Strategic Analysis of Strässle

A Strategic Analysis of the Company and a Possible Penetration Strategy for the United States

Presented & Prepared by:

Team Strässle

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Outline

1. Management Summary

- Strässle is a small company, based in Switzerland. Design, production and sales are all coordinated at this location. The core competence of the company is producing and selling high quality leather seating furniture with a dedicated modern-classic design.
- Target groups are residential customers with a high income and a sophisticated taste.
- After being a well-known brand and price leader in the past it has been outperformed by other companies, especially De Sede. Strässle is currently only well-known to experts and specialists like interior designers.
- Some of their products still have an outstanding position (King Chair) in terms of design and prestige.
- Although all products are still on a high quality level, image and brand are crucial for the customers.
- The biggest weaknesses of Strässle are identified in the missing or unclear branding of the company.

Following conclusions are made for future strategy for Strässle in the home market:

- Define a clear and specific product promise, which is valid for your whole product range to reach your customers emotionally.
- Increase your marketing budget to strengthen your brand and to thereby gain price leadership.
- Focus your marketing and distribution efforts on the products, where your core competencies and your image is outstanding.

No additional resources should be wasted on other areas. The first priority is to clean the house in the current market within Europe and to be able to compete with the competitors in the market segment.

Further strategic options are analyzed to see whether there are other windows of opportunities, which offer high possible profits and imply only small risks and require low resources: Internationalization, specifically to the USA, is seen as an attractive option for the company:

- This could be done effectively with a low cost penetration method by hiring their own part-time agent in US or selling directly to US resellers.
- Focus on attractive stores in attractive spots where your target customers are clustered.
- Possible cooperation with other Swiss furniture companies to lower costs and to build up a branding umbrella with furniture “Made in Switzerland”.

By following the instructions given in this analysis, Strässle could gain back much of its past branding and become a well-known price leader again, whose products everyone would know, but not everyone could afford. Strässle’s goal should be to become the “Rolex” of the furniture market.

2. Company Profile

Preliminary note: Since we did not have cooperation from Strässle, most of the analysis had to be done with a lack of necessary information and missing insider knowledge in the industry. Sometimes a subjective assumption had to substitute hard facts. Nevertheless, deep insights have been gained and concrete recommendations for Strässle have been given.

2.1 Products, Customers & Distribution

Strässle's focus is on high-quality leather seating furniture, especially leather chairs which are designed by artists and have a mostly classic-modern design. Since quality is outstanding, and product volumes are low, prices are on the high edge of the market. As a result of this, their primary customers are private households with a very high income and sophisticated taste for classical modern design.

2.2 Brief History of Strässle

The Company was founded in 1886 by Gottlieb Strässle. With the entrance of his son, the company focused on high-quality furniture. Since then Strässle retained a unique market position until the late 1970's in Europe for high-quality leather chairs for the residential market. It was the leading brand for these products, and was famous for its sophisticated, classical, modern design and its quality.

Many of their design models became famous and are considered "furniture that made history". The "King Chair", seen in the illustration above, is an example of this. The company had a unique market position until the 1970's. Since then other established competitors, specifically De Sede, have outperformed Strässle and has overtaken Strässle in terms of image, popularity, marketing and distribution power.

The result is, that Strässle still is a brand, but mostly for experts, concentrating on its core competencies in leather chairs, widening its product range with beds and partly producing products for other companies (white label) - so standing in between.

2.3 Company Key Data

Strässle AG is a 100% privately owned company which was founded originally in the 19th century. It is based and produces its high-end furniture products in Switzerland. With 30 employees, 15 of which are in production, it generates revenues of around 8 Mio. EURO in 2004. Turnover per employee is above 250.000 EUR, which is well above the average in Germany of 130.000 EUR[1]. Although Strässle still earns money, no growth can be seen in their core business.

2.4 Offered Products & Product Lines

Six product lines are offered to the customer (for example on the Internet), which comprise up to eight different models. These various product lines are clustered differently.

- Primarily, they are classified by the type of furniture product.
- Secondly, they are labeled by the artists, who designed them (e.g. Ballendatr).
- Moreover a generally named “Classics Line” adds to this offering.
- And last but not least, “New Products” complete their portfolio.

To summarize, many products with many designs are offered in a manifold, structured way to the customer. Some examples can be seen in the illustration below:

Product Examples of Strässle

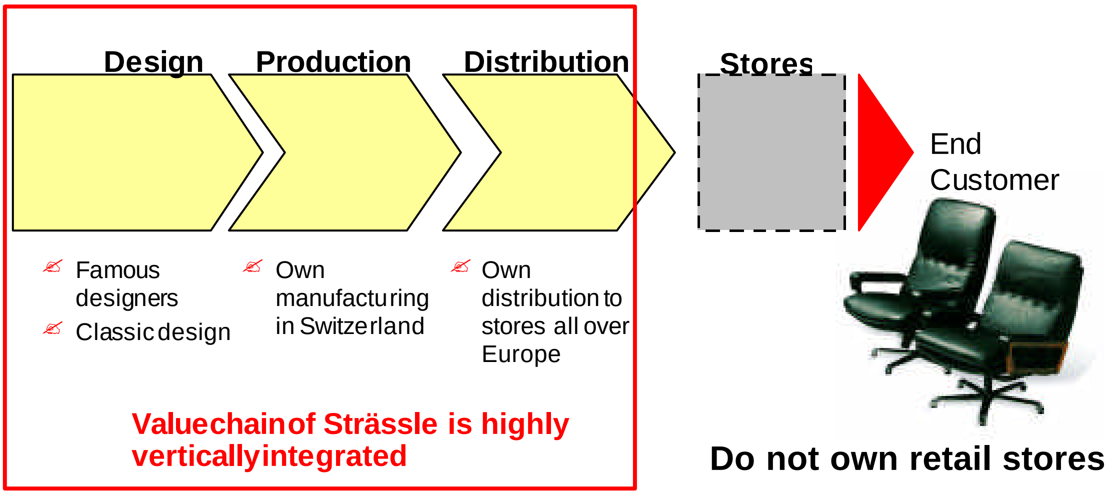
Product Examples

2.5 Value Chain

Strässle covers most parts of the value chain by itself.

- Designs are bought exclusively from famous designers from all over the world, especially located in or near Switzerland.
- Production occurs completely in-house in Switzerland.
- Distribution to the retail stores is almost completely controlled.

Value Chain of Strässle



- Only the interface to the end customer is not controlled by Strässle.

Summarized, Strässle is a small company completing most function internally.

2.6 Presence in Europe

The company has resellers in different countries in Europe. The key focus of its presence is central Europe, especially Switzerland, Germany and France. In most stores, only one or a few products out of their product line are presented. There are not any stores exclusively owned by Strässle. Nor are any stores which have focused solely on the products of this company[2]. Distribution is done by own personnel. Resellers are only specialty stores.

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[1] See “Branchentrends Polstermöbel 2003 ” and “Die Möbelindustrie braucht Anschub”
[2] Interview with the CEO of Strässle

3. Strategic Analysis

To analyze strategic options it is first important to look at the current strategic position of this company in it's the relevant market. The next step is to identify the success drivers and how to use the restricted knowledge and resources of the company to move them into a successful position.

With this goal in mind, the following procedure has been used:

- The relevant market was defined first. This is the market in which Strässle, with its core competences and product features, is searching for customers. This market was estimated in terms of sale volumes.
- Next step was to judge the competition in this specific market segment.
- The key success factors were determined.

Finally, based on this analysis, the strengths and weaknesses of Strässle have been identified and strategic recommendations are given.

3.1 Market Structure & Development

The furniture market in Europe and especially in Germany and in Switzerland is very fragmented. For example, in Germany nearly 10,000 companies have revenues under 10 Mio EUR which is less than half of the revenues of the 14 biggest companies.

Market structure of furniture industry in Germany 1997[3]

Unternehmen mit Lieferungen und Leistungen von ... bis unter ... DM	Anzahl	Anteil in %	Umsatz Mill. DM	Anteil %
25.000 - 250.000	5.053	38,4	590,9	1,4
250.000 - 1 Mill.	4.768	36,2	2.478,1	6,0
1 Mill. - 10 Mill.	2.724	20,7	7.474,4	18,1
10 Mill. - 50 Mill.	464	3,5	10.277,2	24,8
50 Mill. - 100 Mill.	91	0,7	6.110,1	14,8
100 Mill. - 250 Mill.	57	0,4	8.449,0	20,4
250 Mill. und mehr	14	0,1	6.025,0	14,6
insgesamt	13.171	100,0	41.404,7	100,0

The fragmentation is causing problems for the small companies, since they don't have the critical capital for building up a brand, which is strategically the most important factor in this market.

[3] See Unger, "Der Möbelhandel – eine Branche die der Krieg vergaß"

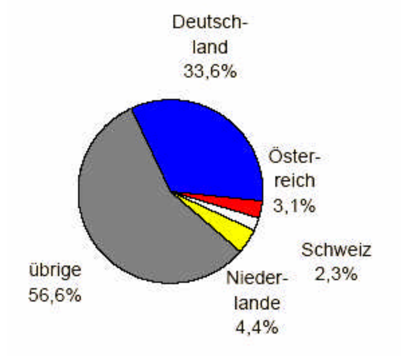
3.2 The Relevant Market for Strässle

The furniture market has been evaluated for the year 2003 and is based on data, given from the statistical institutions and branch specific associations for Germany and Europe. Data refer to the furniture manufacturing business (not to the furniture trade). Since some data for Europe has not been available partly for financial reasons (studies are too expensive) or not available at all, we had to estimate some of the figures for relevant sub-segments.

The market has to be segmented in several dimensions. This is because the geographical, quality and product scope of every company is restricted. To that effect many customers are excluded from the offer a company makes, either by the fact, that the product offer is not made to them, or they don't have any interest in Strässle's products.

3.2.1 European Furniture Market

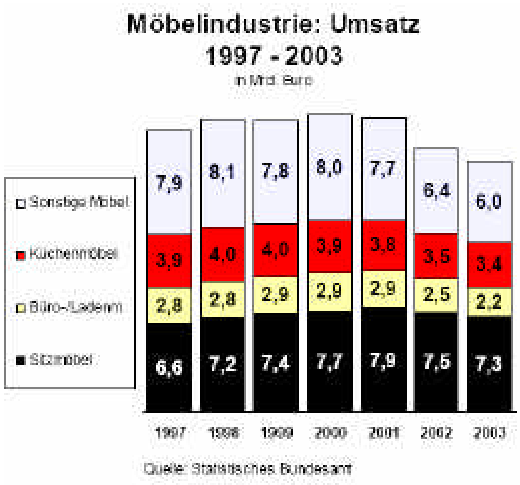
The market of Strässle in the broadest sense is the worldwide furniture market. But looking closer on the activities of the company, it is only the European market they are dealing with. The whole furniture market in Europe was about 56 Mrd. EUR (about $73 billion) in 2003[4]. In this market, Germany plays the strongest role with overall turnovers of about 19 Mrd. EUR[5]. Together with France and Great Britain it is responsible for about 70% of all sales in Europe.



Share of sales

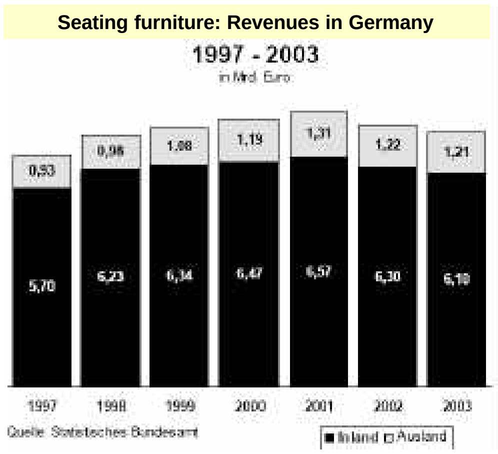
[4] Data source: Statistisches Bundesamt
[5] Source: Statistics of UEA Brüssel for the year 2002

3.2.2 Market for Office Furniture



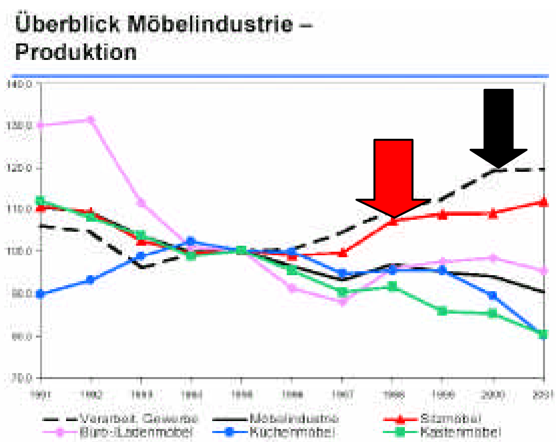
These volumes must be divided into residential and commercial markets. The commercial market accounts for about 15% of the overall market[6]. 11% are directly related to this segment and a further 4% can be estimated to be integrated into the other categories since specialized seating and other furniture is not classified as office furniture here; but in reality part of the products are dedicated to this segment. Overall volume for the European office furniture is therefore near to 11 billion EUR.

3.2.3 Market for Residential Seating Furniture



Strässle is concentrating mainly on the market for sofas and chairs which can be classified as seating furniture, which has a volume of about 20 Mrd. EUR. This share is deducted from German data again (see illustration above).

This market is quite interesting because it has the largest product share in the overall market and development of this market segment wasn't really bad in the past years.



