



CBI Scenario Planning Home Decoration and Home Textiles

‘A strategic future roadmap for BSOs’

The Home Decoration & Home Textiles sector is undergoing major change, with shifts in consumer behaviour, value chain configuration and the economy itself. Europe is no longer a growth market, yet many avenues to export success remain open. For instance, rising environmental and social awareness among consumers may colour Europe green, offering ample sales opportunities for sustainably-oriented businesses. Similarly, the market’s hyper-fragmentation is creating a mosaic in which almost every conceivable product may become a winner.

This document offers you insight into four possible scenarios for the next 5 years of the Home Decoration & Home Textiles industry. Each scenario is accompanied by a list of opportunities, threats and practical considerations for small to medium-sized enterprises (SMEs) in developing countries. The purpose of the document is to help you understand, anticipate and respond quickly and effectively to major developments – or, if you are a business support organisation (BSO) representative operating in this sector, to assist SMEs in doing this.



The Four Scenarios

The four scenarios described in this document are based on a number of important trends brought forward by earlier CBI research (see CBI Trendmapping for Home Decoration and Home Textiles, 2012). We’ve summed up the four most influential ones in the left-hand column of the table below. Considering these trends, we can extrapolate four possible scenarios for the next five years, which we’ve placed in the right-hand column. Both the key trends and the scenarios themselves were identified in a series of interviews and peer group sessions with sector experts and trend watchers.

Key trend

- 1. *Economic pressure*
Economic pressure has become a serious – and arguably the most certain – factor for most Europeans. Whether their disposable income is actually dropping or not, they are becoming more critical in their purchases, either spending less money or seeking more value.
- 2. *Hyper-fragmentation*
As consumers become increasingly selective and individualistic, the market has grown hyper-fragmented. This is creating new markets and segments all the time. A hyper-fragmented market is unpredictable and difficult to map, but offers myriad opportunities as well.
- 3. *Sustainability and conscious consumption*
Conscious consumption, or sustainability, is steadily going mainstream. Significantly, the 1% of European sales stamped with an accredited sustainability certificate pales in comparison with the far greater proportion of products perceived by consumers to be ‘green’.
- 4. *Value chain integration*
Generally speaking, the value chain in this sector is becoming more integrated. Shortening lines are giving rise to different sales methods. Insecurity is increasing and with it a need for transparent, proactive and self-confident players to manage the chain effectively.

Scenario

- Cautious Spenders*
- Celebrate Your Niche!*
- Green Community*
- Reset the Value Chain*

Scenario 1: Cautious Spenders

Introduction

Money talks, as the saying goes, and in this scenario – which reflects economic trends that will actually pervade all the other scenarios as well – consumers want to be sure every hard-earned euro goes into a purchase that matters to them. As the economic crisis rages on, many European consumers have less disposable income, while the lucky few who don't are shaken enough to be very selective in their spending. For both categories, value for money is top of mind. This can mean fewer purchases at a higher average price per purchase, or fewer purchases, period. It can mean low-cost, functional products, or high-end products purchased for a very special reason.

Value, in this scenario, can have a lot of meanings. Some buyers may value products that are cheap-and-easy, (multi-)functional or durable, while others may prefer to put their money on ethical soundness, design and aesthetics, emotional appeal or (brand) status. Still others will want to combine some of these characteristics. Whatever their personal valuation system may look like, they will be sure it governs their spending. In an economy as tight as today's, their survival, or at least their status, depends on it: I pay, therefore I am. And because of the highly personalised nature of this value-based buying behaviour, the middle market will show signs of fatigue, while segmentation at the high and low ends will increase. This will create many unexpected opportunities for value-conscious suppliers.

Opportunities

- Almost any product based on a clear value proposition (in terms of either price or value addition) has the potential to succeed in this scenario.
- Using your company values and drive to communicate with the market can be a significant way of adding value in this scenario. Value may be attached to your business or product because of the values or higher cause they represent, the story they tell, the meaning they denote – or aspects as fundamental as the price-quality ratio.
- Recognising the values that drive trends and define specific market segments will open new business opportunities.
- As the – often valueless – middle market declines, suppliers will have the opportunity to make a deliberate decision for either the high end or the low end of the market.
- As this sector evolves into a broader 'lifestyle' market overlapping with other sectors, cross-category sales opportunities will become normal. For instance, interior products will be combined with fashion accessories, such as bags, or furniture. In this intersectoral competition, anyone offering an attractive proposition will have a wider chance of success.

Threats

- Intersectoral competition (see the last bullet under Opportunities) can also be a threat in this scenario, with players from outside the Home Decoration and Home Textiles sector edging in with value propositions that touch the wallets and the moods of consumers.
- Having a lower disposable income means many consumers will postpone, or even abandon, replacement purchasing. Buying will be deliberate and selective, which means quite simply that there will be fewer sales opportunities.
- Many products are at risk of being rejected by consumers as being superfluous ('Who needs or wants this?'). This critical buyer behaviour may put an abrupt end to a lot of current success stories.
- The pressure on the middle market, while an opportunity in one sense (see above), is also a threat: it means there will be a reshuffling of market segments and more jostling for a position in those remaining.

