

Market Research for I-Valo
German industrial illumination market



Minithesis

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ABSTRACT

This mini thesis is about the distributor channels for a company that is wishing to export their products to a new market. The company is called I-Valo, located in Finland and well known in the operation field by their high quality products and exquisite design.

The contents of this thesis are the theory from which we based our research and findings, then is followed by a research part where are explained the objectives of this research and what is expected from our research case company. Then we expose our finding and results where we provide recommendations to the company and finally as a conclusion we made a list as the commissioning company I-Valo requested and on that list the potential cooperation partners are classified into three different classes A,B and C. A being the most suitable.

Keywords Industrial illumination, LED, I-Valo, Distribution

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Appendices

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1 INTRODUCTION

This mini thesis project consists of a market research requested by a Finnish company. Located in Iittala, in the municipality of Hämeenlinna, the company in question is known as I-Valo. It is a manufacturer of lighting solutions, whose main operation is focused on the industrial lighting market. Its main concern is the reduction of energy wastage due to inefficient luminaires.

We do consider this study topic to be crucial and important to analyse the fast change that forces the industry to adopt more environmentally friendly luminaires with a superior technology that get traduced into important saves in illumination costs. This new technology in illumination and its cost savings has allowed the companies that manufacture, distribute or install the industrial luminaire to develop new business models unsought before the LED revolution started.

I-Valo has been developing and manufacturing different lighting solutions for more than 45 years, ensuring to provide a quality solution for different customer needs, always taking into consideration the energy efficiency, practicality and aesthetic design. I-Valo research department is working untiringly to deliver the most technologically advanced luminaire that is in line with the efforts of the industry to save energy and gain of productivity.

The company was owned until 2013 by Schneider electric when they sold it to Fagerhults Belysning AB which is one of the leading lighting manufacturer's in Europe. Therefore since 2014 I-Valo has been growing in their niche market and consolidating their market share. One of the strategic management decisions made by the new owner was to conform a robust sales team in order to generate an increase on their exports through European markets such as Russia, Poland, Sweden and Germany.

I-Valo has seen the trend in the industrial market of replacing the old luminaires by the new LED technology luminaires because it pays off the money invested in a short-medium time lapse. As a consequence, it has encouraged the companies in different sectors of production or services industries to adopt the new lighting technology.

In response to the new opportunities generated by the innovation of new illumination technologies and business models to work with, I-Valo has requested us to research the possibilities in the German industrial illumination market for their LED lighting line. Therefore, we have formulated our research question which is this:

What is the current situation of distributors in German industrial luminaire market and new business models?

The selection of the research question process was a brainstorm from where the required concepts came out to be included in this type of question which will allow us to provide to I-Valo a complete outlook of the industrial illumination market in Germany. I-Valo has entrusted us for this research project topic two different objectives whose importance is crucial for the management department of the company, which is going to decide if it's interesting the industrial lighting market in Germany for I-Valo or not, and those company's objectives are:

A) I-Valo is interested in obtain a detailed list of wholesalers and installers operating in the German industrial lighting market

B) New business models trends present in the industrial lighting market in Germany.

The main objective for the company from this market research is to obtain a list of wholesalers or installers for a selection of the most suitable ones to start a commercial relation, which is going to allow I-Valo to obtain a continuous presence in the German market. The second objective of this research project is to analyse the possibilities of developing new business model thanks to the money savings and productivity benefits which new technologies such as LED can offer in industrial luminaire solutions. This innovations are proving to manufacturers, wholesalers, installers and consumers to be a beneficial situation for all the actors involved.

for the purpose to fully meet our company requirements the methods used for this research market are based in secondary data analysis research which was taken from books, specialized magazines, chamber of commerce, study analysis and Internet.

As for the research objectives those are as follows.