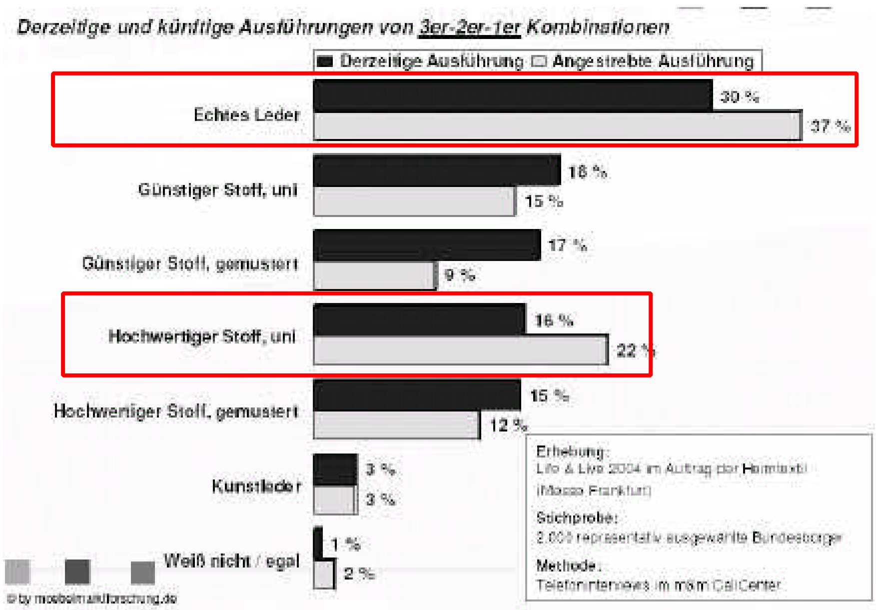
Market development of this segment (red arrow) is not bad in comparison to other product segments of the furniture market but also not compromising in comparison to the average development of the overall production in Germany[7].

Overall market shows a growth of the big companies and a sharp decline of the small ones. 300 companies in Germany had to close in the last 4 years.[8]

[6] This figure is the sum of the share of dedicated office furniture of 11% (see in the illustration) and an estimated 4% for specialized lamps and other furniture not classified in the illustration above.
[7] See "Branchentrends Polstermöbel"
[8] See "Markenbildung – Erfolgsstrategie für die Möbelindustrie"

3.2.4 Market for High-Quality Residential Seating Furniture

Types of upholstered seating furniture wished for the next buy

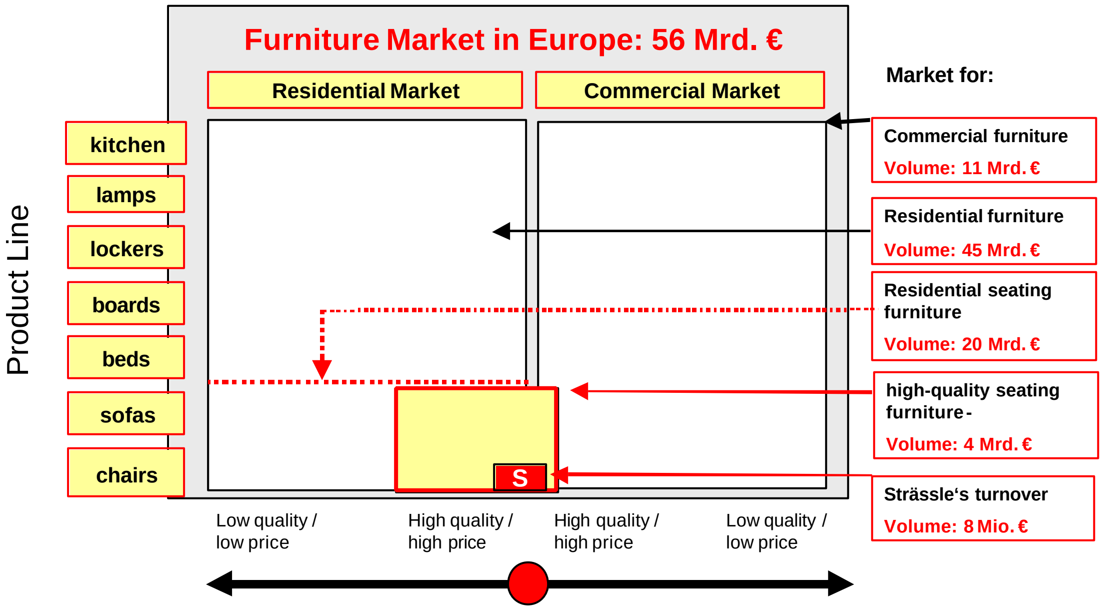


Again this market has to be segmented further to identify the current market potential for the current product lines. There is no statistical classification for this segment, but a validated 60% of the people prefer leather or other premium materials (see illustration[9]). From them, an estimated 15% is able and willing to pay a reasonably high price for a premium quality. According to this overall market, potential for Strässle in Europe is about 3 billion EUR.

3.2.5 Strässle in the Furniture Market

According to the above findings, Strässle's position in the furniture and in the relevant market can be sketched[10]: Because of the focus on high-quality and high-priced furniture, the relevant current market potential for Strässle is about 4 Mrd. EUR (round about $5.2 billion). This relevant market is illustrated by the yellow square in the following illustration:

[9] Live & Life Survey 2004
[10] Own illustration



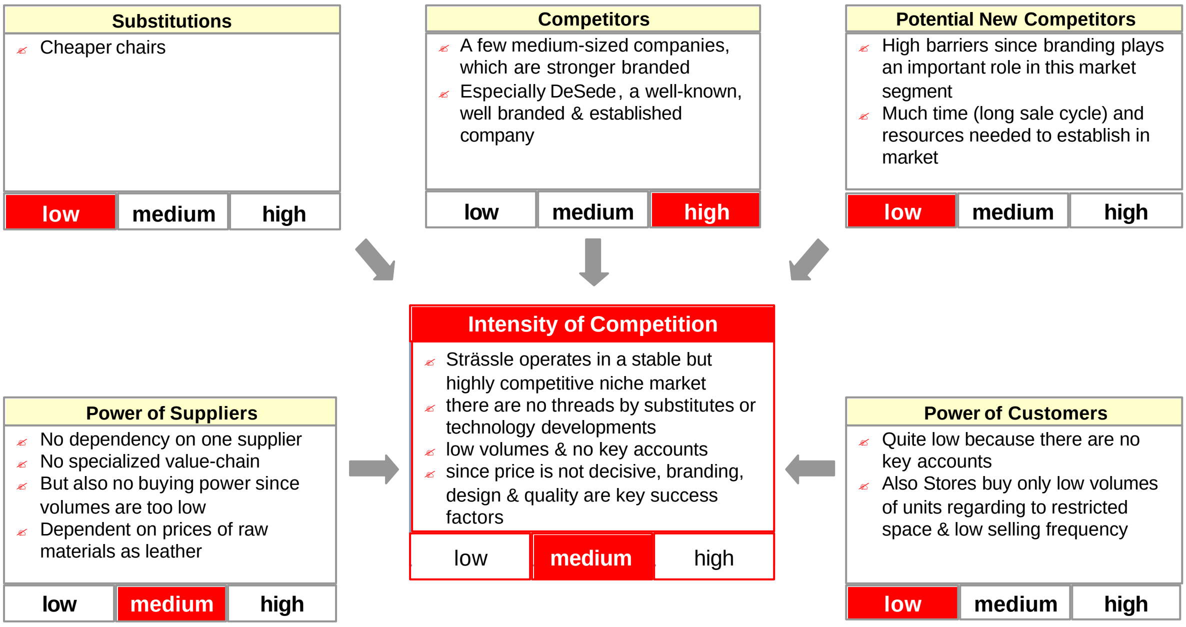
The revenues of the company were 8 Mio. EUR (round about $10.4 Mio.) which represents a market share of round about 0.3 % in the relevant market.

3.3 Competitors in the Furniture Market

Strässle has many competitors in its market niche of high-quality seating furniture. Most of them are well-branded and have larger revenues. Some of them such as De Sede used to be smaller, but recently has outperformed Strässle in terms of image, popularity, marketing and distribution power.

So the questions arise: Why has this happened? What are the success factors and strategies in the furniture market, especially in the high-quality market niche? How can a company use its instruments effectively with its restricted resources to improve their strategic situation in the market?

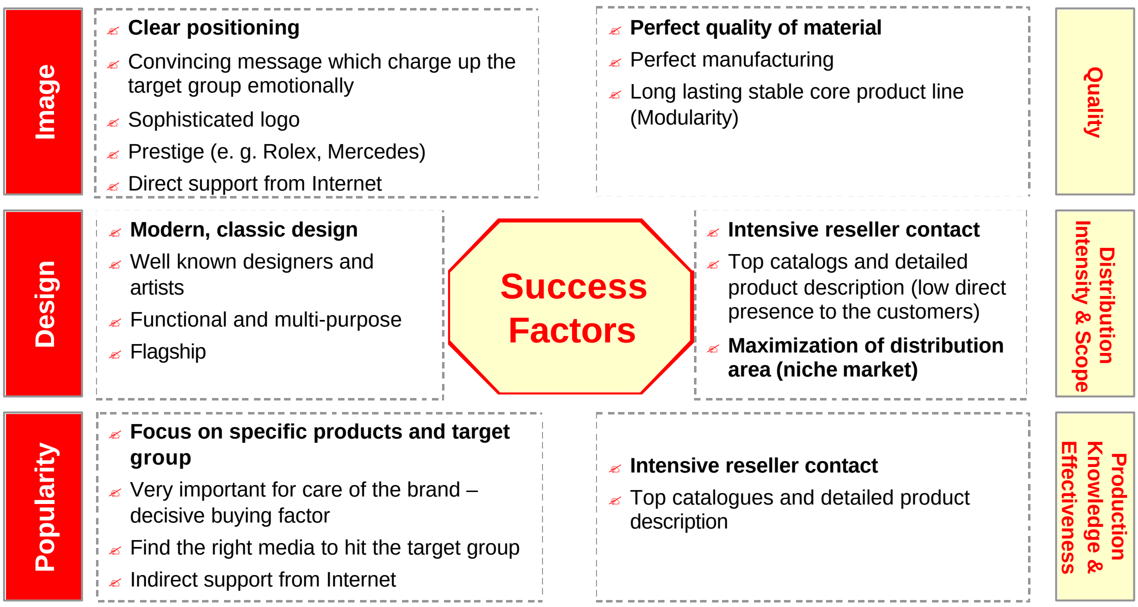
3.4 Porter's Five Forces



3.5 Success Factors

Six substantial factors for success in the market can be identified in the market for high-quality furniture:

- Image & Branding
- Design
- Popularity
- Quality
- Distribution power
- Production KnowHow
- Price does not have a strong impact on the customer in this market segment. The other factors are more important.



Not all of the success factors play an equally important role and some of them are in-dependent of each other.

The most crucial driver of success in the furniture market, especially in the high-quality furniture market is branding and image. It is the reason why customers are willing to pay high prices. In these high-price segments, customers buy a prestigious object, that in the best case has the image that everyone knows it, but only a few can afford it.

Features of a strong furniture brand are[11]:

- **Clear label**: Furniture labels need a clear marking by a long ranging logo and slogan.
- **Clear positioning**: the brand has to be clearly positioned in terms of price, style, quality, etc.
- **Clear product promise**: it has to be clear to the customer, what special features a brand has and why it's better than the competitors.
- **Communication support**: Sufficient marketing budget is necessary to build up a brand as well as to care for it.
- **Constant quality**: Strong brands have to have the same quality in a long range.
- **Large geographical scope**: The products should be promoted and presented in as many areas as possible.

Advantages of a strong brand for the customer are obvious:

- **Orientation**: Brands help the customer to select a product out of the big variety of offers.
- **Certainty**: Products with certainty make it easier for the customer to buy, because they believe in the product promise, which is made to them.
- **Product line longevity**: Since customers often buy high-quality furniture piece by piece and different products of a product line often fit together, they have to be sure, that they can buy the complementary goods years later.
- **Prestige effects**: Last but not least, branding as a prestige object, plays the most important role.

Advantages for the manufacturer are big as well:

- **Strong position against the resellers**: Since customers wish to see products of this special brand in their store, resellers are willing to make concessions to the manufacturer.
- **Brand loyality**: Driven by a long lasting preference for the brand, customers will buy again.
- **Marketing multiplicator effects**: Content customers will be multiplicators for the brand thus increasing popularity of the brand (positive word-of-mouth).
- **Pricing tolerance**: Customers are not sensitive in regards to the price.