Considerations for action

- Be clear about your position and your target segment and move away from the middle ground before it crumbles beneath your feet. In this scenario, there is no room for mediocrity in terms of either price-quality ratio or (perceived) product value. Your product has to be either really well-priced or very highly valued by consumers.
- Avoid junk products without added value. In a tight economy, consumers will not be interested. This includes products that are just a passing 'trend' or 'hype' and will have to be replaced when the next trend appears.
- Communicate your value(s) proactively to buyers. Look for a match between what you stand for and what consumer groups may be looking for.
- Proactively use certification (quality) and best practices to emphasise your value proposition.
- Select your distribution channel carefully to make sure your products reach the right market segments by the fastest and most efficient route available.

Scenario 2: Celebrate your niche!

Introduction

For many DC exporters, succeeding in this scenario requires a radical change of perspective. 'Celebrate your niche!', first of all, is a call to shake off your fear of the word 'niche': to stop thinking of it as some market back room for trivial deals or the exclusive playground of five-star brands. In this scenario, the European market is hyper-fragmented and therefore consists increasingly of niches – or differentiated market segments (DMS's), if you prefer: avenues and openings, pockets of potential, rich veins of opportunity, unexplored islands of advantage. While the mainstream market is elusive and hostile to SMEs, a good niche may keep you comfortably in business for years to come.

The trick, of course, is to get out there and find the niche – the outlet or consumer group – that matches your ideas, your capacities, your products. Or reverse that, if you like: first do some serious branding, then move out and tell the market to make room. You'll soon find consumers just waiting for you to see them and to step into their lives. So while aiming for 'mainstream' will have its advantages, this scenario suggests you may be more surprised and have achieve greater success if you go with the flow of your own creativity and the response it arouses anywhere in the market. Celebrate your niche!

Opportunities

- Identify your own strength and work from that to create your own market segment. Your strength, in this case, could be almost anything: a specific kind of handwork or production skill, a unique design or material type, the story your product tells, the values it represents or the experience it offers (the next step, obviously, is to align your strength with a market need, see the next bullet).
- Do your market research (including visiting European markets to see what's going on first-hand) and zoom in on a specific customer need you might fulfil. Again, this need can come in many guises: it could be a need for a cheap chic, personalisation, convenience, functionality, pure or natural materials, emotional appeal, a meaningful story attached to the product or the background of your company, products skilfully made, tradition, heirloom products, products rooted in social awareness or based on reuse, recycling, up-cycling etc., or almost anything else!
- Recognise the power of the Internet for giving you insight into (European) consumer interests and for actually reaching them. It may not be opportune for you as a DC exporter to sell directly to European consumers online, but you may find a Europe-based partner with easy online access to a relevant niche.

- A successful niche concept in Europe may be reproducible in other parts of the world – even your own! – as Europe is a trend setter for tastes, sophistication, branding etc.: your particular European target segment may exist on other countries or regions, too.

Threats

- Neglecting to discover and present to the market your own strength will hinder you from connecting with the differentiated market segment that may actually be out there waiting for you. Lack of confidence and a timid business attitude are a serious threat to many DC exporters.
- If you get into and certain niche and then make the mistake of misunderstanding the consumer need that drives it, your business will soon topple. Consumers in this scenario are highly selective buyers and if a product is not quite what they are looking for, they will pass it by and look elsewhere.
- Admittedly, in some cases even a niche with great potential may start out small – too small to sustain your business on its own. If this happens to you, you will have to find supporting business to keep you going while you develop the niche. Alternatively, you may target several matching, or manageable, niches at the same time.

Considerations for action

- Analyse your own values and strengths and develop a strong and relevant brand. And here's a trade secret you may have picked up earlier in this text: your strength could be any of a wide range of qualities, characteristics, skills or abstract concepts.
- Move away from the back end of the supply chain and find out what's happening downstream: get to know the customers of your customer. Realise that your end consumers want you to know them and to give them that special 'made for me' feeling. And here's another trade secret: talking, listening and paying personal visits to your buyer is an investment that almost always pays off in the long run.
- As your brand meets its potential niche, be prepared to involve end consumers in personalisation, co-creation and other excellent methods for fine-tuning your offer.

Scenario 3: Green Community

Introduction

In the 'Green Community' scenario for the European Home Decoration & Home Textiles sector, sustainability is big. Though European consumption as a whole is likely to decline, or remain stagnant at best, the green wave is expected to grow and products and concepts that suggest environmental and social awareness will offer excellent growth opportunities. This scenario also encourages you to bear in mind that while its overall sales volumes may be shrinking, Europe remains a giant in global trend setting: it is a critical & sophisticated market, a leader in embracing innovation and therefore an excellent foreland for other markets in the world.

Perhaps the single most vital thing to understand in this scenario is that sustainability – at least for now – is more an aspiration, a vision to pursue together, than a set of criteria carved in stone.

