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**Export Policy plan Luna Design
- Germany -**

*By order of: Luna Design
Cape Town- South Africa

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*Final graduation assignment
International Business and Languages
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**Preface**

First I would like to thank Mark and Brian Fanner for offering me an intern position at their company Luna Design. I have had a very good time there and learned a lot from them. I would also like to thank the managers Steve Brand and Ian Robbinson, I appreciate their help and interest in my research.

I thank the Hogeschool Utrecht for supporting me and my fellow students during our first internship in South Africa. They helped us to find a new internship where we could graduate. With special thanks to Hylda Kuiper and Gert Lijkendijk. Without their support we would not be graduating.

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For me personally it was a period in which I have learned a lot and was able to develop myself. I hope this report will help Luna Design to enter the German market successfully.

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# Executive Summary

The main focus of this report is to answer the main question; What are the opportunities and chances for Luna Design to start exporting to Germany and if there is a market, how to penetrate on this market.

After a small country selection, we have chosen Germany as a potential start to enter the European market. Luna Design asked me to do research on the German market. In order to see the possibilities of a market entry for Luna Design, I analyzed the problems and possibilities, summarized the entry possibilities and chose to work closely with a distributor.

Luna Design is a fast growing business with an increasing turnover and is currently market leader on the South African market. Luna has got the knowledge and the skills to internationalise. These benefits are reasonable to expand on foreign markets.

Before the international crisis, Germany is one of the most stable economies in the world.
Germany is also the largest market for home decoration and accessories in Europe, with a total of € 3 billion.

Luna sells post modern rustic frames, this is a trend sensitive product but very popular at the moment. Photo frames are bought for different reasons; but mainly they are bought as home decoration items. Luna Designs products appeal to the consumers because they have identity, are made from recycled timber, are handmade and of high quality. In addition Luna provides a lot of homeless people with jobs, helping them to get a future. All this together creates a product with a personal story. This, in combination with the fact that more and more Europeans are interested in exotic cultures, creates opportunities for Luna.

German people do not economize much on the presents they give. They still spend money on gifts, despite the economic crisis. Gifts will be bought by all consumers, from low to high segment consumers. Original, handmade products with ethnic value can best be marketed to these high segment consumers.

The German decoration market is very big. Luna Design is operating in a very small segment namely photo frames. This is a sub segment of the decoration market. The unique photo frames distinguish themselves from other photo frames at the market, by originality, uniqueness, design and African style.

Luna Design has too little information and knowledge about the German market to enter it directly, therefore they will work with a distributor and use Ex Works. They have worked with distributors before and this went very well. A distributor has his own network, but is also expert on the right distribution channels. Luna has a backup system of other distributors in different countries, but they eventually seek for one distributor in every country.

Advantages for Luna would be that the distributor manages the import and export procedures and holding stock, they can also supply Luna with considerable information and guidance. So developing a successful working relationship with an importer/wholesaler can lead to a high level of teamwork, providing Luna with information on the latest market trends, materials and quality requirements. Luna will not have to invest much, so they will keep the costs low as well.

Competition in South Africa is too small or irrelevant to compete on the German market. If Luna goes now before competition arises, they will stay ahead of their competition. Luna Design has advanced business skills and is able to deliver commercial quantities, this will gain them a market share.

Nevertheless Luna Design has little experience with export. With the help of a distributor they will develop and position themselves on the German market. By innovation of the products and keeping the website updated customers will start looking for Luna Design. The web shop will pull customers to their products in the future.

In this report, you will see my findings on the German market. The conclusions and recommendations resulting out of this can be found at the very end of this report.

# Introduction

I did my final graduation assignment in Cape Town, South Africa, for the company Luna Design. They would like to expand abroad and consider to enter the German market. Therefore I wrote an export policy plan. I have researched the German market and analyzed the problems and possibilities.

Luna Design was founded in 1997 with 3 initial partners – the Fanner Brothers and Clive Garcin. Clive left the company after about a year leaving Mark and Brian as the 50% shareholders.

Luna Design manufactures wooden decoration products. These post-modern rustic photo frames and other decoration products are made from reclaimed timber. Therefore every product is different and unique. Luna Design is committed to efficiently recycling scrap timber into high end products which meet the needs of their customers. By realizing the value in scrap timber they empower large numbers of people to exploit a resource which would otherwise burden their communities waste disposal systems.

Mark Fanner runs the factory where the frames and decoration products are made. Brian Fanner is specialized in building guitars and runs this department in another factory.

Luna Design is currently the major supplier of these products on the South African market. The target groups are wholesales companies and retailers. Who sell the products to higher income people, who like decorating their houses with luxurious products.

Luna Design is market leader and a fast growing business. They would like to expand abroad and consider to enter the German market.

Therefore, the main question of this export plan is; what are the opportunities and chances for Luna Design to start exporting to Germany and if there is a market, how to penetrate on this market.

The most important sub questions are:

* How is the situation on the market at the moment? How many big or small companies?
* Who are the main suppliers at the moment?
* Who are the main competitors on the market?
* Who are the potential customers on the market?
* What is the quality standard of the current offer? Is there a difference between Germany and South Africa? What are the needs on the market? Luxurious products or cheaper ones?
* What price category are the products? To what price range is this product sufficient?
* Which steps do they need to take to enter the market?
* How do you approach the market?
* Which legal and juridical requirements will Luna Design have with exporting
* What are the differences in the business culture?
* What will the export cost?
* What marketing tools are relevant?
* What are the biggest risks?

For this research I mainly used desk research, qualitative data. Desk research mainly existed from the internet. Field research was done by visiting current customers in South Africa.

Before I started writing the export plan, I made the internal analysis. Important internal information and figures are described.

The next step was looking at the external facts from Luna Design, by making a meso and macro analysis. By looking at the German market figures and finding competitors. After comparing the competition I made a competitor strategy. After this you have to find the right combination for a marketing mix and the channels of distribution.

A SWOT analysis provides a good overview of the internal and external opportunities of Luna Design. These are confronted with the strengths, weaknesses and threats in a confrontation matrix.
In the strategic plan you can find the Ansoff model, Porters Five forces, SWOT and ABELL.

After these important models legal, logistic and cultural analysis can be found useful. I made a risk analysis as well.

The export plan ends with an advice in the form of conclusions and recommendations. The decision for the GO/NO go can be found here and in the executive summary.

# Problem definition, methodology and business definition

Why does Luna Design want to internationalize?
Luna Designs main efforts are to be concentrated overseas. They have many customers from Europe and have supplied a German distributor named Cape Times with stock for wholesaling in Germany. In Europe the local producers cannot access the type and style of timber at reasonable prices. In most of the East there is not the same colonial heritage which limits producers in that they cannot access this type of timber. Luna Design hopes to export a large percentage of the production which will obviously be beneficial to the economy of South Africa.

## Problem definition

Luna Designs main problems are;

* How are they going to handle the current overproduction and lack of cash flow?
* What methods are they going to use to attract more wood resources to keep the production going?
* How does Luna Design get more brand awareness on the market?
* How is the company going to finance eventual internationalization?

Are there any possibilities and is there any need for products of Luna Design in Germany and how can Luna Design penetrate this market, if so how will they enter this market?

Sub questions

* What will be their main target group?
* What are their competitors and how do they differentiate themselves from them?
* Does Luna Design have the financial resources to realize this export?
* How big is the German market? Is it interesting enough?
* How can they implement their SWOT in combination with a marketing mix?
* With what strategy will the company enter the market?
* What will be the costs of this strategy?
* What kind of distribution does the company want and is the best for Germany?
* What legal aspects will Luna Design have to deal with?
* What are the cultural aspects that will have a role in this internationalization?

Methodology

Theories that I will use during my research are;
ABELL model ANSOFF model
SWOT ANALYSIS DESTEP
SWOT CONFRONTATION Matrix MABA
Porter 5 forces model

# Business Definition according to Abell

 *Problem solved*

 expensive image

Retailers

 Photo display

Wholesalers

Private collectors

Distributors

 gifts

 Design products

 Decoration *market*

Classic frame on the wall

Classic frame standing

Digital photo display

Printed images

*technology*

Customer’s needs - Problem solved

* Functional - Decoration, photo display, gift
* High quality - Eco standards
* Original - Hand made, every piece unique, African style
* Price worthy - Luxurious shops, expensive image, status
* Eco-Standards - Recycled wood
* Emotional value - Every frame has his own story
* Creative - Design products

Technology

* Classic frame on the wall
* Classic frame standing
* Digital photo displays
* Printed images

Customer groups
* Wholesales Companies
* Retailers
* distributors
* Private collectors

Products

* Photo Frames: Classic and Colonial Range
* Decor Items
* Chalkboards
* Classic Range Mirrors
* Box Frames
* Multiple Image Frames
* Township Guitars

You can see that Luna is selling their product range to mainly wholesalers and retailers. Their position is on the top-end of the market, selling high quality luxurious products in the form of classic Photo frames.

Mission

’We tread lightly on the Earth. Our passion for the environment permeates everything we do. At the core of our business is recycling, reducing waste and preserving our heritage timber’.

Reclaiming resources.
Luna Design preserves heritage timber and reduces the waste that goes into Cape Town’s over-burdened landfills by creating new markets for discarded wood. The timber is stored, cleaned and prepared on the Luna farm – 27 hectares of rare Sandveld fynbos that offset our carbon emissions.

Empowering people
They empower large numbers of people, from suppliers to staff, who earn a sustainable income, are treated with dignity and respect, and are paid a respectable, market-related rate.

Preserving beauty
They are the industry leader in the supply of post-modern rustic frames and other home décor products to the trade. Beautiful, handmade, innovative frames are created from recycled wood that would otherwise be discarded.

# Vision

Luna Design wishes to increase their sales from an estimated 4.5 million Rand in the 2009 financial year to 5 million Rand in the 2010 financial year. This will be achieved by increasing the production capacity and storage of the raw materials which will be established on the agricultural property in Hopefield. As well as increasing the sales capacity and better administration. The next year they will need to see a doubling of production space which will allow far greater efficiency. The company has to reshuffle the staff to add to the sales force and also hire a production specialist. Needless to say that acquisitions of machinery is inevitable.

If Luna Design continues to grow the reclaimed timber frames through the export market. We would look towards a large factory employing a hundred people and having a significant role in reducing the waste timber going into the waste tips around the country.Internal Analysis

## Enterprise

Luna Design was founded in 1997 with 3 initial partners – the Fanner Brothers and Clive Garcin. Clive left the company after about a year leaving Mark and Brian as the 50% shareholders.

Luna Design manufactures Post-Modern rustic photo frames from reclaimed timber. The product is sold through Loads of Living and around 50 retailers in South Africa and in their showroom. Luna Design is committed to efficiently recycling scrap timber into high end products which meet the needs of their customers. By realizing the value in scrap timber they will empower large numbers of people to exploit a resource which would otherwise burden their communities waste disposal systems. Through their operations they create sustainable incomes for their suppliers, staff and the owners.

Luna Design already employs 37 staff (mostly relatively unskilled) and has the potential to employ many more. In addition they supply the main source of income for around 30 indigents (local homeless and refugees from Africa) who scour the Cape Town City Bowl in search of their raw materials. Creating a value for scrap timber will assist in reducing the environmental load placed on the city’s waste disposal systems. Their main existing client is Loads of Living. The other 50 clients are COD (Cash on Delivery) and thus unpredictable – they can make educated guesses though and these are reflected in the cash flow statement. The target groups are wholesales companies and retailers.

## Organization

Innovative

Luna Design has one factory in Cape Town and one storage farm in Hopefield. In the future they will set-up a production factory there as well. This will not only increase the production but also provide the space to hire more employees.

Luna Design does their own Research and development all the time. They read the relevant press literature, decor and business publications. They spend time perusing similar interests on the Internet and of course listen to their customers, particularly Loads of living. At the moment they attend two retail fairs per year (Oudtshoorn KKNK and the National Arts Festival in Grahamstown) and are considering to increase this sort of exposure by exhibiting at international décor shows and trade fairs.

At the moment Luna Design is the major supplier of this product, there are smaller suppliers, but Luna is ahead of them. These frames are getting more popular, so Luna has to stay innovative to keep growing. These frames are trend sensitive which means they can be very popular today but be less interesting tomorrow. They will seek to develop new furniture/décor lines which we can then sell in the international market.

Production process

The production is done in their factory in Cape town. The second factory will open end this year in Hopefield.