1. Describe Porter's Five Forces
2. Describe and analyse the current situation of German luminaire market distributors
3. Analyse suitability of distributors for cooperation with iValo
4. Recommend distributors for cooperation with iValo

2 THEORY

For this mini thesis we used Porters five forces and distributor management parts from supply chain management as the theoretical

background. Porter's five forces was used as a guiding tool to identify suitable distributors for cooperation with I-valo.

Porter's five forces are based on the book *The Five Competitive Forces That Shape Strategy* by Michael E. Porter. As a source we used the Harvard Business Review article "The Five Competitive Forces That Shape Strategy" which is an update on his famous book and "addresses common misunderstandings, provides practical guidance for users of the framework, and offers a deeper view of its implications for strategy today" (Porter, 2008). The Five Forces focuses on analysing the forces affecting companies in their market which are the competitors, suppliers, customers, new entrants and substitute products. These five forces affect the profitability of the companies operating in the given industry. New entrants or more specifically threat of new entrants is the first of the five forces we are going to go through. "New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete" (Porter, 2008). As Porter stated when new entrants enter the industry the existing companies come under pressure that forces them to cut their prices, increases costs and increases the need for further investment. As stated earlier though it is not the entry of new companies that affects the profitability of the companies on the industry, but the threat of entry, which means that in a situation that the entry barriers to the industry are low companies can't freely set their prices taking into account just the current competition instead they have to keep the prices on check or if the profits on the industry with low barriers of entry rise too much it becomes too attracting for the companies to expand into which leads to loss of market share and lowering of the prices. There are different barriers of entry on different industries, but in common all of those is that they give the already established companies advantage over new entrants. According to Porter's article there are seven major sources of barriers of entry. Those are according to Porter supply-side economies of scale, demand-side benefits of scale, customer switching costs, capital requirements, incumbency advantages independent of size, unequal access to distribution channels and restrictive government policy. Apart from entry barriers another thing that affects willingness of new entries is the expected retaliation by the current companies operating on the market. The second force is power of suppliers. "Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labour, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices." (Porter, 2008). As Porter stated powerful suppliers can be a harmful force in industry as they should they have the power may in effort to increase their own profits increase the prices of the raw materials, labor and other supplies and therefore cut the profitability of whole industry. For supplier group to have this kind of power to affect the profitability of a whole industry there are certain necessities. For supplier group to be

powerful Porter differentiates certain situations out of which at least one must exist. First situation is such where the supplier sector is more concentrated than the buying sector. Second situation is such that the supplier group doesn't rely on one sector for its revenues and thereby can extract more profit from their customers. Third situation is such where the companies on an industry face high switching costs when changing suppliers. Fourth is that the suppliers offer products that are differentiated so the industry's customers may demand products or parts used from certain suppliers. Fifth is a case where there is no substitute product for the one that supplier offers. Sixth is where supplier can credibly threaten to expand their operations to the buyers industry in which case if the industry is making too good profit compared to the suppliers there is an incentive to do that for the suppliers. As you can see from situations that Porter presented supplier power can stem from variety of reasons and the companies that are unfortunate enough to work on such industry need to improve their profitability from other sources. Third force is the power of buyers. "Powerful customers the flip side of powerful suppliers can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs), and generally playing industry participants off against one another, all at the expense of industry profitability" (Porter, 2008). As Porter stated powerful customers can do the same as powerful suppliers just the other way around. Customers are strong if they have leverage with which to negotiate with industry participants. Porter has 8 reasons why customer group may have leverage to use with industry participants. First one is that there are few buyers or they buy in quantities that are large compared to the relative size of a vendor. This creates especially strong negotiation power if the industry has relatively high fixed costs. Second reason is that the industry's products are standardized or otherwise undifferentiated so the buyer can play one vendor against another. Third one is that buyers have low or non-existent switching costs. Fourth one is same that we saw with the suppliers just other way around which means the buyers can threaten to expand their operations backwards and produce the offered products themselves if vendors are too profitable. Fifth one is if the product presents large portion of buyers cost structure. In that case buyers are more keen to bargain and shop around to get the best price. Sixth is if the buyer group has low profits or otherwise is in need to cash they tend to be more price sensitive. Seventh one concerns quality as on products that don't affect quality of the buyers product buyers tend to be mostly concerned of price of course it goes the other way also and on the products that affect the quality of their product they tend to be inclined to pay more for better quality parts. Eight reason is that the product is separate from other costs the buyer has so the buyer tends to be more concerned of the price whereas if the costs are intervened with other costs buyer might buy higher priced product for lowered costs elsewhere. As you could see and as Porter also stated most of these reasons are applicable to both business to business and consumer buyers. Having strong customers creates a challenging

