means that the product offered has to fit with the targeted group’s wants and needs. Failure to do this results in the target group having a wrong image of the company. This is the problem facing Nelo now according to the investigation conducted. Firstly because Nelo do not promote their products via advertising, which makes the brand Nelo unknown and this segment prefers either domestic products or well-known foreign brands. Secondly the trend in Germany when it comes to upscale modern furniture is not according to what Nelo’s products offer, this goes for design, material and features. In addition the financial situation in this area has made the consumers very careful in what they spend their money on leading to making it difficult to sell expensive furniture.

Regarding positioning, the investigation shows that Nelo is not well positioned in the target market. This is because the need and wants of the target group is not being satisfied accordingly. Nelo has not differentiated its products in ways that the consumer can easily identify and consider it different from other products in the market. If the consumers cannot identify a company’s product exclusively this results in a fuzzy image of the company. It is not only the identification of Nelo’s product that renders its position in the market weak, but also the furniture it offers lacks the design that is desired by the customer group. Furthermore the product Nelo offers is not considered as exclusive by the target group, which is an important element when it comes to the up-scale market. The agents interviewed are working primarily in the south of Germany. This is not the optimal geographical segment due to style and material preferences. In northern Germany the consumer’s tastes in high end furniture’s coincide much better with what Nelo has to offer. From this one can say that it is important for Nelo to re-position itself if it is to possess a distinctive position in the consumer mind.

In the up-scale consumer may disregard the brand aspect and accept a product with good quality and design if it corresponds to their wants and needs. Having said this, it is difficult for foreign brands to succeed in Germany, but if a company has products that appeal to the consumer then they will learn to associate the product to the brand and this way brand awareness is created. We can conclude that Nelo’s design is what differentiates them from others. Nelo being of Scandinavian brand would normally be appealing to the German consumers compared to other foreign brands though it falls short due to weakness in design. This could have been an advantage for the company to get easy access to the market but it has not been the case. The German consumers also often relates Swedish furniture with IKEA which
is in a way a disadvantage for Nelo because it has become hard for the consumer to distinguish their high quality image with IKEAs low price products.

To sum it all the authors can conclude according to the points discussed above that Nelo’s position in the German market is rather weak and not consistent with the image.
10. References


How Nelo’s image is perceived in Germany
An empirical investigation amongst their agents
June 8, 2009


11. Appendix

Questions about Nelo

Questions asked during an interview with Tommy Nyberg (CEO)

First interview (December 23rd, 2008)

Company
- How is your organization in Sweden (employees, company structure, organization etc.)?
- What type of company is Nelo?
- Who are your suppliers and what kind of relation do you have with them?

Products
- How do you get your products to the final consumer?
- How big is the demand for your product?
- How often do you come up with new product design? (time frame)
- Where do you buy your raw material/components?
- Where are the final products produced?

Price
- What do you consider most when setting your prices? Could you explain
- What impact does the price have on the customers’ decision when the buy your products?

Competitors
- Who are your competitors?
- How does Nelo differentiate itself from other furniture firms?

Positioning
- Who are your customer group (segmenting)?
- How does the firm communicate to the consumers? How is customer service?

International activities
- Do you have any relationship abroad?
- Do you corporate with any country outside Sweden?
- Has the firm had any kind of business activities in Germany prior to your decision to enter? What do you want to accomplish in Germany? (How and why)
- What are/is the future planning of the firm?
How Nelo’s image is perceived in Germany

An empirical investigation amongst their agents

June 8, 2009

Questions for the agents-

Questions asked during the interview done with the three agents,

Interview conducted with Gerd Baute May 18th, 2009
Interview conducted with Hubertus Igges May 31st, 2009
Interview conducted with Walter Reinert May 31st, 2009

Segmentation

1. Where are Nelo’s products sold and to whom are they sold to, in other words who buys them and who are the customers?
2. Do buying patterns or taste differ depending on where you live in Germany, how and why?
3. What are the most important features German customers look for when buying a high-end chair or sofa (design, color, price, comfort, quality etc)?
4. Are the customers buying Nelo’s products easily identifiable by age, lifestyle occupation and social class, in other words what is the profile of a typical buyer?
5. Is the company supplying consumers who are under served in the market?
6. Do German customers prefer German high-end products over foreign high-end or is there no difference in this category?
7. Are Swedish furniture and design appreciated by German consumers?

Positioning

1. Do the customers consider Nelo’s products to be unique and not comparable to any other products in the market in sector; if so describe what sets it apart?
2. What promotional methods are used to attract the German consumers and how effective are they?
3. Is Nelo’s product being sold in stores or outlets that are keeping up with desires of the target market?
4. Is the up-scale furniture market in Germany attractive and how is the opportunity for growth in this section?
5. Are the products being sold by the company easily available for the target consumers?

Branding

1. How important is a brand for the German customer when buying a high-end product?
2. Are German customers loyal to brands?
3. Are the German customers that buy Nelo’s products familiar with the “brand” Nelo and its origin and what it represents or they just buy the products according to preference and taste?
4. On the German market, is the brand “Nelo” or their products the most valuable asset they have?
5. Do Nelo’s products differ from other products or brands existing on the market, does anything differentiate them from others, if so what?