The production process can be described in following steps;

* Collecting the wood with paint on it
* The wood is brought to the farm by truck
* There it is de-nailed, cleaned and cut into the right size
* The cut wood is brought back to the factory in Cape town
* In the factory the wood is rebated, cut and joined
* The workers will inset, clean and polish the frames
* Others will cut and clean the glass for the frames
* A picture will be printed and put in the frame
* Finally the backing board is pinned in and it is ready for packing
* Luna Design uses second hand carpet boxes and set the order up for packaging
* The order leaves for the customer (1-2 weeks)

Production capacity

Luna Design has about 140 orders per month. These orders are placed by national and international clients. Luna receives these orders by e-mail or by phone and the large orders will be discussed personally. Orders vary from small orders national (20 frames) to big international orders (500 frames) the average production within the company per day would be about 100 frames. The orders must be ready within 2 weeks before shipped. The manager makes a time schedule and sets targets. The staff can be rewarded if they reach the targets.

Efficiency

When the new factory opens a lot of things will change. There will be more space and production will go up, this means they can take on more orders and finish them faster. In the new showroom there will be a professional reception area. Clients will get a better impression of the assortment. There is more space to keep stock, an office that overviews the factory for the directors and a room for the sales manager. All this extra space will create a better overview on the process and will create more efficiency. A new counting system makes it possible to track the production so targets can be realised. This system provides Luna with more information about the daily process and efficiency.
Because of cultural differences between the workers in the factory the atmosphere is a bit tense. We have developed a motivation theory to try explaining to them how important they are for Luna. They are now starting to understand their importance. By giving them more space in the new factory the atmosphere should improve a lot.

Order Flow

At the moment there are more orders coming in than going out. This is overproduction and they were running out of wood as well. They kept a stock of wood at the farm in Hopefield. But it was not ready to use. During the months March until July the farm started rolling out the wood so it could dry in the sun. In June Luna got a new factory next to theirs in Woodstock. They got more space for their production. This would mean the order flow could become more stable and orders would actually be finished on time. They also reopened the showroom and went to fairs. They even went to a fair in the UK to promote their product. In Holland they were interested in writing an article about the African styled frames. With all these new prospects Luna Design is starting to grow really fast and is able to keep up with their orders. Their website is kept updated and they are even thinking of taking a web shop in the future.

Marketing en market position
Luna Design Manufactures unique handcrafted picture frames. Within South Africa they are the largest supplier of this type of frame – probably control around 70-80% of the market. They do their own marketing and distribution to the trade in South Africa and have a showroom open to the trade and public. The showroom also serves their custom clients.

Luna Design is hoping to become involved in the international marketing of the frames and selling to larger upmarket customers. There is a trend in A/B income to seek out quality handmade and specifically organic/ethical products. Particularly in Europe and the US the recycled nature of the product would appeal to a growing green consumer trend.

Promotion is done mostly by word of mouth, other methods are: personal sales. They use the two big arts festivals in South Africa as promotional events (as well as useful cash flow) and plan to make use of the trade fair circuit in Europe. Smaller arts events in the US are also a possibility. Their website is easy accessible up-to-date and modern. This website gives you a good view over their products and their style. They have a showroom which is currently not really advertised.

## Organization Structure

Luna Designs organisation structure has been set-up horizontal. The two owners/managers keep track of all the business activities. There is one general manager, a sales manager and a bookkeeper (administration). There are four shareholders (family that invested in the company) and the factory workers, men and women work in separate departments. Owner Mark Fanner does a great part of the financial administration. He controls the business processes and helps where he can. The other owner Brian Fanner takes care of the design of the product; he is also responsible for the guitar department and helps with the creative development of the products. Together they want to become a big international company that sells African design decoration pieces all over the world.

Management en organisation

Mark Fanner – Owner/Manager (General Manager – Sales & Admin)
Brian Fanner – Owner/Manager (General Manager – Design and Production)
Steve Brand – General Manager (Local Sales Manager)
Candice Momsen – Bookkeeper and administrator – also front of house.
Michael Pietersen - Custom Framing
Paul and Mary Fanner – Financiers (Parental Venture Capitalists)
Belinda and Leila Fanner – Owners of subsidiary export business. Agents for Luna Frames. (Proposed)
Ian Robbinson – (Head of the guitar department.)
30 factory workers for the production of the frames

**Production department**

In the factory are 30 workers. The men and women work in different departments. When the wood comes in, at the back of the factory, the men cut it and the glass that goes in the frames as well. Then they make frames of it. After that the women clean the wood and the glass and put it together with a picture in the frames.

There are different sections for different tasks:

- Wood cleaners

- Glass cleaners

- Picture ladies

The seatings are set-up efficient and comfortable. All women have their own workstations and listen together to their favourite music. The atmosphere is very important and most of the time pleasant. But because of the history of apartheid, which still exists, the manager has to deal with many issues.
The management and directors are seated in a room next to the ladies. The difficulty with the ladies is mainly cultural. Together with the manager I talked about how we could ease the problems. Therefore we compared them to motivation theories.

International business skills

Luna Design started with exporting their products to the Netherlands. They also created a website for the Dutch market: [www.lunadesigns.nl](http://www.lunadesigns.nl). They have some contacts in Germany: [Cape Times, Berlin](http://www.capetimes.de), in Benelux: [Luna Designs Benelux](http://www.lunadesigns.nl), in Spain: [Dany](http://www.danye.com)[é](http://www.danje.sp) and Australia: [Tractor Home](http://www.tractorhome.com.au.). These are small distributors which for the moment only place small orders. In the future they might become more interesting.

Luna Design is working with an ex works system. This means that Luna Design delivers the order at the harbour of Cape Town and the distributor takes care of the rest and pays for the whole process. The distributor pays a wholesalers price for the products and takes care of the shipment. He then uses his contacts and takes care of the marketing in his county. He sells the frames under the name of Luna Design. He also takes care of the customer service. This system works well for Luna. They do not have to pay anything extra and still get brand awareness in Europe. It also works for the distributors because they get a much bigger margin on the product. They sell the frames for a higher price and get their benefit from this. Luna Design would like to use the same system on the German market. We will find out more about this later.

International business competence

With the business competence we look at the attitude, the knowledge and the skills of Luna Design.

As was mentioned before Luna has got knowledge and the skills to internationalise. They already have business contacts in England, Germany and Spain. They however miss the knowledge of the German and Spanish language and culture. But most of the contacts speak good English. They are also dealing with independent agents, which is good for now, but in the future they would like more control and export directly to wholesalers.

Their attitude towards internationalizing is very good, they run their entire production process themselves. With the new factory they create more capacity which can handle the amount of orders.

Luna employs 37 staff and has the potential to employ many more. In addition they supply the main source of income for around 30 indigents (local homeless and refugees from Africa). This number could easily be increased too. This will help the south African economy by providing more working places. Next to the fact the economic relationship between South Africa and Europe would become stronger.

## Product Lines

*Luna Designs products:*

* Photo Frames: Classic and Colonial Range
* Decor Items: rosemary crosses
* Chalkboards
* Classic Range Mirrors
* Box Frames
* Multiple Image Frames
* Township guitars

The major product categories are Frames and associated décor products. Common to all products is the use of reclaimed timber and a need perceived by the customers.

Strengths and weaknesses of the product
Particularly in Europe and the US would the recycled nature of the product appeal to a growing green consumer trend. Luna Designs products combines nostalgia with modernism – thus ‘post modern’.
Every product is different and handmade, this makes them unique and it makes the brand special. But when a buyer wants two identical frames, this is a problem, because that is not possible. So it can be a weakness. The images in the frames can be printed several times and placed in different frames. But modern digital printing and home printing are probably boosting sales as more people are able to experiment with framing their photos and digital images.
The frames are a very fashionable product, which seems timeless, but when the trend on the market changes, the product will have to change too to keep it interesting for consumers.

Core Product
The major product categories are photo frames and associated interior decoration products. The products Luna Design produces and sells are all for home decoration purposes, except for the guitars, those are either collector items or used by guitar players.

Actual Product
Every product is different and handmade, this makes them unique and it makes the brand special. The post modern rustic products are made from recycled timber. Because of this, the wood always has a different colour, due to sorts of wood, age and the amount of sun they had. The frames are shaped square or rectangle and there are other products like the rosemary crosses and the guitars. Other materials that are used are metal and glass.

Augmented Product
Luna Design sells a very fashionable product, that people are willing to pay an exclusive price for it. This brings Luna into an high luxurious price category. It is the uniqueness that adds value to the product. But also the fact that Luna Design in addition supply the main source of income for around 30 indigents (local homeless and refugees from Africa) who scour the Cape Town City Bowl in search of their raw materials, adds an emotional value to the product. By buying the products people indirectly help the homeless in Cape Town. Also creating a value for scrap timber will assist in reducing the environmental load placed on the city’s waste disposal systems.

## Unique Selling Points Luna

* Luna Design is currently market leader on the South African market and is the only company that can produce post modern rustic frames in commercial quantities.
* Luna has a strong reputation and knows its competitors very well and how to keep ahead of them.
* Clients can choose their own type of pictures in the frames, African ones or other themes, this makes the buy more personal.
* They work with a good concept: working with distributors.
* They have the right business skills in combination with design.
* Luna us the only supplier of high quality (post modern) rustic frames in commercial quantities in the local market. Internationally only small producers seem to be active.
* Luna handles according to High-quality, fast delivery, Know-how and Personal approach.
* Socio-environmental, by buying from the homeless and using recycled wood.

## Distribution Structure

The current distribution of Luna Design in South Africa;

 Wood

**Individual Wood suppliers South Africa**

**Luna Design**

 P

 Payment Products

**Retailer/Wholesaler**

**Final Consumer**

Currently Luna Design does not work with fixed contracts with their customers. This means that Luna Design is very dependent on retailers and wholesalers. Retailers order average once every six months and big wholesalers order more regularly, but it happens that some periods are very quiet and not so good for the business. If it is a quiet period Luna sends people to new retailers or customers to asks them personally if they would like to re-order. They find new customers in advertisements or the yellow pages.

At the moment they are getting a lot of orders and do not know how to finish them on time, the clients have to wait. This would not work in Europe. Their international distribution system has to be different, more reliable and more future oriented. Otherwise it will fail. At the moment they are using Ex-Works system with international distributors. So far they have good experiences, but the do not know what happens with their products after they finish the order. Possible risks;

* The products are sold for a different price
* The distributor uses Luna Design’s name as a brand and can damage the reputation
* Luna Design is dependent on the distributor and his orders
* Luna does not know in what kind of shops the product will be sold
* The marketing and customer service are taken over by the distributor
* Will this system work in Germany? Is it commonly used in Germany?

 ***Ex-Works system***

|  |  |  |
| --- | --- | --- |
|   | **Seller** | **Buyer** |
| **Responsibilities** | * Make goods available at time provided in contract, at named point
* Give buyer notice as to when goods will be available
* Render buyer, at latter's request and expense, assistance in obtaining documents or equivalent electronic messages issued in country of origin/delivery
 | * Take delivery of goods as soon as they are placed at his disposal, arrange transport of goods and load them onto relevant transportation vehicle
* Give seller notice of time of taking delivery
* Provide seller with evidence of having taken delivery
* Clear goods through customs
* Cost of pre-shipment inspection
 |
| **Costs** | * Checking operations (eg. checking quality, measuring, weighing, etc.)
* Packaging required for transport of goods and appropriate marking of packages
 | * Price of goods, additional costs incurred should he fail to give instructions or take delivery timeously
* All costs required to bring the goods to destination
* Clear goods
* Reimburse seller for costs incurred in obtaining any licenses or other official authorisation for export of goods
 |
| **Risks** | * All risks of damage or loss until goods are placed at disposal of buyer
 | * All risks from time goods are placed at his disposal
 |

## Deliver- and payment conditions for the customers

**Luna Design**

**Bank**

 proof of payment

 Payment proof of payment

**Distributor**

 Products

Most clients are good for small amounts of cash, they probably make up only 1 or 2 percent of the turnover. Loads of living, Luna Designs biggest client in South Africa, is on a thirty day account (from statement – effectively giving them around 60 day’s credit). All other clients local and international are on a COD(cash on delivery) basis.

Recently Luna introduced a sales and marketing policy for international sales. They offer their international clients three kind of payment terms.

* A 50% deposit on order with the balance payable on shipping.
* Full payment ex works on shipping.
* A 50% deposit with the balance payable on receipt of the goods in the destination country.

It depends on which payment option the client chooses what the amount of discount and priority Luna Design gives the clients order.