industry, but it also in the expense of profitability lowers the threat of new entry as the industry is not that attractive to operate in. Fourth of Porter's five forces is the threat of substitutes. Substitutes are usually referred to as products that can be used to perform the same tasks. In Porter's five forces though the threat of substitutes is not just the threat of the similar products performing the same task, but substitutes are also the products that can affect the demand indirectly by affecting the products buyers situation. For example for producer of movie theatre machinery the substitute can be home theatre system producers as they affect the demand of movies shown at the theatres and thereby the movie theatres don't have cash to invest in new machinery. In Porter's five forces he had two clear signs of high threat of substitutes. First one is that the substitute offers good price-quality trade-off compared to company's product and second being that there is none or low cost of switching to the substitute product. Threat of substitutes is not always clear as some changes in industries can affect the products so that they become substitute to some other product while it has not traditionally been substitute for that certain product. Last of Porter's five forces is the rivalry between existing competitors. While having rivalry is normal and in itself not harmful when it develops into intense rivalry it can turn into a hindrance. Rivalry can appear in many forms according to Porter these include discounting price, introduction of new products, advertising campaigns and improving services. Porter highlighted two factors that affect how harmful the rivalry is for the profitability of industry which are intensity of competition and basis on what they compete on. First we are going to go through some factors that affect the intensity. From Porter's study he was able to identify five reasons for high rivalry. First one is that there are numerous or roughly equally sized companies on the market. "Without an industry leader, practices desirable for the industry as a whole go unenforced" (Porter, 2008). So in a situation where there is no clear industry leader rivalry tends to be more intensive. Second one is that the growth rate on the industry is slow so the companies are forced to fight for the market share in order to grow themselves. Third reason is that exit barriers are high so companies can't get out of the industry easily which forces them to fight for their market share on the industry. Fourth one is that the competitors are highly involved in the industry. Reasons for high involvement can vary, but they tend to lead to increased intensity and create exaggerated rivalry. Fifth reason is simply that companies are unable to read each other's signals. Other one of the factors that were highlighted by Porter was the basis of competition or dimension that the companies compete on. The importance of this dimension that competition is taking place in is based on that simple fact that if the competition is based on price it is deemed to cut the profitability of the whole industry. If companies compete on different dimensions on the industry it usually doesn't harm whether one company uses price to compete or not, but when other companies get involved in price competition that is when the things get bad quickly for the profitability. That is why Porter listed the factors that make price

competition most liable to occur. First one is when products of rivals are nearly identical therefore leaving the price as the only option to compete on. Second one is when fixed costs are high but variable costs are low so it is viable to lower prices under average costs in attempt to gain more customers. Third one is situation where in order for capacity expansion to be viable it needs to be done in large increases at a time which affects the supply-demand balance on the industry. Fourth one occurs when products are perishable so they have an expiration date in a way. That said computers are perishable as they become obsolete for example. So perishability is not restricted to products that de facto perish. Out of the five forces the rivalry is the one that most likely is not going to affect the profitability on a negative way as competition usually increases the value of product.