3.6 Fundamental Success Strategies in the Furniture Market

Experts[12] within the specialized furniture market found that the lack of branding, combined with decreased popularity is the biggest weakness of most companies. For these

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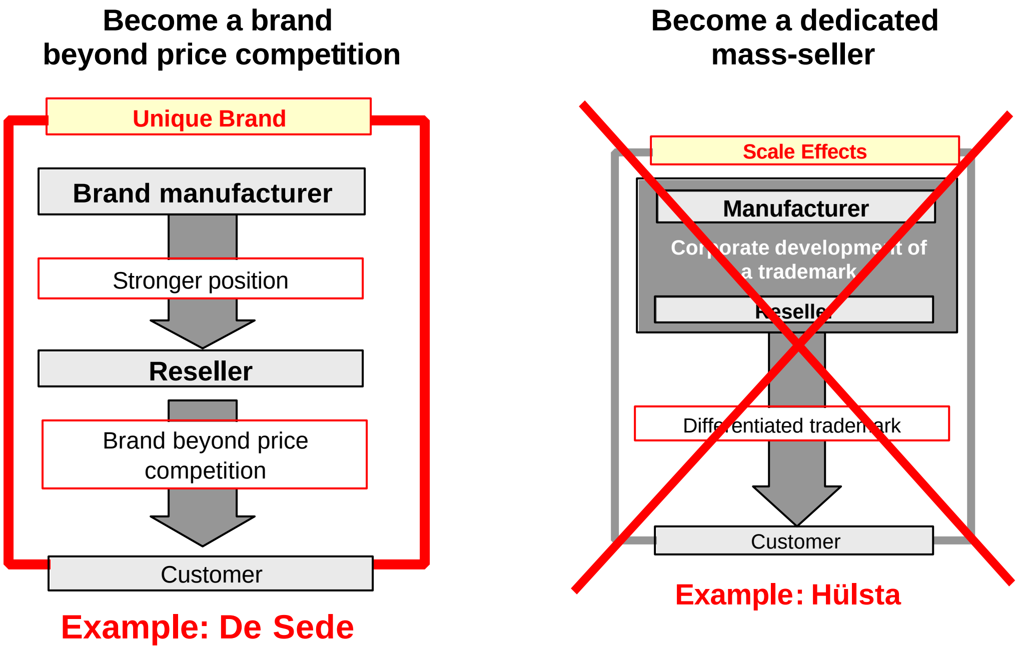
[11] see also "Markenbildung – Erfolgsstrategie für den Möbelhandel"
[12] see "Markenbildung – Erfolgsstrategie für den Möbelhandel

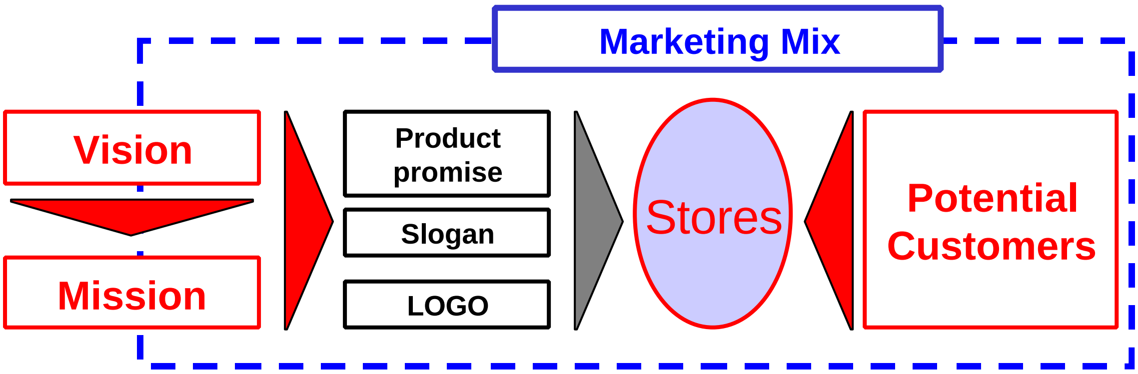
companies, there are only two dominating success strategies, which would enable a furniture manufacturer to survive and prosper:

- The first strategy is to become a strong brand beyond price competiton. The product becomes the brand! This supports a push and pull circle in demand, which enables even small companies to survive.
- The second is to interact on a large scope with the big furniture companies, which can monitor short-term trends in the market and knows what the customer wants in each segment. Cost effectiveness, large scales and distribution power play an important role in this strategy to reach customers of different segments.



Low financial resources, low capacities, narrow product line and missing production knowledge for mass production, and –as we will see- profile of strategic strengths and weaknesses left only one door open for Strässle: to become a small, smart brand beyond price competition.

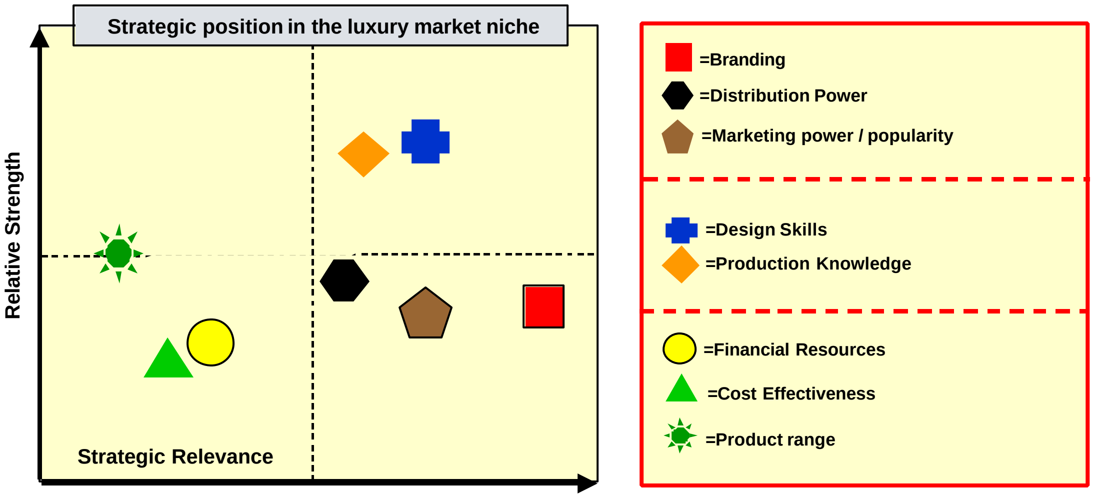
It has to communicate a clear marketing message to the customer:



A clear marketing strategy is necessary, which is ultimately deduced from the vision and mission of the company (see illustration above). By this a push and pull effect can be inaugurated: We push our products to our activated customer, which pulls them from the stores. This double impact leads to a higher presence and a better price position.

3.7 Recent Strategic Position of Strässle

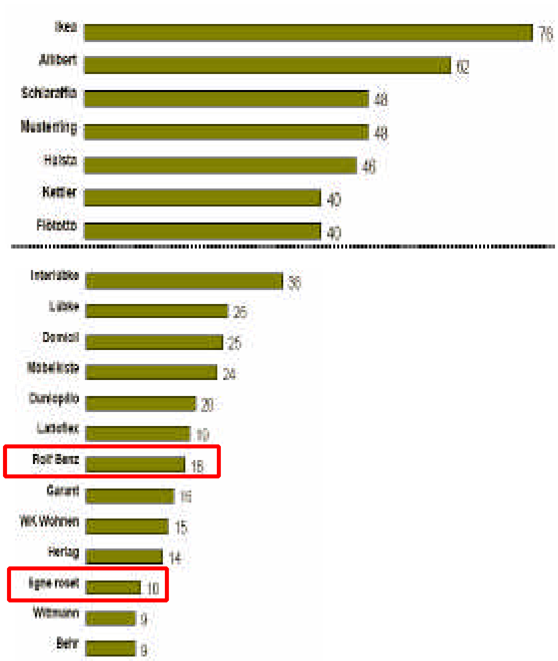
Summarizing the findings above, brand, image and popularity play an important role to be successful and prosper in the market. These factors become even more important in the high-quality furniture market niche where prestige driven price tolerance gives small companies the chance to become profitable. To connect with the customer emotionally with your brand and products are the keys to success.



3.7.1 Popularity of Strässle

As a survey showed, currently awareness for the Strässle brand is mildly said low. People don't know Strässle anymore, but they do know the competitors (marked by red squares).

Popularity of brands above 9%

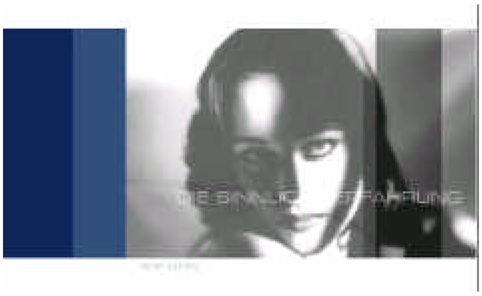


Popularity of brands below 9%

3.7.2 Brand Supporting by Competitors

A frightening fact is that the direct competitors are doing very well. A best practice example can be seen at De Sede, the competitor which was once smaller, is currently the price and image leader for high-quality leather seating furniture with revenues exceeding Strässle's by a factor of 10. Also in the interface to the customer they are the benchmark. This can be seen e.g. on their homepage.

Flash intro



Welcome page

The good position of the company is marked by a clear positioning of the company.

Some marks are exemplary highlighted here (translation takes some spirit of them):

- **Clear Vision**: "In search for excellence"
- **Smart Slogan**: "Werte zum Be-Sitzen" (wordplay: values to be owned, which also means: to be seated)
- **Strong Product promise (in the intro)**: "In our lounge room, we search for the sensual experience, the love and security – we build the furniture for it"

3.7.3 Vision, Mission and Product Promise of Strässle

The current state of the company can be seen, or rather not seen on the Homepage of the company website, which serves as the business card for every company. Instead of emotionally enticing the customer to support them and buy one of the quite expensive luxury goods out of the product line, the opposite is done. The Google search does not provide a specific result but gives a link to another company which resells products for Strässle.

First contact

Welcome to Strässle

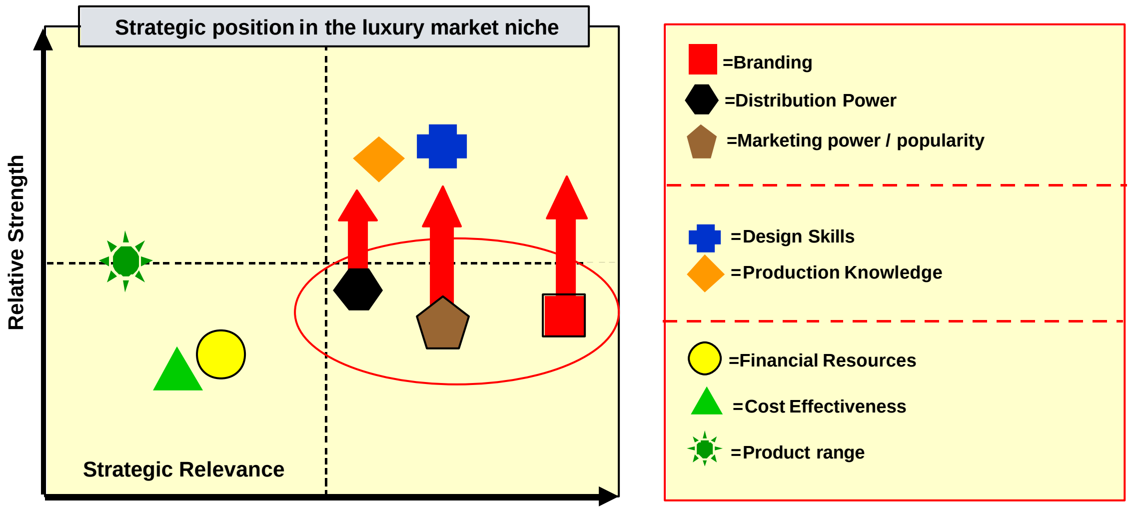
What can be seen for example on the homepage there is devastating:

- The page often is out of order
- There is no corporate identity
- Only two languages can be chosen (even not all of Switzerland)
- There is no mission
- There is no vision
- There is no clear product promise to the customer
- There is no logo
- Flagships such as the King Chair, which are known to the customer at least by their famous design are not exposed
- Product line is broad and clustered with different classifications
- History is only sketched
- Philosophy (if you can find it) has no reference to furniture.

Strässle does not have a clear vision, mission, and does not even offer any product or company promise for the customer. As a result, the company does not have a strong corporate identity and indirectly no popularity with the customer.

3.8 Strategic Recommendations for Action

After analyzing important strategic strengths and weaknesses of the company, its position in it's relevant market can be sketched.



Strässle has to focus on strengthening these important strategic weaknesses, which have been identified especially in the areas of branding and marketing (which are interacting with each other).

3.8.1 Focus of Activities

- **BRANDING**: Strässle has to strengthen their brand by defining a clear and specific product promise, which is valid for the whole product range to charge up the customers emotionally.
- **MARKETING**: Strässle has to enhance it's marketing power by increasing the marketing budget to strengthen the brand and to gain price-leadership. It should focus on a few outstanding products.
- **DISTRIBUTION**: Strässle has to improve it's distribution by focusing all efforts on the products which are unique, popular and representative for the whole product range.

3.8.2 Concrete Recommendations for Action

All recommendations are made under consideration of restricted resources of a small company:

BRANDING:

- Define a clear vision.
- Create a clear mission for the company and the customers.
- Define a clear product promise to the customer.
- Find an appropiate slogan.

MARKETING:

- Increase marketing budget.
- Build up a sophisticated corporate identity which fits their customers demands.
- Reduce product lines and products.
- Find a representative “flagship” product and focus their marketing efforts on it. They need a flagship to burn in the mind of the customer, which represents all of their targeted features.
- The “King Chair” would be an appropiate flagship.
- Strässle has to focus on the target customers which are people with relatively high incomes and sophisticated taste for furniture.

DISTRIBUTION:

- Since only a few of the products can be represented in the specialty stores, a representative catalogue is necessary, that could provide an overview on the offered product lines.
- New specialty stores need to be found and contacted with to broaden distribution scope.
- Broaden your distribution scope by looking over the borders to other West-European countries.
- Stores located close to high-income clusters have to be chosen first. See examples for these high-income clusters in Germany in the Appendix.