## Financial Analysis

A financial ratio analysis is necessarily in order to see if Luna Design is able to enter the German Market. This analysis has relation on the next core figures in South African Rand:

Return on Equity (ROE)

Under return on equity, ROE, I understand the extent of profitability thus the proportion between the capital profit that the company has realized during a particular period, and the capital with which that profit has been obtained. The capital profit is the sum which is left when you take the total companies profits minus all business expenses excluding the paid interest.

|  |  |  |
| --- | --- | --- |
| Year | 2009 | 2008 |
| Profit before taxes | 250,729 | 255,169 |
| Year | 2009 | 2008 |
| Members' interest and reserves  | 287,992 | 58,153 |

ROE before taxes: net profit before taxes / net assets x 100 =

250,729 / 287,992 x 100 = 87, 08%

|  |  |  |
| --- | --- | --- |
| Year | 2009 | 2008 |
| Profit after taxes | 229,839 | 253,367 |

ROE after taxes: net profit after taxes / net assets x 100 =

229,839 / 287,992 x 100 = 79, 80%

Return on Assets (ROA)

The Return on Assets, ROA, is a prefix that indicates the profitability of the average total capital before deduct of the interest.

|  |  |  |
| --- | --- | --- |
| Year | 2009 | 2008 |
| Profit before taxes | 250,729 | 255,169 |
| Interest  | 110,458 | 127,905 |
| Total members' interest and liabilities  | 1,583,483  | 939,566 |

Profit before Interest and taxes / average members' interest liabilities and assets x 100 = (250,729+110,458) / (1.583, 483+939,566/2) =

361,187 / 1, 261, 524, 5 x 100 = 28, 63%

The interest rate of loan capital

the interest rate of loan capital is a prefix which indicates what the average costs were for that loan capital.

|  |  |  |
| --- | --- | --- |
| Year | 2009 | 2008 |
| Interest  | 110,458 | 127,905 |
| Non-current liabilities | 678,417 | 657,390 |
| Current liabilities  | 617,074 | 224,023 |

The interest rate of loan capital = Interest + payment on third parties/ debt capital x100= 110,458/ (678,417+617,074 = 1295, 491) x100 = 8, 63%

Solvability

The debt ratio indicates to what which extent the total assets have been financed with loan capital.

|  |  |  |
| --- | --- | --- |
| Year | 2009 | 2008 |
| Non-current assets | 678,417 | 657,390 |
| Current liabilities | 617,074 | 224,023 |
| Total members' interest and liabilities  | 1,583,483  | 939,566 |

Solvability: Debt ratio = liabilities / members interest and liabilities

678,417+617,074 = 1295, 491/1.583, 483= 0, 82

The standard of 0.75 for the "Debt ratio" is obtained by Luna Design.

Liquidity

Current ratio is a prefix to measure the financial state and specifically the liquidity of a business. It shows to what extent the suppliers of short loan capital can be paid from the current assets.

|  |  |  |
| --- | --- | --- |
| Year | 2009 | 2008 |
| Current assets  | 219,203 | 128,376 |
| Current liabilities | 617,074 | 224,023 |

Current Ratio= Current assets / Current liabilities

 219,203 / 617,074 = 0, 36

A healthy value for the "Current ratio" is 1. In the above table you can see that this is not the case for Luna Design. The negative "Net work capital" shows that there is not enough current assets and current liabilities in comparison with the invested non current assets. This means that there is hardly any room for investments.

Net working capital

The net working capital is the difference between the non current assets (supplies, debtors, liquid funds) on the balance of a company and the current liabilities (creditors and remaining short-term debts).

|  |  |  |
| --- | --- | --- |
| Year | 2009 | 2008 |
| Current assets  | 219,203 | 128,376 |
| Current liabilities  | 617,074 | 224,023 |

Net working capital = Floating capital- short term debts=

219,203-617,074= -397,871

A positive value of the net working capital means that more current assets and long term liability have been attracted than that has been invested in the fixed actives. This gives a solid image defence of the present situation of the enterprise. Granting loans from the bank are dependent on the current net working capital of the company.

**Conclusion Financial analysis**

Overall the business is growing very fast, that is why there are some gaps here and there. Next to the fact that almost all the current liabilities are loans from within the family. This means salary is paid out of that. This can be done to keep the taxes low.
In 2009 business figures were very low and the company was not doing well. They had to make lot investments on new machinery and employees. Since the beginning of 2010 things are going much better. The owned capital is family capital which saves bank interests. The company has the ability to grow and opportunities for this.

## Marketing Mix

Product

Luna Design manufactures post modern rustic photo frames. The major product categories are frames and associated décor products. The products are made of reclaimed timber. Luna Designs product combines nostalgia with modernism – thus ‘post modern’.

*Luna Designs products:*

* Photo Frames: Classic and Colonial Range
* Decor Items
* Chalkboards
* Classic Range Mirrors
* Box Frames
* Multiple Image Frames
* Township Guitars

Price

Luna Design delivers their products at high quality and with good service. In South Africa they are Market leader. Luna sells a very fashionable product, people are willing to pay an exclusive price for it. This brings Luna into an high luxurious price category. There is a trend in A/B income to seek out quality handmade and specifically organic/ethical products.

Frames are available from about €4 up to €65. This price is similar to the prices of other competitors. Therefore there is no advantage or disadvantage for Luna Design compared to these other suppliers due to price. Other manufacturers pay less for their wood, but Luna gives the homeless people a fair price for their wood. This is smart, because of the little sources; they will keep going to Luna Design instead of competitors.

The only disadvantage for Luna in the case of selling to a distributor is that the distributor is the middleman in the process. Therefore Luna cannot make more profit. He gives the distributor a discount and the distributor makes profit by selling it for a higher price.

Place

The production of the frames is established on the farm in Hopefield and the factory in Cape Town. The farm is where the wood storage is and the products are partly fabricated. The main Factory is located in Woodstock, Cape Town. The South African customers often walk in to place or pick up their orders or see if there are any particular frames they like to have in their collection. This means that the factory is also the showroom at the moment.

Another place is the website. The website of Luna represents the brand and is very important. This website will be translated into different languages. Luna will introduce a website [www.lunadesigns.de](http://www.lunadesigns.de). Clients and distributors can visit the website and see the assortment of products. It is easy, efficient and effective. It is an easy way to contact your customers directly.
Luna will use e-commerce with their online web shop and contact with their customers.

Promotion

At the moment they do their own marketing and distribution to the trade in South Africa and have a showroom open to the trade and public. The showroom also serves their custom clients.

Another method is: personal sales. They use the two big arts festivals in South Africa as promotional events (as well as useful cash flow).
To get in direct contact with customers, Luna participates in the big trade fairs in Europe. This is where they can promote their product and also find new distributors. But most important gain knowledge about the market. Distributors have their own way of promoting and thus will also promote Luna Designs products with all the small stores, chain stores, wholesalers and retailers.

Luna has good relationships with their customers. They keep Luna up to date about other suppliers in the market and also do worth of mouth promotion for Luna Design.
To create brand awareness, Luna puts stickers with their contact details on the back of the frames.

Luna Design has a website where people can find their products on display and a lot of information about the products. This is a way of pulling customers and attracting them to the products. In the future it will be possible to order frames online, the pricelist will be added soon.

# External Analysis

## Country selection

Selecting a country to start exporting to is a significant and important managerial decision, and requires the evaluation of many criteria.
Using the filter model, the following criteria are mentioned:

Pre-filter:
- Import restrictions/ import duties
- Transportation costs
- Welfare level
- Risk of disaster/ common sense
- Reasons for internationalization

filter 1:
- Political
- Economic data
- Social
- Climate
- Distance

Filter 2:
- Market data
- Product demand
- Competition
- Trade promotions
- Import duties per category

I used counties from within the European Union because I expect the European market is more profitable for Luna Design. These are:

|  |  |  |
| --- | --- | --- |
| Austria | Belgium | Bulgaria  |
| Cyprus  | Czech Republic  | Denmark |
| Estonia | Finland | France |
| Germany | Greece  | Hungary |
| Ireland  | Italy | Latvia  |
| Lithuania  | Luxembourg | Malta  |
| Netherlands | Poland | Portugal |
| Romania  | Slovakia  | Slovenia |
| Spain  | Sweden | United Kingdom |

Now that I reviewed the criteria for the pre-filter, most are the same for EU-countries because they are all members of the EU en follow the same restrictions. The countries that did not get past the filter had a relative lower welfare that the others.

The following countries did get through the pre-filter:

Austria Luxembourg
Belgium Netherlands
Denmark Poland
Estonia Portugal
Finland Slovenia
France Sweden
Germany united kingdom
Hungary Italy

After applying filter 1 the following countries go to filter 2:

France
Germany
Netherlands
Poland
Portugal
United Kingdom
Italy

This is where potential countries are classified. I looked at information which have a direct impact on the sales. In this filter countries will be judged by means of + and –. Value ++ = score good until value - -= very bad.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Land | Market data | Product demand | Competition | Trade promotions | Import duties per category | Total |
| France | +- | + | +- | + | + | 3 |
| Germany | + | + | +- | ++ | + | 5 |
| Netherlands | +- | + | +- | +- | + | 2 |
| Poland | \_ \_ | \_ | \_ | \_ | + | 0 |
| Portugal | \_ \_ | +- | \_ | + | + | 0 |
| UK | + | + | +- | ++ | + | 5 |
| Italy | + | +- | +- | +- | + | 2 |

The top three of potential countries Is United Kingdom, Germany and France. Luna Design asked me to do market research on the German market.

## Buyer’s analysis

Market segmentation

Luna Design would like to enter the German market and want to start Ex-Works there. Luna Design supplied Cape Times (www.capetimes.de) for wholesaling in Germany. They are in regular contact with this client and expect a repeat order from them. Luna Design was accepted for the Tendence Gift Fair in Frankfurt, but felt that their capacity still needed fine tuning. They still want to promote their products at a big decoration trade fair, to see what people would respond.

The decoration market is a very big market with a lot of sub segments. Interior decoration comes in all shapes and sizes. Luna Design wants to enter the market in a specific segment within the photo frame market. Luna Design found a niche in the market, selling design post modern rustic frames. It is a small market but growing very fast. They have to use niche marketing in the sub segment.

At the moment there are no other providers of these specific products. I started to make a selection, based on the selection Luna Design uses in South Africa. They will have to consider; demographical aspects, user’s variables, the buy approach, situational factors and personal characteristics.

Internationally Luna Design will only be looking at a small percentage of the frame market. They hope to emerge as the leading producer of Post Modern Rustic Frames – a small niche within the frame market. Within South Africa they are the largest supplier of this type of frames, they probably control around 70-80% of the market. They have sold more frames through Loads of Living than they have sold of all other types of frames put together in the existence of the company.

Luna Design intends to maintain a strong relationship with Loads of Living by serving as a long term supplier of furniture and décor manufactured from reclaimed timber.

The law of supply and demand is serving them well and they could exploit this by opening up international markets. Within South Africa demand is currently exceeding supply to some extent and this is keeping the prices high.

Within South Africa there are probably around a million customers. The market in Europe should be huge and growing as consumers continue to seek out environmentally sound options. Importantly each individual who purchases the product tends to purchase many of the frames as they have a perceived need to change many of their existing frames.

Segmentation by consumer

There is a trend in A/B income to seek out quality handmade and specifically organic/ethical products. Particularly in Europe and the US the recycled nature of the product would appeal to a growing green consumer trend.
Luna Design seeks to serve the market segment served by Loads of Living – A/B income, aged 18-65 but mostly in 30s and 40s, largely women. They are design and décor conscious consumers. The specific needs for this product are a luxurious design piece African style and hand made. The buyer has to have a specific taste for this. With regards to our immediate plans in Europe Luna is hoping to pitch to a similar segment of the market as they reach at Loads of Living.

Looking at this segment in Germany

The German decoration market is very big. Luna Design is operating in a very small segment namely photo frames. This is a sub segment of the decoration market. The unique photo frames distinguish themselves from other photo frames at the market. They distinguish themselves in this submarket by originality, uniqueness, design and African style. I have found some information and made a segmentation analysis.

Photo frames in different product categories:

* Interior design
* Furnishing & interior
* Decoration products
* Gifts

It is very hard to give them their own market and there is very little information.

Luna’s segmentation on income, age and style for Germany:

0-14 years: 13.5% (male 5,720,367/female 5,425,389)
15-64 years: 66.1% (male 27,704,691/female 26,668,140)
65 years and over: 20.4% (male 7,048,438/female 9,715,963)

male: 43 years

female: 45.6 years

The post modern rustic frames are a trend sensitive product but are very popular at the moment. Photo frames are bought for different reasons; as birthday presents, for Christmas, but mainly they are bought as home decoration items. Consumers are buying more quality products that they trust and know they will sustain. Luna Design offers this quality.