3 RESEARCH

Germany is one of the most industrialized and developed country in the world with an economy based on exports from different industry sectors such as automotive industry, agrochemical industry, electrical engineering and electronics industry among some others. This is undeniable a great opportunity for a company like I-Valo because the industry is demanding an a increasing pace the new luminaire for replacing the outdated ones.

Our Research started right after we did the company visit where I-Valo was introduced to us, they provided us with the adequate information needed to start this project and at the same time gave us the possibility to get in contact with them in any point of our work when we estimate we could need some technical support from them thereby we reached great communication with I-Valo.

Research objective one or primary

A) research the wholesaler, distributors, and important installers of industrial lighting solutions in the German market.

due to the specific type of information requested by I-Valo and the rather short time frame of this project we have focus our research efforts mainly into the big "players" of the German market whose customer portfolio and expertise is respectable.

The information required by I-valo from this research were:

a.1) Company name and group that belongs.

a.2) Sector or area where the company is operating in

a.3) Contact information

a.4) Size of the company expressed in annual turnover or number of personnel

a.5) What kind of products do they offer to the market

a.6) From which manufacturer are they selling industrial luminaires

a.7) Type and name of customers that they provide industrial lighting solutions

a.8) Grade of suitability

Research objective two or secondary:

B) Research of new business model: the new technologies in illumination such as LED have allowed manufacturers, wholesalers, installers and final customers to convert the savings from energy efficiency into new business model opportunities.

4 RECOMMENDATIONS

The recommendations contained in this project are in order with our results and finding about the market research topic requested by I-Valo during the company visit meeting.

After researching through the whole internet, companies data bases from the respective chambers of commerce, German industrial lights manufacturers data from their wholesalers or installers. We have created a list classifying the suitability to establish a partnership with I-Valo with an order from A to C.

Where A letter means the most suitable for a possible cooperation with I-Valo, B letter accounts for those companies that present some grade of compatibility with I-Valo but at the same time due to other reasons such as location, size or revenue amount makes it not the perfect partner for I-Valo matters and finally letter C is those companies to be considered in the field of operation interested by I-Valo but they are not suitable partners for our market research company for various reasons.

The LED luminaires technology was released around 2010 being very expensive and it became a novelty for the market but was just a matter of time to become a big success this new trend in the market was able to

create a type of new business model when we talk about industrial illumination market. Nevertheless, for what we could see and appreciate from this market in Germany is that after some years from 2010 till today is that many of their local manufacturers are betting strong into this technology so we have found that the industrial illumination market in Germany is well supplied by this local manufacturers plus all the Chinese illumination solutions for the industry.

I-Valo commitment to go into the German market need to be strong and decided, because the competition for gaining market share in the industrial illumination market in Germany is harsh. We do see possibilities for I-Valo due to the existence of a niche that is looking for high quality and great design luminaires however but for having success in this strategy they need to be at the same or above level of products and service guarantee than their competitors and a price accordingly to the same "specification" products.

5 CONCLUSION

In our mini thesis we made a market research for iValo with a focus on finding them suitable wholesalers or installers to work as distributors in the German market. iValo is a company that operates on the industrial lighting field and sells their products in many countries in Europe. They are not operating on the German market although their products are sold in Austria and other countries in the region. For that reason iValo wanted us to research and analysis the situation in the German industrial lighting distributors field.

As a theoretical background we used Porter's Five Forces as it covers the power of buyers as a factor affecting a company and as distributors are buyers we deemed Porter's Five Forces as the most suitable basis for analyzing distributors suitability's for iValo.

In the research we went through wholesalers and installers operating on the German market to find information about them such as size, operating region and what kind of customers they have. Information we gathered in the research was the basis for analysing the suitability of the companies. The information was gathered into a list of the companies as requested by iValo.

In the analysis part we used the information acquired in the research to classify the companies into three categories in accordance to their suitability for cooperation. The classes were A,B and C A being the most suitable and C being the least. The classifications the companies were given in the analysis is included in the list. And the list can be found in appendixes.

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APPENDIX HEADING