3.8.3 Concrete Recommendation for Branding

Apart from the strategic analysis, the recommendations for the branding mission for Strässle to become a price leader like De Sede are:

Vision:

- We will become the Rolex of the high-quality seating furniture market.
- Everybody knows us, but not all can afford us.

Mission:

- On the clear way back to price and design leadership.
- Less is more.

Product promise:

- Swiss made high-quality furniture, with outstanding quality and a long lasting design.

Slogan:

- “When your furniture lives longer than you!”
- “When the design lives longer than your grandchild!”

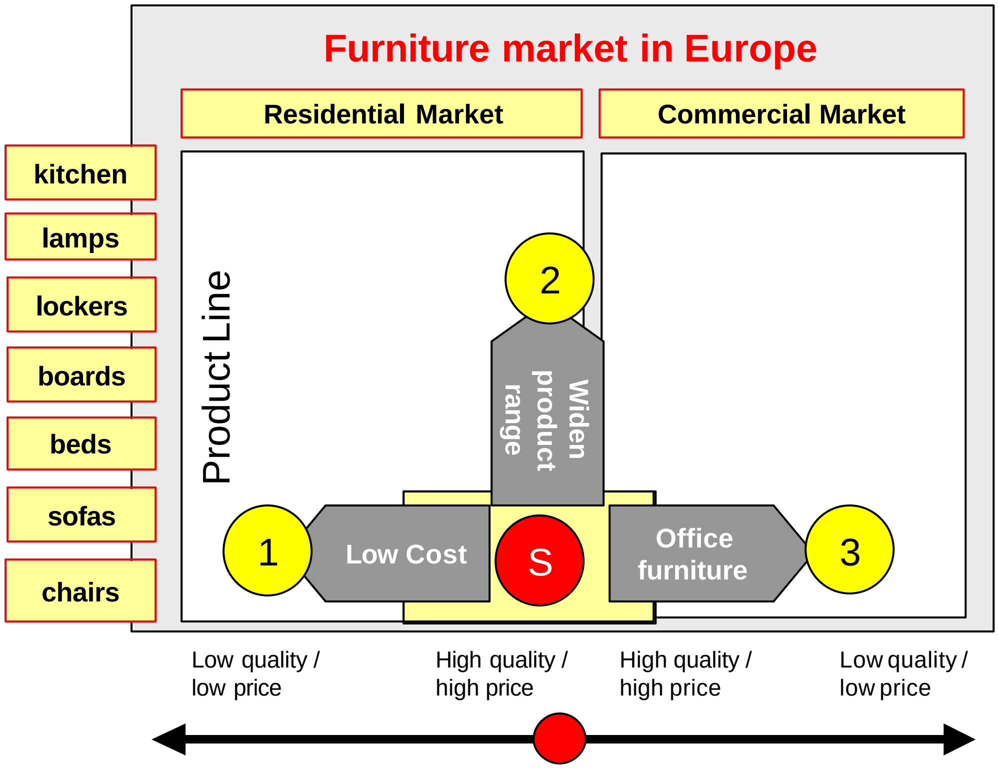
4. Further Strategic Options for Action

Nevertheless, there are additional strategic options. These have to be evaluated as well to determine the appropriate strategy or to illuminate other options to survive and prosper.

4.1 Strategic Options for Entering New Markets

As shown in the previous analysis, Strässle is operating in a niche market, thus the relevant market is quite small. With new strategies Strässle could try to enter into new segments of the furniture market to gain new customers and maybe to gain a stronger position. Three simplified different strategic directions are imaginable:

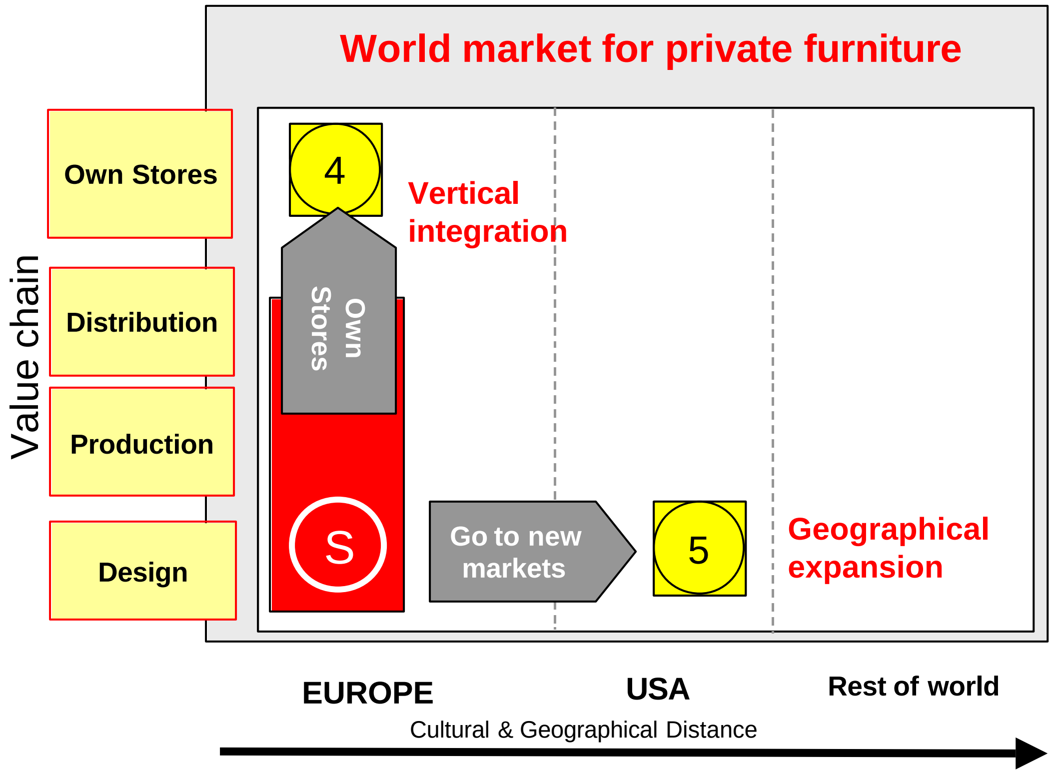
- First option is to produce low cost chairs as well.
- Second option is to widen the product range.
- Third option is to go into the market for office chairs



4.2 Strategic Options Inside the Relevant Market

There are two further strategic options for Strässle to strengthen its position in the relevant market. These are:

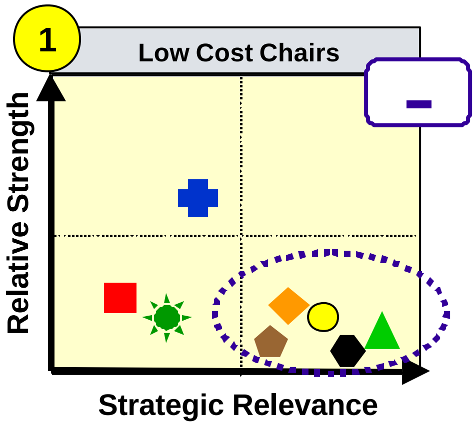
- Extension of the value chain by building up own stores.
- Geographical expansion to other countries.



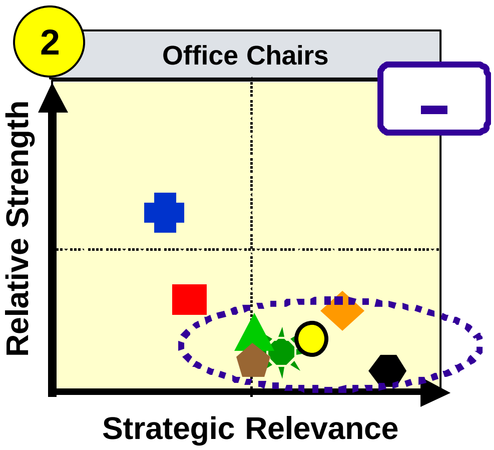
A further option in distribution is to look for other distribution channels other than specialty stores. For example, direct distribution via the Internet and big trading companies, etc. were not taken into consideration because we did not want to go beyond the scope of this analysis. Furthermore, these options also did not really make sense because of obvious reasons. Of the valid options sketched above, the most attractive option for the company becomes clear in the next chapter.

4.3 Estimation of Strategic Options

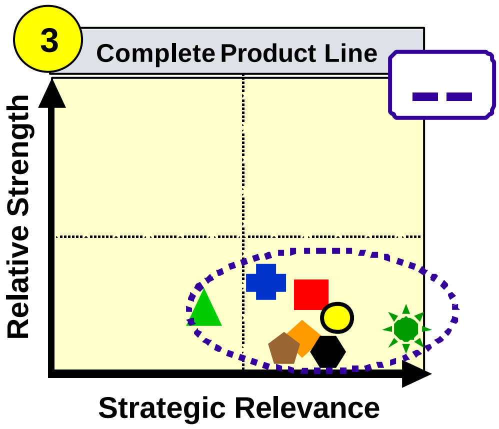
To evaluate the different options, the same scheme is used as in the chart for the strategic positioning in the home market before. The relation of strategic importance of success factors and relative strengths of Strässle references these factors. Since the strategic relevance and importance of these factors is changing, as well as the relative strengths the company has in the special market segment, position of the success factors marked by symbols are changing as well. Nevertheless it remains an estimation based on available information.



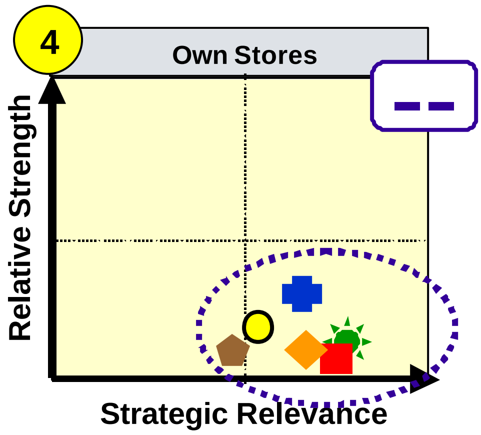
- As sketched above Strässle has weaknesses in the crucial factors and strength in the less important ones. This is a bad combination to enter a market.
- Missing financial resources, cost effectiveness and missing production knowledge are crucial indications to not proceed with this option.
- Moreover, the market is not very attractive due to low margins and many competitors.



- Same situation as with the first option can be monitored.
- Of course production knowledge for chairs is available, but for the ergonomic requirements new knowledge must be obtained.
- Crucial features are missing like product range and financial resources in terms of missing capacities, since often large volumes are required.

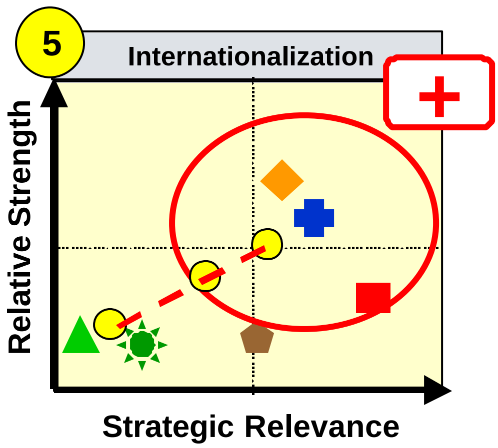


- Very bad outlook has to been given to this option as well.
- Nearly all important requirements are not existent.
- Design knowledge for other products has to be generated. Production knowledge is missing also.
- Financial reasources are important but not available in the necessary amount and need to clean the house (see previous chapter).



- Interesting option for a really strong brand.
- At this stage a waste of energy, time and money.
- Nearly everything that is necessary, is not possessed by the company.
- Branding gap is to big.
- Target group is too small.

Last but not least, the geographical expansion is a subject, which is connected to a real brand (see above). Here sketched for the internationalization towards USA.



- Branding is really important, since it is the crucial USP to penetrate the foreign market.
- Design-skills in comparison are maybe better than usual in this country.
- Needed financial resources depend on the kind of penetration strategy chosen (see next chapter).
- Costs do not play a role in relation to consumer prices of the products.

Further analysis will explore that strategic direction.

5. Analysis of Internalization to US Market

5.1 United States Furniture Industry Overview

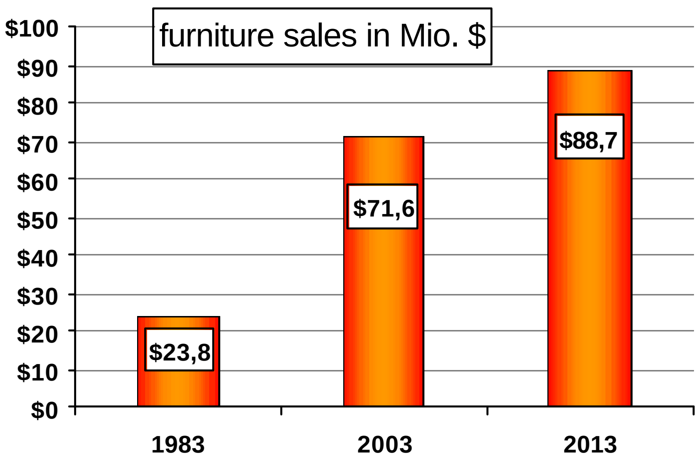
The United States furniture industry is characterized by many suppliers, many buyers, a fragmented distribution, limited product differentiation, and low barriers to entry for new suppliers.