The Gifts and Decorative Accents Report was done by an online service bureau using their survey panel. This important new study of the gifts and home decorative accents market provides the results of a series of focus groups among highly active recent purchasers of various giftware and home accent products. The focus group respondents were also people who enjoyed shopping for these items in specialty gift and home stores. the following results can be concluded;

This report compiles detailed statistics collected in a survey among 1,644 recent buyers of one or more of the 26 giftware and home accent products included in the survey. The average income of survey respondents was €75,100; average age 42.4 years; and 68 percent female/32 percent male.

Decoration Market

Consumption
For the German market it is true that people will keep buying gifts for their friends and family. Gifts will be bought by all consumers, low to high segment consumers. Low and middle segment consumers are expected to shop around more for the best deals when it comes to gifts, but they will keep spending, because they value their reputation as a friend. They are expected to be willing to pay more for a gift than for an everyday basic functional item for their own use. High segment consumers are also expected to shop around more for gifts, but they do it to find the special, unique item to give as a present. Original, handmade products with ethnic value can best be marketed to these high segment consumers.

Germany was the largest market for home decoration and accessories in Europe, accounting for about 23% of the total EU consumption. To a total of € 3 billion.

Looking at the separate product groups, Woodware experienced an increase on average in apparent consumption. In total the consumption of home decoration and accessories in Germany has increased on average by 0.8% per year, which confirms the general expectation about the German home decoration and accessories market as a mature and stable market. However, forecasts for the years 2009 and 2010 are that the home decoration and accessories market will show no growth at all.

production
German home decoration and accessories production accounts for about 24% of the total EU production, which makes Germany the biggest producer in the EU. In the period 2003-2007, production of home decoration and accessories in Germany increased by 4.4% to a value of € 2.7 billion.
Forecasts for the year 2009-2010 are that the production of home decoration will decline with a little as a result of the economic crisis and partly because many German companies are outsourcing their production to producers in developing countries and low-cost countries from Eastern Europe.

Imports
Total imports for home decoration and accessories imports accounts 19% of the total EU imports, which makes Germany the biggest importer of the EU. The total value of home decoration amounts € 1.6 billion. Total imports of home decoration and accessories, reached 751 thousand tonnes at the end of the period, this was a decrease by 4.4% during the period 2003-2007

Prices per product imported as well as the volume of imports are decreasing at a slow pace in Germany. In the future import values are expected to decline even more, in line with the global trend. According to Eurostat data, an increasing share of total home decoration and accessories imports came from developing countries, rising to 40%.

Exports
German home decoration and accessories exports accounts for 20% of the total EU exports, which makes the country the largest exporter in the EU. Expectations are that export prices and volumes will decrease in the near future as a result of the global economic crisis. When the crisis is over, predicted by the end of 2010, an increase in export volume of a few percentage points is expected again.

Comparing the consumption, production, import and export of home decoration and accessories in Germany, one can conclude that re-exports of home decoration and accessories do not play an important role in German imports. Thus, the majority of the imported goods entering the country are meant for this market.

Furnish & Decoration market
The Western European countries have very mature home decoration and accessories markets. People in Western Europe changed their buying pattern because of the recession. Low and middle segment consumers buy less furniture and change their interiors in small steps when they buy home decoration. High segment consumers still buy furniture but search longer for special, unique items. Despite of all these positive influences overall the market will not grow in the coming year. Expectations are that the market will stay flat. After the crisis is over in Western Europe, at the end of 2010, a little growth of only a few percentage points a year is expected.

Business to business

Entering the market in the short run will be difficult, due to the harsh circumstances. Recovery is expected at the end of 2010 for most European economies. When you enter the market in the recovery period you can benefit from renewed consumer confidence. Luna has to be aware of the fact that marketing and having a trustworthy agent or partner are very important in this segment. Only then they can achieve high margins.

This is the most important selection for Luna, because they want to work with a distributor and this has to be in the plan for the government funding. Even after my research and segmentation they still want to work with a distributor.

In the home decoration and accessories market, the importer/wholesaler is the most important intermediary when it comes to distribution. Most of the importers/wholesalers have a national or regional distribution function. Because of the large variety of products included in the home decoration and accessories market, there are a lot of specialized importers/wholesalers, for example, specialists in supplying flower shops. The large retailers generally source their product range directly from the producer. Therefore trade fairs are important for orientation and communication.

Major trade fairs in Germany are: Ambiente (<http://www.ambiente-frankfurt.de> ), Tendence (<http://tendencelifestyle.messefrankfurt.com/> ), H.E.T. - <http://www.hamburger-einkaufstage.com/> . The German national association of gifts and living design is BKG Bundesverband Kunstgewerbe, Geschenkartikel und Wohndesign e.V.

Trends

Most positive are the forecasts for products that are marketed as gifts, because people do not economize much on the presents they give.
Germans still spend money on gifts, despite the economic crisis, because they want to appear generous with family and friends. So the gift segment is likely to remain strong, even in these times of economic downturn. Especially home decoration and accessories made of natural materials (wood, ceramic, paper etc) are perceived as more expressive and thus are more suitable as gifts.

Products with identity are trendy; these are products with cultural or social values incorporated, authentic products, products that use innovative techniques and craftsmanship. This trend combined with the fact that more and more Europeans are interested in exotic cultures, should present opportunities for Luna Design.

Experience over matter: in the saturated EU market the consumer is no longer just looking for more of the same or for a product per se, but rather for an emotional appeal, an experience, a taste of the exotic. The retailer needs to contextualise the products in his shop, to allow the consumer to experience a true sense of contact, which might perhaps lead to a lifelong commitment to the brand. In the same way the producer can help by providing context: heritage, origin, authenticity, and story. This is a huge opportunity for suppliers from developing countries. It also explains the increasing relevance of branding in home accessories, as a way of offering more than just product.

Conscience: ‘green as the new gold’. German consumers want to be able to trust producers, to see that they are transparent, and speak the truth about the ethical, social and environmental impact of their products. Producers have to show integrity, to be authentic and genuine. On product level, this trend translates into a use of natural, renewable and recyclable materials, the use of traditional techniques, hand-manufacture and fair-trade.

conclusion
A similar target group in South Africa is found in Germany. Luna could sell through a distributor who will resell the products to retailers similar as Loads of Living; quality shops in the more expensive category. The target group will be larger because the aspect of the story behind the frames will become more important.

## Potential Target groups buyer analysis

Germans will keep spending money on gifts and home decoration product despite the economic crisis. Especially home decoration and accessories made of natural materials like Luna Designs products.
For Germany I advise Luna Design to use the same target groups as in South Africa.

- Distributors/ wholesalers

- Retailers

Currently Luna Design is in contact with only one distributor in Germany and are looking for different possibilities to get a bigger network of clients. They usually contact one distributor per market, to keep the areas small. But with Germany being such a big market they are considering to work with more distributors spread over the country. If one of the distributors stops, Luna can contact another one or use an existing one to expand his area.

## Meso analysis (branch analysis)

There are around 5 businesses that make rustic photo frame products. This does not mean that each business is a competitor. In this competitors analysis I mainly looked at businesses that produce and sell rustic photo frames. Below I analyzed these competitors in South Africa and Germany.
After many attempts I unfortunately cannot get in the price and marketing strategies because the businesses do not want to give them. We have not described all competitors because some are too little or irrelevant information.

Masjien Framing Factory

Founded by Pierre Terreblanche who worked with Mark and Brian in 1998 and taught them the concept of the rustic frame. Pierre supplies almost exclusively the French and Italian markets. He previously sold most of his production to a local distributor (Amatouli Fine Art) but has accessed better margins in Europe using a French Distributor. He has moved his production to a farm in the Free State where he had intended to downscale and focus on really high end framing for the European market. He is very successful in this but Pierre is not a business minded individual and has no desire to run a large entrepreneurial business. He models himself as a craftsman. He deliberately marks his products up a lot. An A4 frame by Masjien currently wholesales in Europe for 80 Euros. He is also supplying Poetry, which is a new competitor of loads of living.

*Strength/weakness*Pierre knows how Luna Design works, because they learnt from him. But that is the same the other way around; Luna Design knows his strengths and weaknesses as well. He uses only one distributor that he depends on. Terreblanche has more capacity at the moment, so he produces large amounts, but he does not have the right business skills to sell more. Mark Fanner does have the right knowledge and with the new factory things will change.
*Threat/ Opportunity for Luna*Besides learning from Pierre, Luna differentiates themselves by selling to a different market segment. Pierre focuses on high end framing. Pierre has recently put his French agent in contact with Luna Design as they are not able to keep up with demand in Europe and are hoping that Luna will be able to help. Luna has met this agent and sold to this distributor who is not as large as was initially imagined. Also Luna makes use of different distributors so they can compete against each other. In this way Luna can get to know the distributors better and see how they work. They can also fire them much easier when they are not doing there job properly.

Resurrection

Resurrection is a small company which is owned by Nigel. They actively copy Luna’s style and products and are the closest to getting it right besides Pierre and themselves. He does however slip up occasion although these mistakes have grown fewer and fewer. Resurrection is very small, the partner continued without Nigel.

*Strength/Weakness*They can easily copy products from Luna, but they are not direct competition because of they do not produce in commercial quantities. They also do not have the right network and production capacity. They are selling much more locally.
*Threat/ Opportunity for Luna*Resurrection seems to have shrunk as some of their previous outlets seem to be without the product. They are not on the European market and not able to manufacture large quantities.

Reproduced Framing

Run by Eddie in Salt River, Reproduced Framing have been around for years. But often has problems with not having the cash to go on buying and to pay staff. He has thus lost staff and suppliers to Luna. Eddie does not understand the basics of business and thus could not deal with larger customers. Even smaller customers find it difficult to deal with him. He thus supplies individuals only. He gives them a good price but cannot offer volume discounts. Luna seems to be able to disregard him as competition. As a precaution Luna Design is careful to note what the customers and suppliers are saying.

*Strength/Weakness*They have the know how to produce the products, but are very small and do not have the knowledge to do business with larger customers. The staff that used to work there passes on a lot of information to Luna about the working process, so Luna knows exactly how he works.
*Threat/ Opportunity for Luna*Luna is a fully operable company with good knowledge of the market and know how to run a business. They are also able to supply in large quantities and offer good prices with that.

Rustic Furniture

Internationally there are a few companies known to Luna. There is Rustic Furniture in the US, which sells ‘Barn wood’ frames but these are not much like Luna Designs products. They are mostly cottage furniture and have no real designer element.

There are frames coming out of Lithuania possibly even directly copied from Luna Design or Masjien’s. They are however not held in high regard by Luna Designs Berlin customer who says they are not of the same standard as Luna Designs frames.

There are reclaimed ‘boat’ frames out of Kenya and Thailand. Both are expensive and are not all that similar to Luna Designs products in terms of their look. There is reason to doubt the authenticity of the Thai version, too many are too alike to be genuinely recycled.

*Strength/Weakness*They are copying frames, so these products have less originality and design as Luna’s Products and they deliver less quality.
*Opportunity/Threat*They are working in different market as Luna and are no threat for Luna because they do not produce same quantities.

## Unique selling points vs. Competitors

|  |  |
| --- | --- |
| Strengths and opportunities Luna | Strengths and weaknesses competition |
| * Luna Design is currently market leader on the South African market and is the only company that can produce post modern rustic frames in commercial quantities.
* Luna has a strong reputation and knows its competitors very well and how to keep ahead of them.
* Clients can choose their own type of pictures in the frames, African ones or other themes, this makes the buy more personal.
* They work with a good concept: working with distributors.
* They have the right business skills in combination with design.
* Only supplier of quality (post modern) rustic frames in commercial quantities in the local market. Internationally only small producers seem to be active.
* Luna handles according to High-quality, fast delivery, Know-how and Personal approach.
* Socio-environmental, by buying from the homeless and using recycled wood
 | * The competition is not able to produce in the commercial quantities and is not yet ready for internationalization, due to lack of cash flow.
* The other producers are very small and do not have a reputation yet. They are aiming at a different target groups.
* Other companies can copy the concept easily.
* Most of them work with only one distributor. Luna is working with different distributors to optimally approach the market.
* They do not have the right business skills or marketing tools.
* The other producers deliver less quality.
* The other companies have less personal contacts and do not have a showroom.
* Competitors are using different woods and are producing in different ways.
 |

Conclusion competition analysis

With all the smaller competition Luna should seek to dominate via customer service; it is after all the customers who have kept Luna so well informed regarding the competition. They should try to focus on customer relations so they will be able to keep the customers selling their product even if the look changes.

With the bigger competitors Luna needs to answer to the challenge of producing fresh range of products regularly so they keep being the market leader and thus help their customers to lead the market as well. To this end it is good not to entirely dominate the market as the competition is what will keep them, and more importantly their customers, ahead of the fashion stakes. The smaller operators do not have the infrastructure to deal with this aspect of the business.