5.1.1 Furniture Market and Home Sales Market

Household furniture sales are closely linked to home sales in the US. As a consumer market, the household furniture market is directly affected by the national economy and trends in housing construction. A strong economy tends to translate into growth in housing activity, which leads to an increased demand for household furniture. Furniture is a major discretionary purchase that is often put off during hard economic times. Office furniture sales are linked to employment growth and new business formations. The focus in this analysis is on the furniture market.

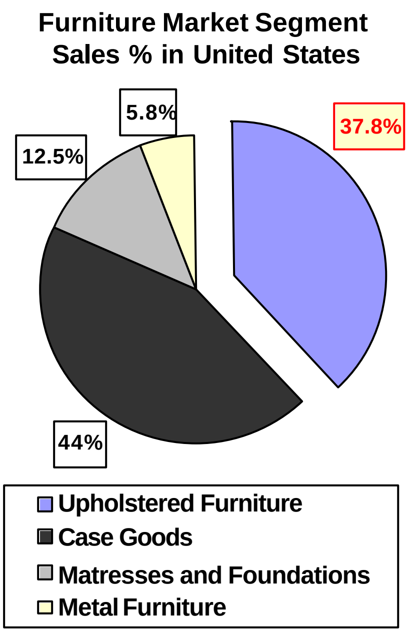
5.1.2 Development of Residential Furniture Market

The last two decades have shown a significant increase in household furniture purchases from $23.8 billion in 1983 to $71.6 billion in retail sales for 2003. This is an average annual increase of 6.1 % over a twenty year period. However, this growth has slowed recently, and in 2003 growth of household furniture sales was only 2.7% over 2002 (American Demand). The number of households in the United States is expected to grow by about 11.5% over the next decade, slightly less than 1% per year. Real disposable income is expected to grow approximately 23.8% between 2003 and 2013. Based on these assumptions, furniture sales are predicted to grow by 23.8% from $71.7 billion in 2003 to $88.7 billion in 2013 (American Demand).



5.1.3 Market Segmentation

The industry of residential furniture is made up of large national chains, regional stores, and small independent operations. Small, independent stores are typically specialized and carry distinct products that appeal to a select demographic. The furniture retailing industry in the United States included 29,920 stores in 2001 with combined annual revenues of $48.7 billion according to the US Census Bureau (Furniture Stores), which is similar to the European data.

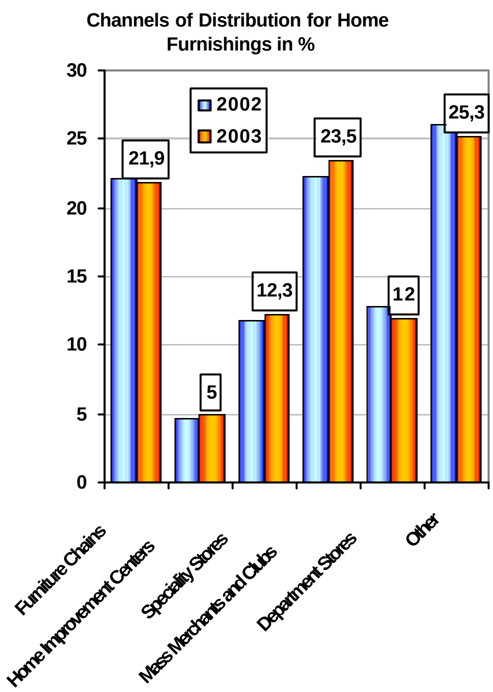


The upholstered furniture segment, which consists mainly of sofas and matching chairs, represents 37.8% of the entire furniture market (American Demand).

5.1.4 Distribution channels

The U.S. furniture industry faces a complex and dynamic distribution system. In 2003, according to the Home Furnishings Network, the channels of distribution for furniture retailers stood at furniture stores and chains with 21.9 percent, home improvement centers with five percent, mass merchants and clubs with 23.5 percent, department stores with 12 percent, and other segments with 25.3 percent combined (Furniture Stores).

Specialty Stores account for 12.3% of all sales.



5.1.4.1 Typical Furniture Stores

A typical furniture store in the United States sells living room, dining room, kitchen, bedroom furniture, and mattresses. Products are classified in two broad categories: case goods (wood furniture) and upholstered products. Most retail furniture stores sell a broad range of products, but some concentrate on one furniture type, such as mattresses, sofas, office, or children's furniture. Furniture retailers with multiple locations receive their inventories from one or several regional warehouses. The regional warehouses are supplied directly from multiple manufacturers. Typically, smaller stores are showroom galleries with little inventory of their own.

Traditional retail furniture stores are continuing to lose ground to their competitors as an increasing number of consumers are purchasing furniture and office equipment at nontraditional sites such as warehouse clubs, discount superstores, department stores, galleries, and from catalogs. Consumers are also making furniture purchases online. According to the *Verdict on Home Delivery & Fulfillment* report, 23% of consumers who purchased furniture in 2004 did so via the Internet (Internet Clicks). Traditionally, consumers have wanted to see and touch furniture and test for comfort before purchasing but that is changing rapidly.

Online purchases for furniture were only 4% in 2001 (Internet Clicks). As the Internet becomes more accessible and mainstream, consumers are more willing to make more complex purchases like furniture online. Large furniture retailers, such as Levitz and Ethan Allen, and smaller furniture retailers are forced to compete with department stores, warehouse clubs, discount superstores and the Internet therefore, making it harder for these stores to grow and maintain profits (Internet Clicks).

5.1.4.2 Furniture Retailers in the United States

The trend towards mass retail discount stores has been recent and quick. A survey conducted by *Furniture Today* magazine reported that Wal-Mart was the number one performer in furniture sales for 2003. This is the first time a non-traditional furniture store sold more furniture than any other retailer in ten years. (Furniture Stores).

Top 10 furniture retailer 2003

Wal-Mart	***1.240,00***
Rooms To Go	**1.235,00**
Ethan Allen	**1.006,00**
Levitz Home Furnishings	**950**
La-Z-Boy Furniture Galleries	**896**
Office Depot	**868**
Sam's Club	**850**
Federated Department Stores	**843**
Berkshire Hathaway furniture division	**836**
Costco	**750**
Staples	**702**
Havertys	**683**

However, these totals most likely include outdoor, metal furniture, and other home furnishings like bedding and towels. The inclusion of the additional furnishing segments makes comparisons uneven and difficult. These non-traditional furniture stores accounted for almost half of the top 25 in 2003 (Furniture Stores).

5.2 Furniture Manufacturers in the United States

The five largest furniture manufacturers in the US for 2001 were: La-Z-Boy, Furniture Brands International, LifeStyle Furnishings International, Ashley Furniture, and Klaussner (Furniture). The manufacturers typically offer a fully integrated product line to take the guesswork out of furnishing a home. Essentially they are all striving to be "one-stop shopping" furniture supplier. Their product lines include unique and coordinated products allow the buyer to choose from several combinations of furniture for living rooms, dining rooms, and bedrooms all designed with matching materials and finishes. In addition to furniture, some of these manufactures carry rugs, candles, art, shelves and lamps. These manufacturers typically offer products in a wide range of styles and prices.

5.3 Consumer Analysis

5.3.1 Consumer Behavior in the United States vs. Europe

Consumer purchasing behavior is very different in Europe than in the United States for furniture. In Europe, consumers are willing to pay a high price for quality pieces of furniture that will last them a lifetime. Consumers often save for several years to buy that one piece of furniture such as a chair. European brands are more expensive and of much higher quality than most furniture offered in the United States. In Europe, furniture is a major purchase. In contrast, Americans buy furniture and regard it as disposable items. Americans buy furniture, and after a few years, get rid of it and buy more. Furniture is not an investment that most Americans are willing to spend a lot of money on. Americans tend to get tired of furniture due to color, style, or pattern choices and decide to change them. Trends and styles changes quickly and so do American tastes in furniture. They will buy whole rooms of furniture at a time rather than piece by piece and most spend the same amount of money for a room full of furniture that a European consumer would spend on a single piece. The average American consumer does not buy high-end furniture. Most furniture is purchased from mid-priced, reasonable quality furniture manufactures.

American consumers are influenced more by price and quality than by brand for furniture choices. Most American could only name about five furniture manufacturers by brand name and the ones that they would name would be low to mid-priced manufacturers. Therefore, American consumers are not loyal to stores or brands when shopping for furniture. Shopping around at multiple stores is now an established part of the buying process. The quest for the lowest price is often the reason for visiting multiple stores. Price is the primary reason for consumers shopping around followed by quality, choice and color.

Many American consumers are purchasing furniture for looks rather than its quality. However, the consumer is not naïve; they know they get what they are paying for. As long as the consumer knows what they are getting for their money, they are happy with a decision to buy cheaper furniture with the corresponding lower quality. They know it will not last forever, but American tastes change quickly and they will dispose of it a purchase more.

5.3.2 Consumer Trends

American consumers are becoming more influenced by style and design. It is becoming more important for consumers to update furniture because of changes in fashion. This means that the lifespan of furniture is decreasing as consumers replace items with more fashionable ones. For this reason, consumers are less willing to pay high-prices for furniture. Television shows like "Trading Spaces", where rooms are completely redesigned and updated for $ 1,000 are very influential in today's culture.

5.3.3 Common Success Factors

For a high-quality furniture manufacturer to be successful in the United States there are some common factors that contribute to a company's success. The first success factor is image. The company must portray an image of quality craftsmanship, quality materials and fabrics, luxury, high fashion, modern design, and unmatched durability. A second success factor is design. The designs must be innovative, unique, and have uncompromising quality. The next success factor is marketing. Marketing efforts must focus on design and aesthetics and not on price. Marketing must also target designers, high profile design companies, and interior design catalogs. Another success factor is the distribution channels. Distribution should be to high-end retail specialty store, design galleries, and high profile designers and design companies. There should also be high support from an Internet homepage. American consumers like to do research before making large purchases. They want web-pages that can provide detailed information about products and product options, dealer locations, quality, craftsmanship, and pricing. The next success factor is cost effectiveness. American consumers' perceived quality is tied directly to the price of the product. The higher the price the higher the perceived quality and vise versa. The final success factor is product customization.

American consumers want to have choices and be able to choose the color, fabric, and size of furniture pieces.

5.3.4 Market Attractiveness

The US market is an attractive market since it is nearly as big as the European market and because of the larger income spread. There are more high-income households in the US than in Europe. However, consumers' behavior and tastes are also different in these segments.

There are some factors which could help Strässle in penetrating this market:

- Transportation costs has little affect on the end price.
- Prices are not relevant for the households with a high-income, which is our target market.
- Mobility and segregration lead to high-income clusters as a target for the initial sales penetration.
- Branding based on classic flagships, known also to American experts, can be built upon in a good way, as well as the label "Made in Switzerland", which represents quality and longevity (supported by famous Swiss-made watches).
- Design skills are relatively strong in comparison to the few competitors based in the US

Since the analysis above mostly concentrated on the overall market in terms of trends, development, consumer tastes, etc. a closer look at the special market segment of high-quality seating furniture market is necessary.

In this market segment, it is possible that other issues take action and customer requirements may be completely different to that of the average customer.

Instead of going deeper and deeper in an analysis of market segments and special studies referring to this specific segment, we took a closer look at a competitor, which is well-known in Europe and has penetrated the US market successfully.

An interview with Courtney Hoyt, P/R and Marketing Manager of De Sede USA showed a successful strategy and gave us hints for concrete recommendations for Strässle:

5.4 Excursion: Successful Strategy of De Sede - A Benchmark

5.4.1 American Activities

De Sede, a furniture company located in Switzerland has had a presence in America since the 1970s. De Sede is a high-end leather furniture manufacturer. In the United States, De Sede is sold through authorized dealers in the retail market and design showcases. De Sede furniture can be found in retail stores in major cities like Los Angles, Boston, Chicago, Dallas, Austin, and Miami. All of their furniture is manufactured in Switzerland and imported to the United States (Hoyt, 2005).

5.4.2 Their Customers

The general customer demographics for the United States are that customers are usually extremely wealthy, own more than one home, are well traveled, business professionals, or they are celebrities. Some of the celebrity clientele include Will Smith, Tina Turner, Ludacris, and Mick Jagger. De Sede furniture can also be seen in recent movies including the latest James Bond movie and I Robot and television shows like Murphy Brown. Celebrities who purchase De Sede furniture usually do so at the recommendation of a designer (Hoyt, 2005).

5.4.3 The Difference in Target Groups

These demographics vary greatly from that of their European consumers. European consumers are as low income as a bank teller. They will save money for two or three years to buy one piece of furniture like a chair from De Sede (Hoyt, 2005). All European consumers are potential consumers of De Sede furniture, not just the wealthy. Buyer behavior is different in the United States than in European countries. Americans purchase furniture as a disposable good. It is purchased and disposed of after several years and Americans go and buy more.

5.4.4 De Sede’s Winning Strategy

De Sede has many success factors including craftsmanship, design, quality, and leather (Hoyt, 2005). A large percentage of De Sede’s business is from repeat business. De Sede success in the US is attributed to that fact that they do not compromise in any way and always remain true to De Sede. They will not add additional product lines for lesser quality, lower priced products that would compromise the De Sede high-quality reputation to increase sales. They strive to achieve consistent quality and continually introduce new products (Hoyt, 2005).