Porter's five forces

Porter's five forces analysis is a framework for the industry analysis and business strategy development developed by Michael Porter. It uses concepts developed in Industrial Organization economics to derive five forces which determine the competitive intensity and therefore attractiveness of a market. This results in a number of competition strategies.

The five competition strategies of the model are:

- Threat of entry
- Threat of substitutes
- Bargaining Power of Buyers
- Bargaining power of suppliers
- Industry Competitors

When we apply Porter’s model on Luna Design, we can conclude the following:

Threat of entry
Luna Design operates in an open market. This means new arrivals can enter easily and that the competition will arise (and probably soon). The positive thing is that Luna Design currently the market leader is, when it comes to fast delivery of big orders. At the moment there are no such suppliers. When Luna builds up a close network of distributors they will be ensured of a stable position.

Threat of substitutes
The picture frames are very trend sensitive, so they have keep their customers interested. Luna Design recycles wood, watches the environment and also creates employment. So it is not only because the products are very nice, but also the story behind the products that interest the customers.

Bargaining power of buyers
Customers always have an influence on a company’s position on the market. Luna Designs customers are mainly resellers and the product is very trend sensitive, therefore they can influence the company. To get a good relation with these distributors, Luna will need to provide good discounts and promotions.

Industry competitors
The competition will arise in the future. The main competitor is Piere Terblanche from Masjien Framing Factory. He produces in South Africa and is growing very fast. But they know exactly how he works because they use to work with him and know him very well. Therefore they can stay ahead of him.

Bargaining power of suppliers

Other manufacturers pay less for their wood, but Luna gives the homeless people a fair price for their wood. This is smart, because of the little sources, the local wood suppliers will keep going to Luna Design instead of competitors. Luna Designs concept is very good. By finding distributors and let them discover the market and find contacts. Luna does not have to do all the hard work and pay for transport an marketing costs. In return they give the distributors a discount. This may not be profitable yet, but will increase contacts and open ways for direct supplying in the future.

**Conclusion**

Looking at the five forces there are two forces that are important for Luna Design, the threat of substitutes and industry competitors.

## DE STEP

## Demographic factors

Population size: Currently there are 82 million people living in Germany, according to the statistics of the European Commission. The German population is projected to decrease gradually to 74.5 million by 2050. This decrease is a result of the low number of births in Germany. The size of German households is decreasing. More and more women choose to have only one child or no children at all and the woman that do have children, have fewer than in other European countries. Furthermore, there has been a decrease in the number of women of childbearing age. Another reason for the fall in population is the fact that the number of deaths and the death rate is increasing. This is due to the growing population of elderly. Net immigration will partly offset the population decline, according to Euromonitor, but is not that significant. Nonetheless, Germany has the biggest population of all European countries, but due to the decrease in population it is likely to forgo this place to Turkey around 2016.

Age profile: Just as in other major EU countries, the age profile of the population reflects the falling birth-rate and rising longevity, and the proportion of people under 20 has decreased, while the proportion of people 40 and older has increased substantially. In 2008 13.7% of the population was under 15, while in 2000 this was 15.7%. 20.1% was over 65 in 2008 and this percentage is expected to increase over time. This ageing process creates a problem for the German economy as the number of potential workers is decreasing rapidly. This means Luna Design as a producers of home decoration and accessories, must target this group, because they are numerous and tend to have enough spending power. The elderly mainly favour traditional home decoration and accessories that are easy to use.

Household structure: Another important demographic development for Luna Design is the rising number of households, particularly the increase of one- and two person households. The persons in such households tend to have higher than average incomes, fewer family obligations and more leisure time to enjoy their homes. All these factors stimulate expenditure on gifts and decorative articles.

## Economical factors

The economy of Germany is one of the three largest of the world and has an economic growth of two per cent on the Gross Interior product. The high structural gross labour costs, structural high unemployment and the low domestic demand are three large problems where Germany has to deal with. The economic climate is picking up especially in the SME.

In the third quarter of 2008 the German economy has come in a recession because of the world-wide economic crisis. The expectation is that the GDP in 2009 will go down with 5.3 per cent and with 0.8 per cent in 2010. The world-wide decreasing economy will have a negative effect on the export demand. The import growth will decrease less than the export growth, because the private consumption will decrease less than in other developed countries. This is declared through factors as a strong position of German households, independence granting of credit for consumption and no purchase of the value of possessions.
The German economy is in a recession and no recovery is expected over the coming year. The forecast is that the economic downturn is going to last up to two years, according to Euromonitor. Expectations are that the growth rate of the economy will fall due to population ageing, which results in a smaller workforce. Furthermore unemployment is high in Germany. All this makes the consumer confidence lower in Germany. Furthermore, as a result of the economic crisis a lot of people have decided to start saving for their pensions, so private consumption has declined. On the other hand Germans move houses often by European standards and this benefits the sales of home decoration and accessories.

For Luna Design this means that the German decoration market might suffer from the economic crisis. Due to lower consumer confidence and people who are saving up their money. But the import growth is decreasing less than the export growth, because the private consumption will decrease less than in other developed countries.

## Social factors

South Africa is a “Village market” while Germany is a “well-oiled machine”. This means that in South Africa there is less of an hierarchical relationship between buyer and seller. The Germans are very formal, trustworthy and pay much attention to preparation.

Many consumers respond to a tighter personal budget by making adjustments to their leisure pursuits, such as a reduction in the number of shopping trips, excursions and visits to cinemas and restaurants. Instead, many Germans concentrated on "free" activities around the home and garden (Datamonitor) known as cocooning. The same trend is seen in France and other European countries. The trend of cocooning is a positive thing for Luna, because it stimulates the sales of home decoration and accessories, people want to make their homes look comfortable and welcoming.

At the same time, essential expenditure on food and drink, clothes, cosmetics, rent, insurance and loan repayments left little money for interior furnishings, home decorations and accessories. A propensity for bargain-hunting and greater interest in discounted home decorations and accessories are major trends. On the other hand, to ‘buy less but better’ is a huge trend in consumption in home accessories this is a good thing for Luna, because they sell high quality products.

Germans like to do repairs and home improvements themselves and visit do-it-yourself stores to buy what they need. They are stimulated by 13 programmes on national television offering advice for hobbyists and home-improvers.

## Technological factors

Modern digital printing and home printing are boosting sales as more people are able to experiment with framing their photos and digital images. The biggest photo frame market is digital photo frames. Tis means Luna will have to keep track of the new developments in this market. This could create opportunities in the future.

## Ecological factors

an important positive thing for Luna is that recycling of timber and timber products such as furniture is becoming increasingly important in Germany. European policies indicate that the environmental impact of products is becoming very important. When looking at recycling possibilities, one should be looking into the development phase of a product. The possibility of recycling depends on the way the product is constructed and the kinds of materials used.

German people pay many attention to the environment and pollution. If a company invests in environmental friendly production this is very good for their reputation. A company that is heavily polluting and not keeping the environment in mind will get a bad reputation. Considering that Luna Design works hard on keeping the environment clean by recycling, this will provide them a good reputation instantly.

## Political factors

The federal Republic of Germany is a federal state, with a democratic form of government. The head of Germany is the federal Chancellor Angela Merkel.
The politic situation is stable in Germany. Germany is a member country of the European Union

Each member state has its own government only within the laws of the Government of the German Federal Republic. As a member country of the European Union, Germany takes part in all the European Community and European Union bilateral and multilateral treaties.

Exporting companies need permits to export certain products to Germany but not for the product of Luna Design. There are rules for import and export for trade with countries outside the EU. Germany handles import levies for countries not belonging to the EU.

## Trade Fairs Germany

Major trade fairs in Germany are:

* Ambiente (<http://www.ambiente-frankfurt.de> ),
* Tendence (<http://tendencelifestyle.messefrankfurt.com/> ),
* H.E.T. - <http://www.hamburger-einkaufstage.com/>
* Leipzig fairs (<http://www.leipziger-messe.de/> )
* The German national association of gifts and living design is BKG Bundesverband Kunstgewerbe, Geschenkartikel und Wohndesign e.V.

## Distribution analysis

In Germany traditionally, exports from the developing countries have transited through importers or agents, who have then marketed the products to wholesalers, end-users, or retailers. This is the best way for small/medium producers from developing countries, because by working with an importer or agent you can devote your company resources to production and do not have to spend them on marketing, customer relations, exporting etc. Nonetheless there are also disadvantages to working with an importer or agent. If you work with an importer or agent there are a large number of intermediaries, due to which it is difficult for you to gain knowledge of market trends, to gain competitive advantage by adapting the product to specific customer needs and, of course, the margin lost at each stage of the value chain is significant. Therefore it is important to find a good business partner or importer whom you can trust and who maybe can also keep you up-to-date on market trends and on customer needs

Trade channels
Wholesaling in Germany is relatively small, with companies like Sandra Rich Gmbh (http://www.sandrarich.de/) and Kela (http://www.kela.de/). Often the German producers have some sort of wholesaling function, purchasing products to complete their product range. There is a large buying group called EK Großeinkauf (http://www.ek-grosseinkauf.de/), active in the German market, which centralizes the buying for approximately 2,200 (associated) member companies. EK Großeinkauf purchases on behalf of specialized retail shops, small to medium-sized department stores, specialised discount stores and furniture houses. Trade channels also include the so-called agencies. Agencies are usually combined with importer/wholesalers, acting as an agent for some products or producers, and as an independent importer for others. One of the big agencies in Germany is Abels (http://www.abels-handelsbuero.de/start.htm)

Retail trade
In Germany the specialists, notably the ones operating in the furniture market, are increasing their share of home decoration and accessories retailing, especially in decorative glass, glass for tables and ceramics. One of the biggest retail chains in Germany is Ikea. The independent specialist long ago lost its foothold on the German market as the Germans tend to be rather price conscious and favour cheaper formats like hypermarkets and discounters. The department and variety stores have lost some market share; the latter however retain a dominant position on a day-to-day basis. An important variety store in Germany is Woolworth GmbH & Co OHG, which has 330 outlets (http://www.woolworth.de/). The German department store segment is dominated by two local groups, namely Karstadt Group (http://www.karstadt.de) (191 outlets) and Metro AG (135 Kaufhof outlets). Two interesting retail chains which offer many types of home decoration and accessories and which have central buying offices, are Kaufhof Warenhaus AG (<http://www.galeria-kaufhof.de>) and Marktkauf OHG (<http://www.marktkauf.de/>). In de garden sector retail is fragmented, according to Euromonitor. Most retailers are specialized in certain products like, for example, seeds. Ikea is a great competitor for garden centers as it sells low priced garden decoration. Grocery stores are also gaining market share due to their good seasonal offers.
**Distribution of home decoration and accessories, current businesses on the market.**

**Variety stores**Woolworth GmbH & Co OHG
Aldi
Tesco

**Department stores**KarstadtQuelle (Karstadt Group)
Galeria Kaufhof and Marktkauf
(Metro AG)

**Internet-Mailorder**Produces sites
retailer sites
internet specialists
mailorder companies

**Furniture outlets**Porta
Lambert-home

**Export marketing organization**

**Gift shops**ES Euro-Souvenirs GmbH

**Fair Trade**Fair trade stores

**Category killer**IKEA

**Garden centres**obi

**Specialists**Kare design

**Directly owned**

**Broad**

**Product Mix**

**Narrow**

**Mass**

**Premium**

# SWOT-analysis and confrontation matrix

SWOT analysis

|  |  |
| --- | --- |
| **Strenghts*** Luna is market leader in South Africa
* Luna has a strong reputation
* Luna knows his competitors very well.
* Only supplier of quality (post modern) rustic frames in commercial quantities in the local market. Internationally only small producers seem to be active
* They have the right business skills in combination with design
* They work with a good concept working with distributors already
* Customers can choose their own type of frames and the pictures in it.
* They can produce commercial quantities.
* Luna creates working places (emotional value.)
* Cost advantage by know how.
* High quality and fast delivery.
* Know-how
* Personal approach
* Own production factory
* Young team
* Word of Mouth advertising
* Repeat orders
* Business is growing rapidly
* African design style
 | **Weaknesses*** There is not enough supply of raw materials to keep up with the production. They have to find new sources.
* There is not enough space for production they have to increase their capacity.
* There is not enough cash flow.
* Luna does not want to invest much money.
* They are dependant on distributors.
* Luna has no knowledge of the German market.
* The Luna brand is not established on the German market yet.
* Loads of living is the main customer. This leads to dependency and instability. If they lose loads of living as customer they lose their business.
 |
| **Opportunities*** Luna is market leader and still ahead of their competitors.
* There is a growing demand for rustic picture frames in Europe.
* Luna is creating a large network of distributors and gaining brand awareness in Europe.
* The use of distributors brings down the amount of work and costs.
* By using a distributor more contacts are made.
* Internationally only small producers seem to be active.
* Collecting scrap timber-system could be implemented in other cities.
* Developing other products of wood to sell (to loads of living).
* ‘green as the new gold’ this trend translates into a use of natural, renewable and recyclable materials, the use of traditional techniques, hand-manufacture and fair-trade.
* African style décor products are getting more popular in Germany.
* Consumers are looking for more emotional appeal, an experience, a taste of the exotic.
* Germans still spend money on gifts, despite the economic crisis. There is demand for the products.
* There is more demand towards high quality products.
* The German market is quite easy to enter
 | **Threats*** Luna has no contact with local wholesalers yet.
* Competition is rising fast
* Distributors are making more profit at the moment and Luna will be dependent on them.
* The picture frames are very trend sensitive.
* Luna is still unknown in Germany.
* With the economic recession, export could be a threat.
 |

Confrontation matrix

|  |  |  |
| --- | --- | --- |
|  | **Opportunities** | **Threats** |
| **Strengths** | Luna is currently market leader and has the ‘know how’, so Luna can stay ahead of his competitors. Also because they know how their competitors work. Luna is making use of working with distributors, which creates opportunities to get to know the European markets better, shrink down costs and make more contacts. This creates opportunities because of the large demand for frames in Europe.Luna is the only one that has the capacity to deliver commercial quantities internationally.By entering the international market new products made from scrap timber can be exported.‘green as the new gold’ use of natural, renewable and recyclable materials is popular.A distributor takes care of marketing, after sales and re-buys.  | There is not enough space to have stock. But a distributor will keep a stock, so this wont cost any money. Luna is unknown to the German market, so they work with distributors to make more contacts, but are therefore also dependant on them. Keeping good relations with customers will help establish their name.Distributors want to have exclusive rights in areas; this creates less competition between distributors. But Luna will just give them freedom for 2 years. |
| **Weaknesses** | Luna Design does not want to invest (much) money. Using distributors saves them money for stock keeping, shipment, marketing and after sales.Luna is not know on the English market and uses the distributor to increase their contacts, so they can deliver directly to wholesalers in the future.They have the right business skills and design to meet the demands from Germany. With the lack of space and capacity the new factory comes at a right time. | The picture frames are trend sensitive and on a very competitive home decoration market, which growing fast.There is not enough cash flow to invest into the capacity of production and there are not enough wood suppliers.Luna is unknown at the German market and dependent on the distributor who is making more profit at the moment than Luna itself. |

Confrontation matrix analysis

Strengths vs. opportunities lead to an offensive strategy: Intense cooperation with wholesalers/ retailers to enter the new market.
Weaknesses vs. opportunities lead to an Adjust strategy: Investment in new productive facilities for Luna Designs products.
Strengths vs. threats lead to a reactive strategy: Excellence in customer service (to bind customers).
Weaknesses vs. threats lead to a defensive strategy: Investment in development of new products to keep their product range up to date.

# Strategic options

## Grow strategies

The Ansoff matrix is well known marketing tool. It is used by marketers who have objectives for growth. Ansoff's matrix offers strategic choices to achieve the objectives. There are four main categories for selection.

|  |  |  |
| --- | --- | --- |
|  | Current product  | New product  |
| Current market  | Market penetration | Product development |
| New market  | Market development  | diversification |

The target of the growth strategies is to generate more volume of trade and profit for the company. There are four manners:

* Market penetration: sales raise of current products on existing markets.
* Market development: selling existing products on new markets that are not entered yet.
* Product development: develop new products/services and sell these on the existing markets.
* Diversification: offering new products/services on markets that are not entered yet.

## Ansoff matrix

Luna Design is market leader in South Africa, this home market will soon be satisfied, so Luna Design needs new markets to achieve their turnover objective.

I looked at the Ansoff model, to determine which grow strategy internationally is the best for Luna. I recommend Luna Design to do market development.

Luna Design has an international website and will use the same concept when entering a new market. With market development, Luna will enter the market in Germany with their current assortment. The products can be adjusted if the needs of the German consumers is different to those in South Africa. In the future Luna Design will develop new products and will introduce them on that market then they continue product development. If this goes well they will consider to enter new foreign markets with their new products. Then they will be doing the diversification strategy, but this brings a lot of risks along, so this will be the last thing Luna will do.

Strategy

Go/ No go

Taking in account the benefits and disadvantages I recommend Luna Design to enter the German market. I think that the export to Germany is feasible with the right preparation and strategy choice. The preparations must consider gaining knowledge of the German market and culture. Financial support at this area might help too. If the company keeps growing as it is, they will be able to keep up the demand.

## Positioning

Positioning is what the customer believes about Luna Designs product's value, features, and benefits; it is a comparison to the other available alternatives offered by the competition. These beliefs tend to be based on customer experiences and evidence, rather than awareness created by advertising or promotion.

Luna will sell premium-quality frames and other home decoration products to high-income people in warehouses and retail shops in high-traffic urban locations. Luna will be positioned versus other home decoration producers. “Reasons why” are that the customers that buy the products are looking for unique design products to decorate their interior. They want to identify themselves with ‘Luna’ and adapt this product in their lifestyle. The product distinguishes itself from other products because of the originality, the special handcrafted recycled wood and the African image. Every piece is unique and is personal taste. You either love them or hate them.

looking at Luna Designs market segmentation in South Africa I have made an optional product/market combination. These products will not be different in the beginning if we look at decoration, art, interior style, design or African style shops. Every product is unique and is a personal choice from the buyers. This combination would be a good way to start. **Product/market combination matrix**

|  |  |  |  |
| --- | --- | --- | --- |
|  MarketProduct | Retailers | Wholesalers | Distributors |
| Photo frames (classic and colonial range) | X | X | X |
| Décor items |  | X | X |
| Chalkboards |  |  | X |
| Classic range mirrors |  |  | X |
| Box frames |  |  | X |
| Multiple image frames | X | X | X |

Products will be chosen differently for each segment that Luna Design is targeting. Distributors will get all of the product ranges, this way they can find out which are selling better in Germany and which are not. Photo frames are Luna Designs main products, these will be sold to all of the target groups. When the photo frames are selling well, retailers and wholesalers can always expand their assortment with other product from Luna Design.

At the moment Luna Design only sells all of their products to distributors on the international market. In the future Luna Design is considering to take over the network of the distributor and sell directly to retailers. For this reason Luna needs control of their brand as a presence and trade sales on the market. It will only happen if the distribution network does not work out.

## Competitive Strategy

Value disciplines

With this discipline, I searched for the basis of competitive advantage within the company itself. Concentrating on things that Luna Design is particularly good at. There are three value disciplines: operational excellence, product leadership and customer intimacy. These are Luna’s best aspects:

* Reclaiming resources
* Empowering people
* Preserving Beauty
* Product leadership

Luna Design is one of the first with this concept. Because of this, they can sustain an intensive relation with their distributors and workers. They differentiate themselves by their service and a consumer friendly approach. Therefore I think the value discipline ‘customer intimacy’ is best for Luna Design.
in the future they have to create valuable relationships with their distributors to sell their products and let them open the market for the future. By internationalizing Luna is not only creating more work places within the company but they will also be able to help more homeless people and contribute to the South African economy.

De competition strategies flowing from Porters generic strategy are:

- Cost leadership
- Differentiation
- Cost focus or differentiation focus

The competition strategy, that will be the best for Luna Design is the differentiation strategy. This means Luna Design will focus on a certain segment, a certain target group. By doing so, it can efficiently and effectively be of service to the German market. Luna can build up a close relationship with its distributors and wholesalers which can be sustainable for the future. Luna Design tries to be unique on basis of qualities that are valued in the market. These unique points are service, customer orientation and high quality. This uniqueness makes it possible to put an surcharge on the price. The final target of a differentiation strategy is to actually differ from the competition.

## Market entry strategy

There are a variety of ways in which organizations can enter foreign markets. The two main ways are by direct or indirect export.

Luna Design is a small company with a small management team and has just begun with exporting to Europe but still has little knowledge of markets and is aware of cultural differences. They prefer working with distributors and Ex-Works. Luna Design is a small company that is financially not yet ready for direct export. Therefore I have researched some of the indirect export possibilities.

Agents

Agents are intermediaries who know their market and have their own network. He speaks the language and is aware of the cultural differences. Their prime function is to bring buyer and seller together and serve as an intermediary between them. The agent receives a commission from the producer. Agents usually have a good knowledge of distribution structures and consumer behaviour. The agent also often supplies to importers/ wholesalers and publishing & marketing companies. Agents are mostly suitable for medium- to large- producers from developing countries or for export organisations from developing countries which combine two or more small producers under one umbrella.

An advantage for Luna Design would be that they can still have influence on the products, the retailers/shops he selects and what kind of promotion is done. Luna has to build a relationship with him. The agent could help Luna with marketing activities.

On the other hand, if Luna stops working with the agent they will lose his clients as well. An agent will never have his full attention to one product, because he works for different companies at the same time and when the turnover increases, the agent will ask for more provision. With the rising competition an agent has to be trusted.

Working with an agent would be a good option for Luna Design, because of the specific market knowledge and loyalty. But at the moment Luna Design is not in the financial position to pay an agent.

Importer/ Wholesalers

The importer/wholesaler is another important distribution channel for home decorations and accessories and probably the most important for exporters from developing countries. Generally, the importer/wholesaler distributes home decoration and accessories to all sorts of retailers, from specialist stores to department stores.

Advantages for Luna would be that the distributor manages the import and export procedures and holding stock, they can also supply considerable information and guidance to a producer. So developing a successful working relationship with an importer/wholesaler can lead to a high level of teamwork, providing Luna with information on the latest market trends, materials and quality requirements. The importer stocks at his own risk.

Disadvantages for Luna is the risk that if the competitors are cheaper, the importer/wholesaler, will switch. Luna Design will have no more control of the export and the mark-up of the wholesaler is approximately 20%.

Export marketing organisations
The export combination is an alliance between different companies with on top one central organisation. Besides designing their own home decorations and accessories, the publishing & marketing companies, they work together by doing market research, market surveys and create an export network. This is a very advanced way of export in South Africa. There has to be absolute trust and stability of the company. If there were any companies in South Africa Luna Design could work with and benefit from, this would be an option for the future. At this stage it is too early.

Advantage for Luna Design is that they would gain a lot of information about the market very quick. They would keep the cost low by making use of the export network.

Disadvantage for Luna is that they will work under another organisation and need absolute trust in their partner.

Piggyback

Piggyback marketing is an arrangement between two companies in which one firm distributes a second firm's products. The second company adds value by offering a more complete solution to the foreign market. The second company piggybacks its products on to the international market, without incurring the marketing and distribution costs associated with exporting. Piggyback marketing works well when product lines are complementary and appeal to the same customers.

Advantages for Luna are that the expenses are lower than in the situation of just exporting. Luna can directly make use of the market knowledge of the carrier. Luna sets up their own marketing plan for the export market, so that they can handle every aspect of the process.

the piggyback is a good entrance strategy for Luna. The most strong point of the piggyback is after all that you look at the need of the foreign market. The piggyback is an entrance strategy that especially for beginning internationalising companies is a good way to enter the foreign market. It does mean that Luna has to give up a part of their independence concerned the adaptation of the foreign market.

 Joint venture

A joint venture brings together a firm and a foreign company with similar goals to establish a market entry and a distribution network. Each partner brings specialized skills and contributes to the endeavor. Each partner makes a substantial investment into the venture. Joint ventures are often set up because in some countries, a joint venture is the only way a foreign company can set up operations. Some countries require a citizen from that country to have a percentage of ownership. Tax laws are advantageous to foreign investments through joint ventures.

A joint venture requires direct involvement in managing the joint venture, training, foreign relations. Large advantages are fast entrance on the new market and acceleration of product introduction.

Luna Design would therefore have to find a business that wants to work together. The selecting of a business goes on the basis of particular factors. With the rising competition and Luna Designs unique frames, they have to act very careful on this.

Local selling office/local production
with a local selling office or moving production towards Germany Luna would decide to be in control of all distribution. Luna Design does not have the knowledge and is not in the financial position to set up their own local selling office/production. Producing in South Africa is relatively cheap compared to Europe. This way of exporting is not relevant for Luna at this moment, but perhaps in the far future.