5.4.5 Market Attractiveness for De Sede

De Sede's sales in America are growing at a variable rate. This rate does not tend to vary with economic trends because of the wealthy high-end consumers. The growth rate is slow overall. Less than 5% of De Sede's sales come from the United States (Hoyt, 2005). The US market is virtually an untapped market with great potential. The challenge is change the mind-set of American consumers. Americans buy furniture as disposable goods. De Sede wants consumers to look at furniture pieces as major purchases that they will spend a significant amount of money on but also have their entire lifetime and pass down to future generations (Hoyt, 2005).

5.4.6 Customer's Favorites

In the United States, the most popular product line is the sofa sectionals. This is due to the large homes, and the large amount of space that needs to be filled. The most popular color varies by region depending on climate. Warmer climates and cooler climates are linked to different color choices. The retail price of De Sede furniture ranges from $2,000 for a dining room chair to $40,000 for a sofa sectional (Hoyt, 2005).

5.5 Possible Penetration Strategy for Strässle

5.5.1 Barriers for Penetration to the US Market

The US furniture market generally has low barriers to entry. There are barriers in customer taste that Strässle will have to face. These barriers include:

- The market for contemporary furnishing has relatively low popularity among American consumers.
- Americans consumers' tastes change rapidly, and the frequency of changing styles and fads.

To increase the potential for success against consumer tastes Strässle must not compromise their integrity, brand, style, and quality and adapt to the American market place.

- Another barrier for Strässle is the cost of their products. These high-end, high-priced products limit the potential sales volume because the target market is small compared to the US population. The majority of furniture manufacturers in the US sell mid-priced furniture and it may be hard for Americans to accept high-end prices.
- Distribution will also pose barriers to penetration for Strässle. Currently, the largest furniture retailers in the US are mass discount retailers and warehouse clubs.
- The lead time can also be very long on customized products and import shipments. Americans are typically impatient and do not like to wait so they may chose other options that have faster delivery.

- The final barrier to entry is American consumer behavior. Americans consider furniture as disposable items and replace it several times through out their lives. The mind-set limits what consumers are willing to spend on furniture.

Furniture purchases are also infrequent, occurring only every 4 to 5 years. This makes it hard to establish repeat business and customer loyalty. Ultimately the largest barrier is finding the correct market that will reach the target customer.

Customer taste

- Contemporary furnishings have relatively low popularity among consumers
- **American consumers tastes change rapidly**
- **Styles and fads change frequently and are major influence on consumers**

Distribution

- Mass discount retailers and warehouse clubs have become number one furniture retailer in U.S.
- Lead time is long on customized products
- Lead time is long for import shipments thus requiring a large inventory in US (American don't like to wait)

BARRIERS

Costs

- **High-end, high-priced products limit potential sales volumes**
- Target market is small compared to US population
- **The major furniture manufactures sell mid-price furniture, it may be hard for Americans to accept high-end prices**

Consumer Behaviors

- **American consumers consider upholstered furniture as disposable items**
- **Americans buy furniture and replaced several time through out their lives**
- **This disposable product mind-set limits what consumers will spend on furniture**
- Furniture is an infrequent purchase, occurring every 4 to 5 years

5.5.2 Basic Recommendation

The production and sale of household furniture in the United States is a large, highly competitive business in which thousands of different companies worldwide participate. Although dominated by a handful of growing corporations aiming at the mass market, the furniture market still has room for small companies that fill niche markets.

The marketing strategy for Strässle should position the company in furniture niche markets catering to high-income individuals and families. Strässle needs to deliver its home furnishings to a customer base willing to pay a premium for innovation, unique design, and a differentiable level of comfort. Industry dynamics make it unlikely small competitors will ever grow as large as the conglomerates. However, the furniture industry still invites growth for companies developing products that fill niche markets. The key is finding the correct blend of price, function, and appealing style, and supporting the product line with an efficient and extensive distribution system.

In order for Strässle to succeed in the US furniture market it must have effective brand management, design innovation, manufacturing innovation, and smart distribution channels. For effective brand management, Strässle must determine how to position its brand for the intended target market. Under the category of design innovation, Strässle needs to understand consumer trends for color and style choices. They need to have an understanding of why consumers make selections and what preferences exist. Strässle must position itself focusing on superior design and image and market it core products to establish a market share in their niche target market.

5.5.3 Market to be Targeted

Strässle has to position its furniture in niche markets for customers who understand quality and are willing and able to spend money on the best. The consumer must have an appreciation for modern design, quality craftsmanship, and lack price constraints. The customer must want the "best". The want "show pieces" that other do not have. Their products should not be marketed to the mass markets.

5.5.4 Marketing to Resellers

Marketing is the key component to this strategy. Information has to be made available to the target market so that potential customers know that the products exist and where they can purchase it. Marketing should be focused on high quality niche stores, high-quality catalogs, designers, design firms, and art galleries. The marketing should emphasize that it is not just furniture, it is pieces of art. The general demographics of the target customer are high income, married and unmarried adults, aged 24-44, who own multiple homes.

5.6 Recommended Proceeding

After the analysis above, the following steps are recommended. Offer…

- the appropriate products
- in the right spots
- and choose the appropiate channel of distribution

5.6.1 Offer the Appropriate Products Out of Your Product Line

Strässle has a broad product line which varies from designer lines of chairs to sofa beds. As the benchmark De Sede has shown, a focused design, completely made up by one designer is a good branding umbrella to create a lasting image of the brand in the mind of the customers.

For penetration into the US market, Strässle should focus on their “Classics” collections and their “Relaxchairs”. The Classics are the foundation of Strässle’s design-based chair market and very integral to the company’s reputation.

It is important that Strässle focus on the core products for the US market. It will help convey the image and brand name. The unique, contemporary, and sophisticated designs are the correct product for the niche market strategy for Strässle in the US.



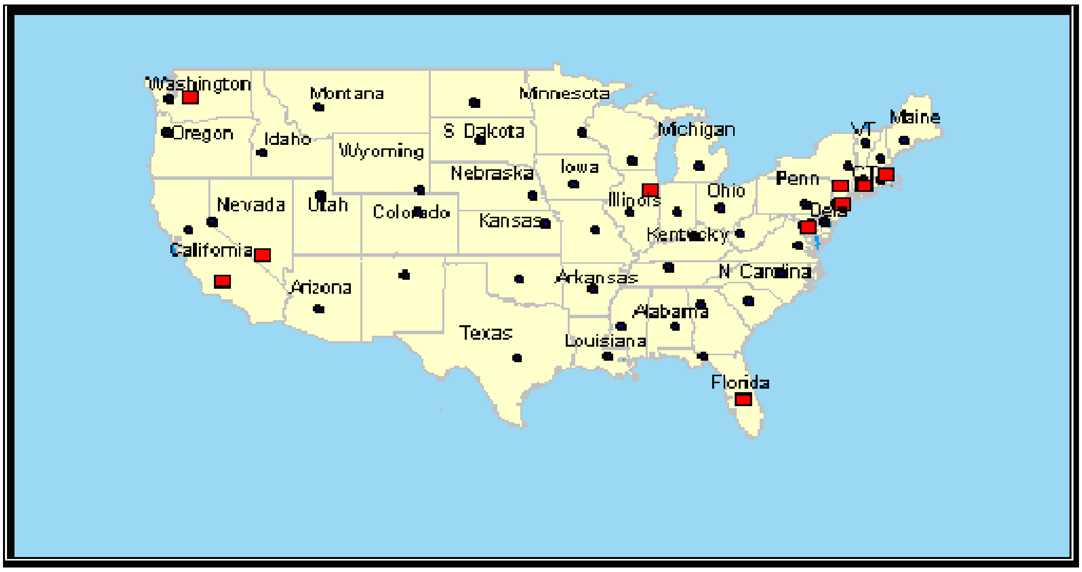
The other product line that Strässle should market in the US is the Relaxchairs. Americans like comfortable furniture. This product line is a good combination of contemporary, innovative design and comfort. They are similar to recliners that are currently very popular in the US for relaxing and watching television.




5.6.2 Find Demographically High-Income Clusters

The median household income in the United States, according to the 2000 US Census, is $ 42,781.00 (EASI). Strässle needs to target high-income consumers who would be willing to pay a premium for their products. There are almost 2.5 million households the US with an annual income of $ 200,000+ (EASI). This is the demographic Strässle needs target. This demographic typically has a larger disposable income and has more of an appreciation for luxury items. The map below shows the concentration of the top 20% of households with the head of the house aged 25-34 and an annual income of $200,000+.

Top 20% of Households w/ Annual Income of $200k+ and a Head of Household Aged 24-34

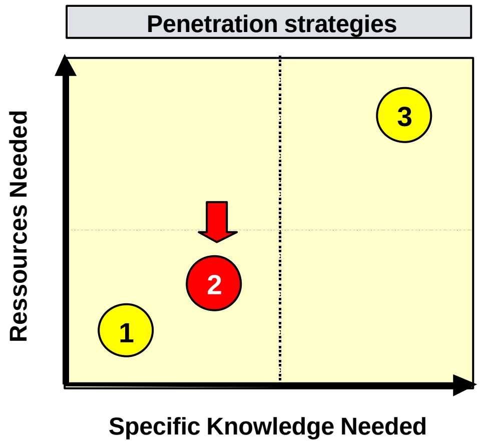


EASI Demographics

5.7 Options for Distribution

After finding out, how to capture the target market, different ways of distribution have to be compared. There are three possible penetration strategies:

- Indirect distribution
- Direct distribution
- Own Flagship-Stores



5.7.1 Indirect Distribution

1 Find a distribution agency

- **Proceeding**: Find an existing furniture distrbutor
- **Advantages**: Ease of distribution, maybe tie in with other high-end European furniture manufacturers, low cost
- **Disadvantages**: less control over distribution, customer may not realize all product attributes

A possible penetration strategy for Stässle involves finding a distribution agency. It is important that Strässle find an appropriate distributor. Finding an established distributor who already has a strong client base and distribution channels is a necessity. A distributor knows the market and has established connections to the “right” stores will make penetration into the market easier. A good place to connect with an appropriate distributor is through the national furniture markets like the one in High Point, North Carolina. The use of a distributor would allow for easy distribution and it would be a low cost strategy. However, there are some disadvantages of using a distributor. Those disadvantages include: less control over distribution and a lack of the ability to educate the consumers and retailers about all the qualities and attributes of Strässle furniture.

5.7.2 Direct Distribution by Own Agents in USA

2 Direct distribution to appropriate reseller

- **Proceeding**: Engage an own agent & find appropriate furniture stores who sell to target niche market
- **Advantages**: Lower distribution cost, do not have to pay an agent, control over distribution and marketing
- **Disadvantages**: Lack of knowledge of appropriate stores

A possible penetration strategy for Strässle would be direct distribution. This would involve finding an appropriate furniture stores to sell direct. The correct stores for Strässle's products are designer furniture stores that are located in areas that have a large population of the targeted demographic consumer group. Along with focusing on the targeted consumer group, Strässle should also focus on stores that carry their competitor's products. They should focus on cities and stores where their direct competitors and other high-end Swiss and European furniture manufacturers are marketing their products. It will help Strässle to find a market where European-made, particularly Swiss-made furniture already has a positive image for quality and design. Selling direct would also allow Strässle to stock little US inventory because it would only require pieces on an as-needed basis, eliminating some of the inventory costs that would be required for an agency distribution strategy or a flagship store strategy.

5.7.3 Building Up Own Flagship Stores

- Proceeding: Find demographically high-income clusters for store locations
- Advantages: Control over image, customer service
- Disadvantages: Risky, large capital investment costs

A third possible penetration strategy for Strässle is building their own stores in the US. To do this would involve finding demographically high-income clusters for store locations. This would allow Strässle to have total control over their image and customer service. However, this is very risky and would require large capital investments. This is not an option that Strässle should pursue due to the extreme risks involved. Strässle does not own any of their own stores in the European and they should not consider it as a possible option for the US.

5.7.4 Conclusion

Of the three options, the second option, direct distribution to an appropriate reseller, is the best option. Since it is a difficult market, having direct influence on the market penetration is crucial and can be achieved with relatively low costs, thus minimizing risk and providing profit maximization. The first option, while it seems to be appropriate at first, should not be used because Strässle should concentrate all of its resources on the core strategy and this option allows for little control over the image of the brand. The third option is not viable due to the required capital and enormous risk this option would require.

5.8 Penetration Strategy

Employing an agent to sell direct for Strässle would not necessarily be too expensive. Strässle would just have to find a motivated and talented seller, who has a master plan for proceeding and high provisions for successful deals. Furthermore, costs could be lowered further and knowledge could be accumulated or acquired by cooperating with other Swiss furniture companies.

5.8.1 The Right Stores

The correct stores for Strässle's products are designer furniture stores that are located in areas that have a large population of the targeted demographic consumer group. Along with focusing on the targeted consumer group, Strässle should try to focus on stores that carry their competitor's products, so that they might have a presence there. They should focus on cities and stores where their direct competitors and other high-end Swiss and European furniture manufacturers are marketing their products. Examples are given in the appendix.

It will help Strässle to find a market where European-made, particularly Swiss-made furniture already has a positive image for quality and design. Selling direct would also allow Strässle to stock little US inventory because it would only require pieces on an as-needed basis, eliminating some of the inventory costs that would be required for an agency distribution strategy or a flagship store strategy.