Conclusion

|  |  |
| --- | --- |
| Local Distributor | Needs small investment, has market knowledge and control, you keep a good juridical position. Focus on a part of the market. |
| Retailer | Luna Design will not be involved enough (bad experiences in past) |
| Piggyback/ Joint venture | low costs, benefit of using their knowledge, but you will have to give up your independency. |
| Export marketing organisation | Low costs, but you will be depending on other companies. |
| Local selling office  | Good view of the market, but is a risky investment at the beginning of internationalizing. |
| Production in Germany | Very quick delivery, good customer service, but very expensive and risky investment (Luna is to small and has no money at the moment) |

Luna Design has too little information and knowledge about the German market to enter it directly, therefore I advise Luna to enter indirectly. Luna Design prefers working with a distributor via Ex Works because of the finances. They have worked with distributors before and this went very well. After analyzing all the different entrance possibilities I have decided the best way to keep internationalizing for now is to work with a distributor.

A distributor has his own network, but is also expert on the right distribution channels. Luna Design has a good relationship with their distributors and trusts them. They also have a backup system of other distributors in different countries, but they eventually seek for one distributor in every country.

**Selecting a distributor**

Requirements of a distributor

- Has branch knowledge;
- The distributor needs to estimate the turnover, the reach and the spread of the activities per year;
- What kind of contact does the distributor have with its clients?
- The distributor has to know the competition and their sales and promotion activities;
- The distributors has to be specialised in export of course.
- The distributor shares a durable relationship with Luna Design

Advantages

- He has a good product and market knowledge
- Represents the company and speaks the English and German language.
- Has built-up a good relationship with the clients in these areas.
- He bonds with the customers and creates a valuable relationship.
- He has a good overview of the target group, and the buyers within companies.
- The activities are controllable, there is direct contact.
- Direct customer approach/payment
- Geographically specialized
- He keeps stock
- Gives after sales service
- Possibility to have local after sales
- Good report after sales
- Business oriented
- Money oriented

Disadvantages

- Commercial risks
- He has no influence on the customer choice
- He has no influence on the prices
- Selective contact with the market
- Distributors are very different
- No influence on market developments
- Does not know what the distributor does with the product
- Luna Design has no direct contact with final customers

The distributor has good knowledge of the market and a broad network of clients. This way he can contact this network and approach new customers for Luna Design. Luna will gain information about the market from the distributor. The distributor is representing the company, he speaks German and will built loyal relationships with the potential customers. The distributor will make use of his network of contacts, he has a good overview of the target group and will introduce them with the product and if the customer likes it they can place an order with the distributor. He will contact Luna to arrange the rest. The distributor will take care of shipment, stock, marketing and after sales costs. When problems arise the distributor can provide a professional customer and after sales service, which creates a valuable relationship. Therefore Luna does not have to do a big investment.

When the distributor receives the order he stocks it or sends it to the customer. Luna would like to have orders on a regular basis, for example 4 times a year. This means that the distributor needs to keep stock and thus have a place to store the products.

The distributor will introduce the product and upmarket them on trade shows. After working with a distributor they will let him have one market to sell. Luna wants one distributor on every small area, so per country.

# Budget

Luna Design has two different clients, retailers and wholesalers. They have a different price list for both. The wholesaler places more orders and therefore gets a bigger discount. In South Africa they work with motivation systems. Because payments are very insecure in South Africa, a retailer gets an extra discount of 10%, when he pays in cash. This system is very basic and a lot of orders are paid cash. The price differences between retail and wholesale are more than 200%. For example the cheapest frame is for retail 99 RANDS (excl VAT) and for wholesalers 48 RANDS (excl VAT).

This system has been made because of the lack of payment of retailers.

Export cost

Luna Design will have the following costs:

- staff costs (with overtime extra)

- Extra transport costs

- Promotion costs

- Costs to attend a trade fair/show

The first year of export;

Distributor None (wholesale price)

Personnel costs (with overtime extra) R 15.33000+50.4000= R 20.37000

Extra transport costs R 4000

Promotion costs R 3000

Costs to attend a trade fair/show not yet

Total R 2337000

Luna wants orders on a regular basis, for example 4 times a year, which brings in a turnover of 600.000 RAND.

Profit from export to Germany for Luna Design

When Luna Design start exporting to Germany, the order flow and cash flow will be more stable. At the moment there are quiet periods and busy ones and a lot of money has not come in yet. This does not create stability.

When Luna goes abroad a distributor will get a discount and has to pay for the shipping cost. That is how they do it now. The price differences between South Africa and Germany are enormous. A frame that costs the distributor €4 with shipping costs, is sold for €40, - in Germany. This is almost 10 times more than in South Africa. Because of this big margin, the distributor sees a market for the product and is willing to pay the shipping costs. Luna will have no extra costs for exporting their products. They will only have to make sure that the order is in time. A good system for the beginning of export. Later on Luna will export directly but will still let the shipment be paid for. Also the prices will rise every three months, to get a bigger margin on the products.

# Marketing communication mix

Luna Design will make use of concentrated marketing to target her market. This means using their current marketing mix to reach different segments. Luna Design has a strong position within a segment based on specialist, knowledge and reputation.

The advantages of using this marketing strategy in a niche market are;

- Relative cheap investments
- Less competition
- Reputation as specialist

The disadvantage of this trend sensitive market is that customers could lose interest in this segment.

Targeting (MABA) looking at the model these aspects will be interesting:

|  |  |
| --- | --- |
| **MA** | **BA** |
| Existing competition | Market share |
| New providers | Growth market share |
| Substitutes | Strengths |
| Power of the Buyer | Quality and service |
| Power of suppliers | Brand name |
| Market size | Marketing skills |
| Market growth | Added value |
| Merges | Management skills |
|  | Reputation |
|  | Unique selling points |

G**eneral Electric matrix**

|  |  |  |  |
| --- | --- | --- | --- |
| **Market attractiveness** |  |  |  |
| **High** |  |  | **X** |
| **medium** |  |  |  |
| **low** |  |  |  |
|  | **Strong** | **Medium** | **weak** |
|  |  |  | **Power of competition** |

This means that Luna Design should keep their position at the position of market leader in South Africa. In Germany Luna will first have to conquer their position. But by using their knowledge of their current position they could grow very fast. There are no threatening competitors yet, but they will arise fast.

**Marketing Mix**

The marketing mix principles (also known as the 4 p’s.) are used by business as tools to assist them in pursuing their objectives. The marketing mix principles are controllable variables, which have to be carefully managed and must meet the needs of the defined target group. The marketing mix is apart of the organisations planning process and consists of analysing the defined: product, price, place [distribution], and promotion. The function of the Marketing Mix is to help develop a package (mix) that will not only satisfy the needs of the customers within the target markets, but simultaneously to maximize the performance of the organization

Product

Luna Design manufactures post modern rustic picture frames. The major product categories are Frames and associated décor products. Common to all products would be the use of reclaimed timber and a need perceived by our customers. Particularly in Europe and the US would the recycled nature of the product appeal to a growing green consumer trend. Luna Designs product combines nostalgia with modernism; post modern. Modern digital printing and home printing are probably boosting sales as more people are able to experiment with framing their photos and digital images.

*Luna Designs products:

-* Photo Frames: Classic and Colonial Range
- Decor Items
- Chalkboards
- Classic Range Mirrors
- Box Frames
- Multiple Image Frames
- Towship guitars

Price

Luna sells a very fashionable product, people are willing to pay an exclusive price for it. This brings Luna into an high luxurious price category. There is a trend in A/B income to seek out quality handmade and specifically organic/ethical products.

Frames are available from about €4 up to €65. This price is similar to the prices of other competitors. Therefore there is no advantage or disadvantage for Luna Design compared to these other suppliers due to price.

The only disadvantage for Luna in the case of selling to a distributor is that the distributor is the middleman in the process. Therefore Luna cannot make more profit. He gives the distributor a discount and the distributor makes profit by selling it for a higher price to the retailer.

Luna Design delivers their products at high quality and with good service. In South Africa they are Market leader. We have decided because of the quality and the small difference in price with competitors to offer the same price to the distributor in Germany. After entering the market and gaining a position, customers will buy the frames at the same price but with the best quality.

Place

Farm/ Factory / Luna Design (showroom)

Distributors

Customers

The production of the frames is partly established on the farm in Hopefield and in the factory in Cape Town. The farm is where the wood storage is and the products are partly fabricated. The main Factory is located in Woodstock, Cape Town. This is where the frames are put together and finished. In the office next to the factory are the administration and marketing department. The South African customers often walk in to place or pick up their orders or see if there are any particular frames they like to have in their collection. This means that the factory is also the showroom at the moment.

Another place is the website. The website of Luna represents the brand and is very important. This website will be translated into different languages. Luna will introduce a website [www.lunadesigns.de](http://www.lunadesigns.de). Clients and distributors can visit the website and see the assortment of products. It is easy, efficient and effective. It is an easy way to contact your customers directly.
Luna will use-commerce with their online web shop and contact with their customers.

E-commerce is becoming bigger and popular, more and more people buy products off the internet. They want to show their finest products and make sure people receive what they see on the pictures.

The products of Luna Design are very trend sensitive and more competition arises, but because they are still market leader they have to keep ahead of them. They are using the good concept of working with distributors, who do all the work international and pay for the transport. This is a clever way of avoiding lots of work and creating brand awareness in overseas countries.

It is of the highest importance that the German target Group will be aware of the existence of Luna Design. If the distributor’s network is not working out in the future Luna will sell directly to retailers in Germany, for this reason they should try and get more brand awareness to create relationships so they can directly order from Luna instead of using a distributor.

Promotion

In the home decoration and accessories trade, personal communication is highly rated. This is not a substitute for formal written or printed communication, but it is an important part of the overall sales and communication process. The communication value of a website cannot be overstated, but the printed medium is particularly well used. Trade fairs are important for orientation and communication.

When exporting to Germany it is of great interest that Luna Design reaches the target group and checks how this group responds on the given information. At the moment they do their own marketing and distribution to the trade in South Africa and had a showroom open to the trade and public. The showroom also served their custom clients. They closed it, but will open en new one in the future when
they have more space.

Another method is personal sales. They use the two big arts festivals in South Africa as promotional events as well as useful cash flow.

Luna has good relationships with their customers. They keep Luna up to date about other suppliers in the market and also do worth of mouth promotion for Luna Design.
To create brand awareness, Luna puts stickers with their contact details on the back of the frames. Therefore they have a website where people can find their products on display and in the future will be able to order their frames online.

To get in direct contact with customers, Luna participates in all the big trade fairs in Europe. This is where they can promote their product and also find new distributors. But most important gain knowledge about the market. Distributors have their own way of promoting and thus will also promote Luna Designs products with all the small stores, chain stores, wholesalers and retailers.
Major trade fairs in Germany are: Ambiente (http://www.ambiente-frankfurt.de), Tendence (<http://tendencelifestyle>. messefrankfurt.com/), H.E.T. - http://www.hamburger-einkaufstage.com/. The German national association of gifts and living design is BKG Bundesverband Kunstgewerbe, Geschenkartikel und Wohndesign e.V. (mailto: info@bkg.org).

Luna can try to get funding from the government to participate in those trade fairs in Germany. By writing a business plan for the DTI.

Trade press:
• Schöner Wohnen <http://www.livingathome.de> Content: Living and interior decoration. Publication: Monthly
• Stil & Markt <http://www.meisenbach.de> Content: gifts, table- and house ware, lifestyle. Publication: Monthly
• Das Haus <http://www.haus.de> Content: interior decoration, garden. Publication: Monthly

• Wohnidee - Wohnen und Leben <http://www.wohnidee.de> Content: interior decoration, accessories Publication: Monthly
• Elle Decoration <http://www.elle.de> Content: Fashion, culture. Publication: Monthly

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# Cultural aspects

It is important to look at cultural differences when you plan on internationalizing. You can get a good impression of the country and its market. There are different cultural aspects you have to look at.

The South Africans find the Germans in general very pleasant in doing business with. However there are a number of cultural differences that are important in doing business with the "German".

The Germans are courteous but especially very formal. They are trustworthy and many attention goes to the preparation. Product specification and contracts are very beloved. Avoid vague answers. They affirm mostly written and in detail. It is advised to hire a "native speaker" for important business meetings.

The table below shows, that the largest difference is in Power Distance and Uncertainty avoidance. This means that the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures. in Germany performance and work are important values.

|  |  |  |
| --- | --- | --- |
|  | South Africa | Germany  |
| Power Distance  | 49 | 35 |
| Individualism | 65 | 67 |
| Masculinity | 63 | 66 |
| Uncertainty Avoidance | 49 | 65 |
| Long Term Orientation  |  | 31  |

South Africa is a "Village market" and Germany a “well-oiled machine". This means that in South Africa there is no hierarchic relation between sellers and buyers. There are only a few procedures in the business and problems are looked at when they occur. In Germany they have rules and detailed procedures to be certain that everything happens smoothly and to prevent discussions. There is a strong hierarchy and everyone has his own responsibilities.

Because the Germans in general do business in a formal way. You have to address a person correctly. Do not underestimate the value of a title. Business cards are often exchanged. Germans are very self conscious of their social surroundings and take great value on the opinion that they have. It is difficult to bond with the customer. They do often give a token of appreciation for the effort and perseverance, but that needs a lot of time. They do not talk or rarely about their private lives. What is meant to be helpful can be considered arrogant in Germany. Decisions are made faster in Germany than in South Africa.

**Conclusion**

Luna Design has to understand that doing business in Germany is different than in South Africa. Because it is often very formal therefore it can also be an extensive manner. Listen to the arguments of your business partner. It is important that Luna Design have a good counsellor at one’s disposal, so that they enter the German market well prepared. It is of large interest that Luna Design gains good knowledge of the German language and habits. Quality stands up front in Germany, it can always be better thus bring that also clearly.
What is described here can deviate. It can differ in which branch you do business and depends on the age of the trade partner.

# Legal aspect

As a producer in a developing country preparing to access Germany, Luna Design should be aware of the market access requirements of trading partners and the government. Requirements are defined through legislation and through labels, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns. Luna needs to comply with EU legislation and to be aware of the additional non-legislative requirements that trading partners in the EU might request.

Marking and labelling

Marking and labelling serve two major purposes. First, it is critical for smooth distribution through the transport system. The labels should state the originating and destination addresses, as well as contact names and telephone numbers. Secondly, marking and labelling give information concerning the product. Appropriate labels should be attached to indicate, for example, that items are fragile and that they need to be kept upright. The third reason for marking and labelling is to inform the consumers about the product. Today’s consumer wants to know exactly what he or she is buying. Therefore, it is important to mark the product’s brand name, special materials, name/sign of the producer and guarantee of originality, according to the market segment for which the product is intended. Positive sales arguments, which should be indicated on the product if applicable, are “environmentally friendly”, “produced from recyclable material.

Tariffs and quotas

All EU-countries apply common customs tariffs to imports from outside the Union. Some kind of preferential trade agreement in the field of tariffs and reductions of EU duty levels may apply to many developing countries. In the case of manufactured goods, the products must meet specified criteria concerning added value or processing in the exporting country, in order to receive preferential treatment. These conditions will not apply to Luna´s products.

Value added taxes

Countries of the European Union levy their own tax from consumers. These Value Added Tax (VAT) rates differ and are 19% in Germany. Between EU-countries there is free movement of goods. With the single European market, no VAT is levied on trade between EUcountries.

Closed corporation

Luna Design is a closed corporation. It is set up using a corporate business structure, in which all the shares are held by a select few individuals, namely Mark and Brian Fanner. Participating in a closed corporation enables them to benefit from liability protection without dramatically changing the way that the business operates. When one of the shareholder dies or has a desire to liquidate his or her position, the business or remaining shareholder will buy back the shares. It is an easy way for two or more persons to start a business together. All persons involved are responsible for the management of this company, there is no such thing as limited liability. It is recommended to sign an agreement on the distribution of work, profit sharing and similar important aspects

There are also intellectual ownership rights. The brand “Luna Design” may only be used by this company; it has legal protection on it.

Contract with a distributor
While working with a distributor, Luna will be facing several legal aspects

A contract with a distributor should state:

- The period of the agreement.
- The territory where the distributor may operate.
- Whether a distributor may operate on an exclusive or a nonexclusive basis.
- That distributor may sell complementary products that do not conflict.
- Reasons for terminating the agreement.
- Limits on the legal authority of the distributor to obligate the firm.
- Applicable law and competent court
- General conditions (payment conditions, delivery period, delivery conditions, suitability, supply and taking possession, quality, quantity, forces majors, conditions of ownership, choice of forum, liabilities, guarantees)
- Target subject

# Transport and Logistics

in south Africa Luna Design delivers their product to their customers or to the harbour themselves by truck. Using the Ex-Works system and working with a distributor in Germany, Luna will drive the goods to the harbour en from there the distributor will handle the transport. In Germany he will have his network to transport the products. If Luna Design decides to start exporting directly to retailers in Germany the following information might be useful:

Road transport
The truck is the most important transport in Germany. Of the more than 54 million motor vehicles in Germany, are 2.6 million trucks. In the last fifty years the truck became more important. Road transport is known as fast (on average 65 km/you) and flexible and with the rise of e-commerce, road transport in the future will become only more important. The German road network has a total length of 231,359 km of which 12,531 km Bundesautobahn is.

Transportation over water
Germany counts many inland harbours at channels and rivers. The waterways have a joint, navigable length of 7,467 km. The harbour of Duisburg is by far the largest inland harbour of Germany and at the same time also the largest of Europe. Inland shipping in Germany is known as a relative cheap and environmental friendly transport. Inland shipping takes in the fourth position in Germany after road transport, rail transport and sea shipping.

Sea shipping
De most important sea harbours of Germany are: Hamburg, Wilhelmshaven, Bremen (Bremen Stadt, Bremer harbour), Lübeck and Rostock. In 2007 a record of 312 million tons was transported via the German sea harbours. This was an increase of 4.0 per cent to respect of 2006. The cause lies especially in the increase of the international container transportation.

Air transportation
Air transport becomes more and more important in Germany. In 2007, there were 180 million passengers. In 2007 the air cargo transportation increased further to 3.4 million tons of goods. The most important airport of Germany is Frankfurt. With more than 53 million passengers and more than 2 million tons of goods in 2007, is this airport one of the most important junctions in the European air traffic.

# Risk Analysis and Feasibility

When exporting to Germany you must bear in mind that it comes with a few risks. Unexpected risks cannot be analyzed. I discuss the risks that I consider as important.

Financial risk
A large risk what currently plays is the stagnation of the American Dollar. This has much influence on the export to Europe. The delivery time in Germany is 30 to 60 days. In general, the German debtors are very good at keeping these payments terms.

Transports risk
The transport must have been insured good for damage and misfortunes.

Market Risk
Changing fashions could have a negative effect on the business. The demand for Luna Designs products could decrease because of this. Fashion does actually change quite quickly. It could also be that the market will not grow further. With good knowledge of the German culture, market strategy and entrance strategy this can be prevented.

Feasibility
I think that the export to Germany is feasible with the right preparation and strategy choice. The preparations must consider gaining knowledge of the German market and culture. Financial support at this area might help too. If the company keeps growing as it is they will be able to keep up the demand. The pace of growth is a real challenge to the quality of the product, this needs to be managed. Luna Design will also be attempting an inclusive and caring style of management which they hope will go some way towards avoiding conflict between staff and management as well as between all employees and the owners.

What will exporting cost
Luna Design will have the following costs:

- Extra staff costs
- Extra transport costs
- Promotion costs
- Costs to attend a trade fair/show
Total : R 2337000

profit from export to Germany for Luna Design
Per year Luna receives about 4 orders from Germany which brings in a turnover of 600.000 RAND

# Conclusions & Recommendations

**Conclusions**The financial situation of Luna is not too bad. Overall the business is growing very fast and that is why there are some gaps here and there. Next to the fact that almost all the current liabilities are loans from within the family. This means salary is paid out of that. This can be done to keep the taxes low.

Luna Design delivers their products at high quality and with good service. In South Africa they are Market leader. Luna Design tries to be unique on the basis of qualities that are valued in the market. These unique points are service, customer orientation and high quality.

With all the smaller competition Luna will seek to differentiate via customer service, it is after all the customers who have kept Luna so well informed regarding the competition.

It is good not to entirely dominate the market as the competition is what will keep them and more importantly their customers ahead of the fashion stakes. The smaller operators do not have the infrastructure to deal with this aspect of the business.

The current market will be satisfied soon, so Luna Design needs new markets to achieve their turnover objective.

The products of Luna Design are very trend sensitive and more competition arises, but because they are still market leader, have the right knowledge and can deliver commercial quantities, they have to keep ahead of them.

To work with a distributor is financially considered a good solution. This is a clever way of avoiding lots of work and creating brand awareness in overseas countries. Distributors have a wide network of customers and knowledge of the market. This way Luna can get large orders and provide the whole country with their products. Luna does not have to invest much, because the distributor will take care of shipment, stock, marketing and after sales costs.

In the Porter model, the competition is not too big but the market is easy to enter for new competitors. the threat of substitute products is high. Therefore it is important for Luna to distinguish themselves from the competition.

Luna Design pays their suppliers a higher fair price, than competitors, so suppliers will keep coming to Luna. But the margins are low, so only orders of proper size are interesting. However the economic climate is increasing.

The demand from Germany and other European countries is growing. The product is in its growth phase and very trendy at the moment, those are positive aspects, but they have to be aware of the economic recession in Germany. Prospects for 2010 are better, but this can be a threat.

I do not foresee problems with the legal aspects and law surroundings for Luna Design in Germany. Luna Design has to take the requirements into account that Germany puts at the packaging materials and remaining issuing of rules. The rules and legislation come from the EU legislation.

Doing business in Germany is different than in South Africa. Because it is often very formal. Therefore it can also be an extensive manner. Quality stands up front in Germany, it can always be better thus bring that also clearly. What is described here can deviate. It can differ in which branch you do business and depends on the age of the trade partner.

Decoration in combination with a story is very popular. People like the idea of helping third world countries by buying their products. The story behind the frames: working with homeless and recycled wood is attracting to the market. With this concept and the right approach, Luna Design can be successful.

With the new factory established there will be more space to hire more employees to handle the extra orders from Europe, therefore Luna will need more wood supplies to cover the extra production.

**Recommendations**

I advise Luna Design to use the market development strategy. I recommend Luna Design to enter the German Market. With entering the German market, they are entering a new market with an existing product. Concentrated marketing is one of the three segmentation strategies, this fits best to Luna Design. This means that there is one existing marketing mix that will be applied on different segments.

Because of the minimal knowledge of the German market and the lack of cash flow, I advise Luna to enter the market by working closely with a distributor. Luna should build up a close relationship with its distributors and wholesalers which can be sustainable for the future.
Luna should find a distributor to participate in trade shows and to introduce their product and their brand.

When doing business in Germany I advise Luna to listen to the arguments of their business partner. It is important that Luna Design has a good counsellor at one’s disposal, so that they enter the German market well prepared. It is of large interest that Luna Design gains good knowledge of the German language and habits.

To stay being the market leader and thus help their customers to lead the market as well,
Luna should try to focus on customer relations so they will be able to keep the customers selling their product even if the look changes. With the bigger competitors Luna needs to answer to the challenge of producing fresh range of products regularly.

The competition strategy, that I recommend Luna is the differentiation strategy. This means, Luna Design will focus on a certain target group: the wholesalers and retailers. By doing so, they can efficiently and effectively be of service to the German market. The final target of a differentiation strategy is to actually differ from the competition.

Because of the quality and the small difference in price with competitors. It would be good to offer the same price to the distributor in Germany at the beginning. After entering the market and gaining a position the uniqueness of the product makes it possible to put an surcharge on the price. The prices have to go up every three months, to get more revenue for Luna Design. At first the distributor will gain most of the margin, but only to attract him.

They have an international website which they can use without changing the concept. I advice Luna to keep their website updated and start a web shop in the future, this will create a pull strategy; people will visit the website on their own.

To keep up with the extra production, Luna will need to hire more employees and find new sources for their wood supply. I advice Luna to hire someone that manages the wood and gets the wood in on time.

They could make arrangements with the local authorities at the city’s waste disposal systems to buy wood of them. The ideal way is to put someone on the dumpsites that collects the wood for them and then call Luna when they got a pile of wood ready to be picked up.That would help the homeless as well as Luna. Luna prefers to pay on an equal basis, say 50% for the dumpsite and 50% for the people that collect the wood on the dumpsite. Therefore Luna should keep negotiating with NGO’s to get such a system up and running. The NGO could get funding for a project like this.

To get their exporting funded, Luna can try to get funding from the government to participate in trade fairs in Germany. By writing a business plan for the DTI.

# Appendix

***I Sources***[www.Dti.gov.za](http://www.Dti.gov.za)

[www.evd.nl](http://www.evd.nl)

[www.export.nl](http://www.export.nl)
**Marketing models**
<http://www.intemarketing.nl/marketing-modellen>

**Ex-Works system**
<http://www.import-export-made-easy.com/Ex-Works.html>

**Country selection**<http://ec.europa.eu/eurostat>

**The World Factbook:**<https://www.cia.gov/library/publications/the-world-factbook/geos/gm.html>

**Online market survey**<http://www.researchandmarkets.com/reports>

**The home decoration and accessories market in Germany,**<http://www.cbi.eu/marketinfo/cbi/>

**Cultural aspects**<http://geert-hofstede.com/>