5.8.2 Cooperation with Other Swiss Furniture Manufacturers

An option for market penetration is to bundle products with other Swiss furniture manufacturers. This would involve finding furniture companies that offer complementary products with the same target market. This strategy uses the combination of several products for sale as a single product. Strässle would be required to find a furniture company whose product lines contained contemporary styled tables and sofas that could be bundled as furniture sets. It would be beneficial to find a company that already has established a strong presence and brand recognition in the US. It would also make distribution easier.

American consumers would appreciate the simplification of design and furniture choices. It eliminates a lot of purchase decision stress. The success of this strategy is evident because the furniture retailer "Rooms to Go", whose marketing strategy is based on selling entire rooms of furniture as sets, was the second largest retailer in 2002 (Top Furniture Retailers, 2002).

Strässle should obtain a working relationship with other Swiss furniture manufactures to share in marketing of "Swiss-made" furniture. Establishing a good reputation for Swiss made furniture would be beneficial to all the Swiss furniture manufactures. If several companies marketed their products together under the "Swiss-made" umbrella, it would help to establish a stronger presence than each company trying to do it alone.

5.8.3 Show Presence at Furniture Shows

The most critical market penetration step is an introduction to the US market through the wholesale home furnishing shows. The largest show is in High Point, North Caroline and it takes place twice a year in April and October. The shows attract 75,000 people including industry buyers, exhibitors, and sales representatives from the US and 110 countries around the world (IHFC). It is imperative for manufactures to participate in these shows to have their products seen and sold. "Over 850 of the world's leading home furnishings manufacturers choose High Point to market their products including 18 of the top 20 largest home furnishings companies" (IHFC). Industry professionals attend the show to see the newest trends and products. All types of home furnishings are displayed at the shows from case goods and upholstery to lighting, wall décor, and rugs.

5.9 Conclusion for Internationalization

After a careful analysis of Strässle's position in its home market and an analysis of possible penetration into the US market we have the following findings to report:

- The market for high-quality, high-priced furniture is a large, virtually un-tapped market with great potential for growth.
- Americans have the mind-set that furniture is a disposable item and the challenge is to change consumers' ways of thinking about and buying furniture.
- Furniture trends are changing and sleek, modern, contemporary design is gaining popularity in the US market.
- Strässle must market and advertise the aesthetics, design and quality without focusing on price.
- Strässle must use low-cost distribution channels already in existence to help them get into stores with the correct target customers.

For Strässle to be successful in the United States, manufacturing should remain in Switzerland to maintain the status of their brand name. Part of the attraction of European products is that European products have a good reputation for quality, design, and craftsmanship. A US manufacturing facility would negate those qualities. It is also very important that Strässle maintain the company's integrity and not make changes in their products, product lines, quality and style to adapt to the American market. Adding new products or additional product lines to target the mass middle income population would be harmful to Strässle's high-end, high-quality image.

6. Summary

After careful analysis of Strässle in their home market and of a possible penetration strategy for the United States we have two recommendations, one for the company's core strategy and the other is a growth strategy.

In regards to Strässle's position in their home market the company needs to focus on developing a core strategy. Currently Strässle is struggling in its home market. They need to define a clear and specific product promise, which is valid for the entire product range to charge the customers up emotionally. They need to increase their marketing budget to strengthen their brand and thereby gain price leadership. Marketing and distribution efforts should focus on the products, where their core competences and image are outstanding. The product lines are very broad from chairs to sofas and sleeper-sofas. The focus should be narrowed to the chairs, specifically the King Chair which was very famous for Strässle in the 1970s. It is important for Strässle's long term success to build up their brand name and reputation in their home market.

Strässle should also focus on a growth strategy to increase market potential. The US is an attractive option for internationalization. A low cost penetration strategy should be chosen. The most attractive penetration option is selling direct through appropriate resellers. This would eliminate the cost of a distribution agency and allow Strässle more control over their products, marketing and distribution. They should conduct market research to find appropriate stores in niche markets and target customers who understand quality and are willing and able to spend money on the best. The consumer must have an appreciation for modern design, quality craftsmanship, and lack price constraints. The stores should be located where there are demographically high-income clusters of the target consumer. The first step for penetration to the US market is to enter one of the major US furniture market expositions, specifically the one in High Point, North Carolina. Buyers from all over the US attend these markets looking for pieces to sell in their stores. This is a great way for buyers and other industry professions to be introduced to the Strässle brand. It is an inexpensive way for Strässle to gauge market interest in their products and make connections with their target stores. Buyers go to High Point each year to purchase furniture and see new products and new styles. A presence at this market is the essential first step for Strässle's market penetration of the US.

These recommendations that we have presented can be done simultaneously. Both of these strategies are important for Strässle's long-term success. Strässle currently has excess production capacity in their manufacturing plant that could be filled by production for US exports. The excess capacity is currently being used to produce furniture for other manufacturers. Although Strässle is struggling in the European market with its image and reputation, the US penetration strategy is a low cost strategy that could easily result in growth and provide much needed capital for the company. But this step towards internationalization to the US should not take place unless Strässle focuses on building its reputation in it home market through marketing and creation of a company mission and vision for the future. It is also imperative that Strässle create a webpage that conveys an image of luxury with a clear promise to the customer and embedded in a corporate identity. The Internet is becoming increasingly more important in the US and Europe. The creation of a good webpage could positively influence customers in both markets.

The vision that we recommend for Strässle is to become the "Rolex" of the high-quality seating furniture market. Everyone should know who they are even if they cannot afford them. The mission should be to focus on high quality leather furniture, with outstanding quality, and long lasting design. The marketing should focus on the long lasting design and quality of the products.

When your furniture lives longer than you!

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Remarks to further sources:

- All charts, which are not referred to a special source are own illustrations
- All other statistical Data referred to in the analysis are from the “Statistisches Bundesamt” or from GFK
- All other information have been gathered in interviews with experts and additional web searches.
- Fundamental informations about Strässle have been gained in a short telefon interview with the CEO of Strässle. Unfortunately –although we tried hard- further interviews with him haven’t been possible.

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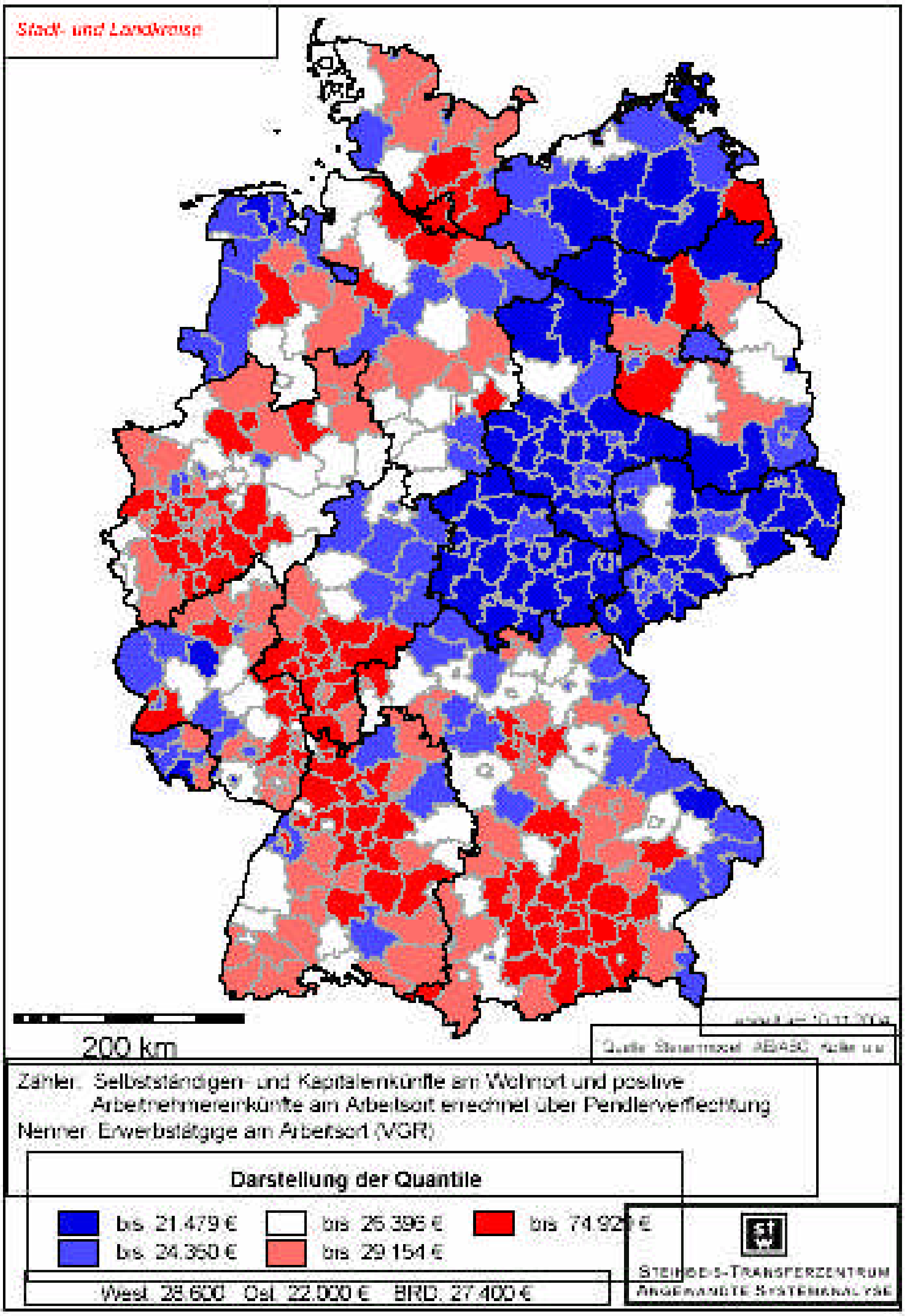
8. Appendix

8.1 German market

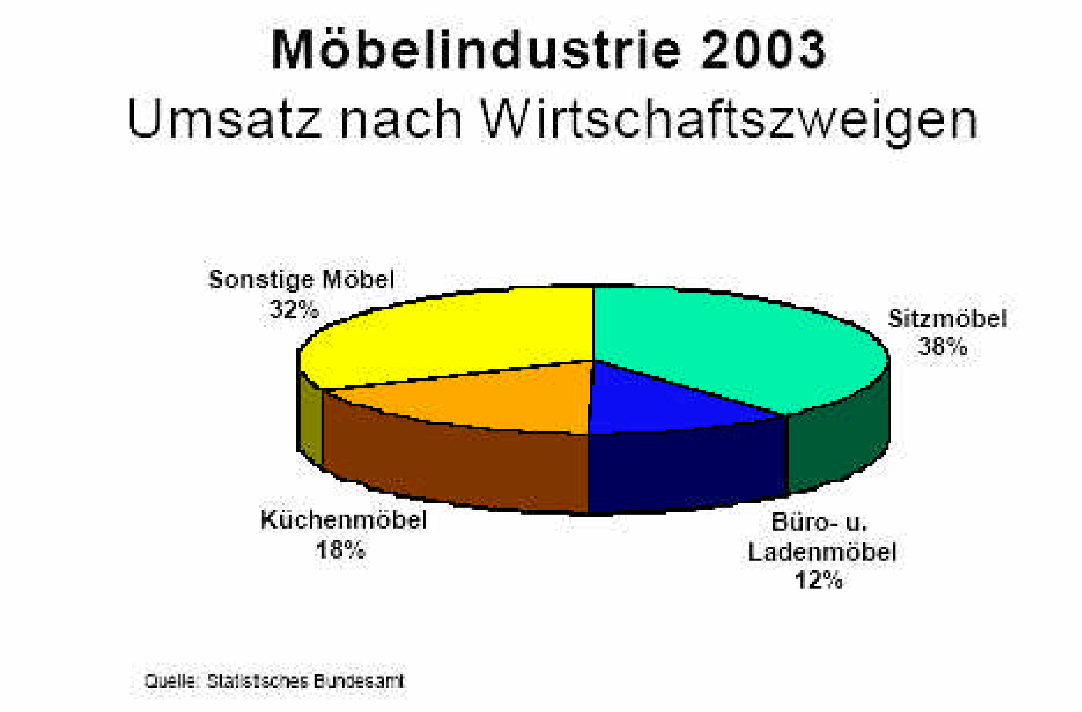
8.1.1 Distribution of income in Germany



Source: Steinbeis-Transferzentrum; available in the internet:

http://doku.iab.de/grauepap/2004/halle2004_koller.pdf

8.1.2 Market segmentation by products



Source: Statistisches Bundesamt, 2003

8.1.3 Richest areas in Germany

	PLZ	Name der PLZ-5-steller	Haushalte	Consumer power in Mio. €	Consumer spending per head
		Germany on average:	38.393.691	429.700	5.212
1	82031	Grünwald	5.330	93	8.604
2	40212	Düsseldorf-40212	239	4	7.830
3	81479	München-81479	7.241	102	7.553
4	81247	München-81247	7.083	105	7.457
5	81827	München-81827	8.629	135	7.456
6	81545	München-81545	6.577	89	7.435
7	20354	Hamburg-20354	516	7	7.427
8	40545	D-Oberkassel	7.108	91	7.297
9	80539	München-80539	2.084	25	7.297
10	40489	D-Kaiserswerth	10.040	153	7.289
11	61476	Kronberg	9.472	130	7.277
12	21227	Bendestorf	1.186	16	7.274
13	40213	Düsseldorf-40213	2.801	37	7.267
14	61462	Königstein	7.411	114	7.264
15	81679	München-81679	5.050	62	7.262
16	80331	München-80331	3.130	41	7.242
17	81925	München-81925	8.425	106	7.209
18	22605	Hamburg-22605	5.293	72	7.209
19	82049	Pullach	4.275	64	7.197
20	40474	D-Lohhausen	6.238	89	7.182
21	25999	Kampen (Sylt)	296	4	7.165
22	22927	Ahrensburg, Großhansdorf	4.595	64	7.139
23	13465	Berlin-13465	9.424	129	7.132
24	82057	Icking	1.512	25	7.127
25	82402	Seeshaupt	1.285	20	7.112
26	21521	Aumühle	3.937	60	7.107
27	80638	München-80638	4.921	65	7.103
28	40883	Ratingen-Hösel	4.533	72	7.083
29	22397	Hamburg-22397	8.122	118	7.071
30	20148	Hamburg-20148	2.769	36	7.038
31	80999	München-80999	6.010	91	7.033
32	28355	Bremen-28355	5.990	86	7.021
33	14195	Berlin-14195	7.698	101	7.007
34	13505	Berlin-13505	3.256	45	6.998
35	14089	Berlin-14089	8.256	119	6.994
36	80802	München-80802	5.678	65	6.991
37	70192	Stuttgart-70192	3.768	53	6.981
38	81929	München-81929	6.400	91	6.970
39	81825	München-81825	9.830	139	6.970
40	45133	E-Bredeney	7.000	104	6.965
41	80538	München-80538	7.031	79	6.958
42	82335	Berg	3.315	55	6.945
43	40629	Düsseldorf-40629	5.498	79	6.933
44	65812	Bad Soden	10.178	144	6.929
45	40547	Düsseldorf-40547	7.219	96	6.926
46	22587	Hamburg-22587	8.417	110	6.922
47	82166	Gräfelfing	6.604	91	6.900
48	20149	Hamburg-20149	4.548	56	6.893
49	81477	München-81477	6.756	90	6.868
50	14129	Berlin-14129	8.276	102	6.852

Source: GFK 2002

Spending refers to Retail expenses only

8.1.4 Distribution channels in Germany

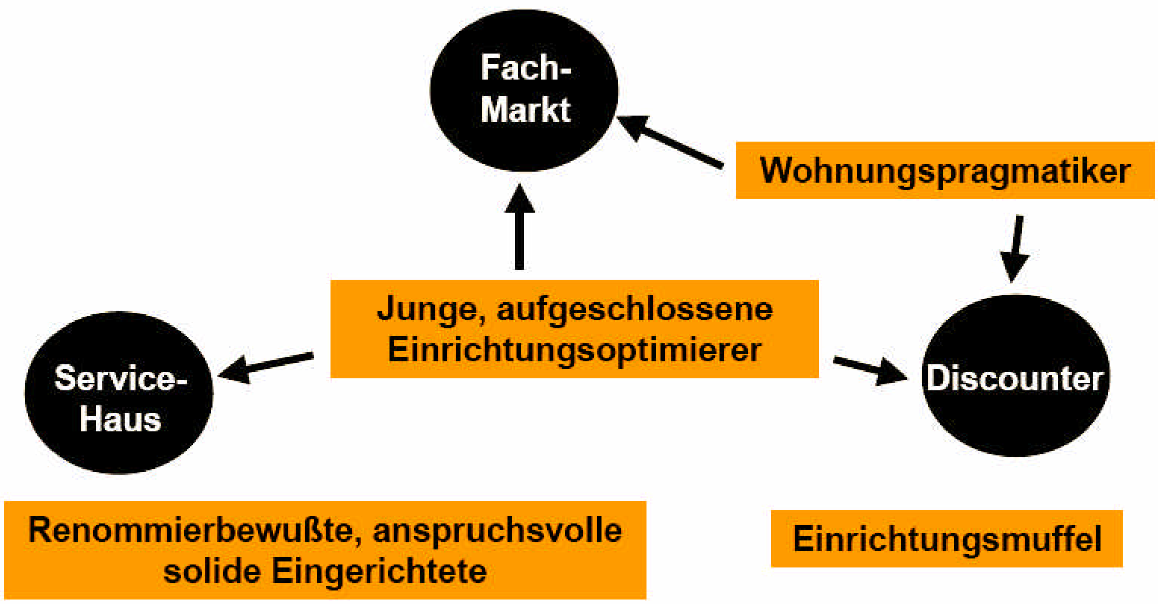
Inlandsmarktversorgung nach Vertriebswegen

Vertriebsformen	1995		1999	
	Mrd. DM	Anteil in %	Mrd. DM	Anteil in %
Möbelfachhandel	6,59	60,2%	5,67	57,7%
Polsterfachhandel	1,36	12,4%	1,13	11,5%
Mitnahmevermarktung	0,91	8,3%	0,69	7,0%
Discountvermarktung	1,17	10,7%	1,26	12,8%
Versandhandel	0,62	5,7%	0,74	7,5%
Direktverkauf	0,05	0,5%	0,10	1,0%
Sonstige Vertriebswege	0,24	2,2%	0,24	2,4%
Gesamt	10,94	100,0%	9,83	100,0%

Quelle: MöbelKultur 3/2000, S. 60

Source: Branchenreport 2004, IG Metall

8.1.5 Target groups in the furniture market



Source: Branchenreport 2004, IG Metall

8.2 US Market

8.2.1 United States Markets

According to AMA Research, the California household furniture market is the largest in the United States at this time. It is predicted that it will remain the largest market during the next decade. “The highest growth rates in household furniture spending are predicted to occur in Nevada (up a projected 47.2 percent), Arizona (39.6 percent), Utah (37.8 percent), Florida (32.0 percent), Colorado (31.1 percent) and Idaho (30.1 percent)” (Market Research). These states all reflect stronger than average household growth and household income growth. Additionally, these states are all expected to be major attractions for the migrating population of the United States. “The lowest growth rates in household furniture spending are projected for the District of Columbia (7.2 percent), Connecticut (14.1 percent) and New York (13.1 percent). These low rates reflect the effects of federal cutbacks in Washington and the net effect of people migrating out of the New York and Connecticut areas” (Market Research).

Top Furniture Retailers, 2002

Rank	Company	Mio. $
1	Ethan Allen Inc	1.410
2	Pier 1 Imports Inc.	1.384
3	Rooms To Go	1.280
4	Berkshire Hathaway Inc.	1.108
5	La-Z-Boy Inc.	920
6	Office Depot Inc.	852
7	Williams-Sonoma Inc.	837
8	Wal-Mart Stores Inc.	835
9	IKEA North America	817
10	Staples Inc.	800

Ranked by: Furniture revenue, in millions of dollars.

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Reproduced in Business and Company Resource Center. Farmington Hills, Mich.: Gale Group, June 2002. http://galenet.gale.com/servlet/BCRC/

Article: I2501243026

8.2.2 Possible Stores for first penetration

City	Store
Aiea	Inspiration Furniture
Bellevue	Kasala-Bellevue
Berkeley	The Magazine
Boston	Montage
Buffalo	Advance Furniture
Chicago	The Keller Collection
Cincinnati	A Lucky Step
Dallas	Cantoni
Dania	Moebelform
Honolulu	Inspiration
Houston	Cantoni
Irvine	Cantoni
La Jolla	MPLA
Lakewood	Style by Design
Little Rock	Mertins Dyke Home
Los Angeles	Menzie
New York	DDC
Norcross	Bova
Palm Springs	James Callahan Int
Raleigh	Ambiente
Royal Oak	Italmoda
Salt Lake City	Studio Nine
San Francisco	The Magazine
Santa Monica	Functions
Scottsdale	Parnian Design
Seattle	Kasala-Seattle
Skokie	Casa Elegante
Washington	Apartment Zero
Canada	
Calgary	Abode MLF

Source: www.leolux.de ; their Resellers in USA

8.2.3 Similar Companies with Current United States Presence

8.2.3.1 Dane Designs, Wichita, Kansas

An interview was conducted with Shirley Koehn, owner of Dane Design. The following information was obtained through the interview with Ms. Koehn. Dane Design is a privately-owned retail furniture store in Wichita, Kansas that specializes in contemporary furniture design. Most of the products are from American manufacturing companies however some are imports from Norway, Sweden, Finland, and Switzerland. The company has been in Wichita for 30 years and has been profitable and is continuing to grow. The growth has been stronger in the last several years as contemporary furnishings have grown in popularity. Sales tend to vary with the local economy (Koehn, 2005).

The customer base is getting younger as younger generations are shopping for “Retro” furniture, tie-dyed fabrics, and bright neon colors. Today’s top selling chair is a black leather chair with silver chrome accents which was designed in 1929. The typical customer demographics are customer with an annual household income $ 50,000+, and between the ages of 25-45. The customer base is very loyal. A significant amount of business is repeat business. The customers are not driven as much by price as they are by quality and aesthetics (Koehn, 2005). The major competitive strength for Dane Design is the differentiated contemporary furniture pieces. The products they carry are unique for this area and there is little direct competition for these particular products. They have strong focus on customer service and are continually focused on bring in new and updated styles, as well as, continually updating the look of their store to follow trends.

Dane Design acquires most of their furniture at through the major furniture shows in the US, specifically the market in High Point, North Carolina. They visit these shows twice a year to look for new furniture pieces. The owner/buyer of Dane Design, Shirley Koehn, tries to get exclusivity deals with the manufacturers because it is important that they do not carry the same products that are being offered in Wichita or the surrounding areas. A major focus of their business is directed on providing high levels of customer service. It allows them to get to know their customers on a personal level to understand what furniture pieces their customers are looking for and what their likes and dislikes are. This knowledge is very valuable when they attend furniture shows. Knowing the specifics tastes of their customers allows them to make better purchase selections for their store. They do not use typical distribution channels for acquiring the majority of their inventory. Since there is a single location, they do most of the buying and importing on their own with the majority of products being shipped directly from the manufacturer (Koehn, 2005).

8.2.3.2 USM Modular Furniture Haller Systems

USM Haller is a furniture manufacturer based in Switzerland. An interview was conducted with Ana Bilski, Marketing Manager for USM Haller, USA to gain incite into the success and strategies of USM Haller. The following information was providing during this interview and through the Company's website. USM Haller's roots can be traced back as far as 1885 when the company was founded as an iron works and locksmith business, but the introduction of Haller furniture systems for offices was not until 1963. The product origins are in architecture rather than furniture (USM). It is modular furniture that can be custom order with various surface colors and in a multitude of sizes. These system variations allow the products to be reconfigured and expanded for endless possibilities of uses for the home or office. They are practical storage spaces that are beautiful and timeless. In addition to the storage systems, their product line also includes tables and display units that are based on the same design principles and are completely reconfigurable for ultimate versatility (Bilski, 2005).

USM Haller products have been available in the US for the last ten years. The company has products with dealers in Los Angeles, San Diego, Boston, Washington D. C., Atlanta and other larger markets in across the United States. The locations in Chicago and San Francisco were closed five years ago during an economic downturn. Growth has been slow for USM Haller in the US with sales totaling less than 5% of total company sales (Bilski, 2005). However, market potential is high and in 2002 USM Haller opened a new flagship showroom and headquarters in New York. The key success factors for USM Haller have been their architectural design, the functionality and versatility of the product, along with product quality and brand reputation (Bilski, 2005).

Trends in the United States are constantly changing. Five years ago customers were mainly interested in black pieces. Today the consumers are younger and looking for retro neon colors form the 60's and 70's along with red and white products. Their typical customer is over the age of 30, has an education level of a bachelor's degree or higher, and has an annual income of $ 50,000+ (Bilski, 2005). Haller's best selling products in the US are the Haller Systems which are architecturally designed and are reconfigurable for custom size and surface color which makes the systems appeal to a wide variety of consumers (Bilski, 2005).

8.2.4 Customer Segmentation

American consumers have a variety of reasons or needs for buying furniture. These needs are marked by life-changing events. We have segmented consumers into the following categories based on these events in a typical consumer's life. The following is the list of customer segmentations:

Young adults – This segment consists of young adults first leaving home. They typically range in age from 18-24 years. Many leaving for college or setting up their own apartments for the first time. The furniture needs for consumer in this segment include inexpensive, stylish, multi-use furniture pieces. These inexpensive and low quality pieces are thought to be disposable and will be replaced in a few years.

Younger couples – This segment consist of young married or unmarried couples living together and establishing their first home together with no children. The furniture needs for this segment include full living room, dining, and bedroom set to fill a household. The typical furniture purchases are of low to mid-priced/quality pieces.

Younger parents – This segment consists of young married couples with one or more children in the home. The furniture needs include baby, toddler, and children's bedroom furnishings. They will also purchase items of a higher quality that are more durable for children for areas such as living rooms and kitchens. Since money is usually tighter for young families they are looking for the best quality value for their dollar.

Mid-Life families – This segment is characterized by families with teenage or young adult children still in the home. The family earning potential has increase so these families are looking to replace old, poor quality furniture with new higher-quality pieces. They may be remodeling their homes and looking to update with current styles and trends.

Older Households – This segment is characterized by adults with no children present in the home. When the children leave the home the parents need furniture to fill the empty rooms. They are typically at their highest income earning potential of their lifetime. This segment will often replace old out-dated furniture and remodel their homes.