The implications of this wide-angle lens on sustainability are self-evident: in catering to Europe's Green Community, you are not necessarily adopting the constraints of formal certification (a market segment accounting for a mere 1% of European sales), but joining a far more sweeping movement of consumers and (retail) buyers eager to see their awareness of people and planet reflected, somehow, in what they purchase.

Opportunities

- To consumers and buyers, 'sustainability' has many faces. Some are obvious: recognised certificates (FSC, Organic, Fairtrade etc.), traceability, transparency, provenance, better practices. Others are less obvious, but equally promising: 'green' design (earthiness), simplicity, sobriety, durability, hand-work, new raw materials, local sourcing, a 'green' message etc.
- This scenario offers exporters many opportunities to stand out or to target a specific segment, either through certification or better practice.
- Chinese producers hold a large market share and are rapidly moving forward on green issues. This means DC exporters must avoid being EU-centred, recognizing that with regard to China it is not a question of 'them against us', but of 'them *and* us'. There may be opportunities for working with China, as many EU players are already doing, while the Chinese market may also be an interesting green export destination.
- Applying 'green branding' to a company, sector, country or region will open new avenues.
- Consumers are open to alternative materials and concepts that reflect greenness. Note, however, that price remains important: in one 2102 survey, 28% of UK consumers said they were willing to pay a premium for products with purpose, as opposed to 80% in China and 71% in India (and 29% in Japan). Thus we can say that consumers are not automatically paying higher or premium prices just for green products, unless value is added in the form of extra benefits such as 'fun', 'cheap', 'better', 'more convenient' et cetera.
- Hard & fast legislative change, while a threat in some ways (see below), may also be an opportunity. Indonesia offers a good example: its government has adopted a one-sided certification system for any wooden exports in this sector as from 2014, causing exporters to proactively come together (e.g. by sharing licences et cetera). The result is that Indonesian exporters may well become forerunners in the field certified wood.

Threats

- Hard & fast legislative change in some countries may cut off exporters, if it is introduced too abruptly.
- The softer sides of greenness will likely be dominated by big (retail) buyers requiring big volumes.
- Big buyers in this industry are generally more reluctant than those in some other industries (e.g. fashion, food) to influence market dynamics in favour of greenness – unless they are convinced by healthy-looking market shares (see also the second-to-last bullet under Opportunities).
- Replacing (scarce) raw materials will often take a lot of time, money and lobbying.
- Local sourcing/buying in or near Europe for the sake of reducing the carbon footprint is a threat to more remote DCs.

Considerations for action

- Taking into account that 'sustainable' means so much more than 'certified', the best way of playing out this scenario is – quite simply – to start somewhere now. If formal certification is beyond your reach at this point, do something else – anything, as long as it makes sense – that will attract the interest of the 'Green Community'. Even if your buyers are not explicitly asking for greenness, you will improve your chances by proactively offering it. Start now.
- When you start out with a non-certified green offer, make sure you communicate what, exactly, you are doing in terms of 'green'. Today's consumers will no longer be fooled by vagaries and tall stories; they want realness and credibility. Though there is a lot of room for creativity here, make this your credo: 'Keep it real'.
- When you decide on a green initiative, make sure you communicate it in an inspiring way. Consumers are not looking for information, but for inspiration.

- Talk to sector associates and your government about green branding. You may well be greener than you think. Also, look into forming clusters or cooperatives to cater to large buyers.
- Make sure you document and proactively communicate every trace of greenness, or sustainability, you can find – whether in the materials you use, your processes, your social engagement or your supply chain.
- Adopt a code of conduct. If you can't find one that is relevant and within reach, write your own, making sure it matches European expectations, and communicate it to convincingly to buyers.
- Look for innovation expertise and/or training to strengthen your green awareness. Keep in touch with what is going on in the sustainability field and how European consumers and players in your sector are interpreting sustainability.
- Partner with European buyers to give new meaning to the word sustainability.

Scenario 4: Reset the Value Chain

Introduction

The 'Reset the Value Chain' scenario, essentially, is about control. It's about players up and down the global supply chain gaining a clearer view of where things come from and where they go – and using that insight to forge shortcuts, bypasses and new avenues both to resources and end consumers. More importantly, it is about exporters from developing countries shedding the role of dependents humbly hoping for a few crumbs of European business. Instead, this scenario calls exporters to step forward and, literally, reset the value chain – by asserting new roles as pioneers, developers and influencers acting on an equal footing with buyers of all sizes. It is a scenario in which a passive and overly modest attitude will be killing. By contrast, exporters with a clear identity and a confident, open-minded business attitude will see doors swing open in unexpected places.

In this scenario, European consumers will demand higher efficiency, new assortments and increased convenience with shorter time-to-market ("I want it now"). This means the value chain will become more integrated and players eager to come up with innovative and efficient offers will engage in more co-creation and co-manufacturing. This scenario is, in fact, a wake-up call to exporters, telling them to assert themselves and take their rightful role in the effective, efficient value chains of tomorrow.

Opportunities

- Co-creation offers not only new business opportunities, but in fostering new forms of interaction between supplier and buyer, it also gives rise to new learning mechanisms by enabling participants to share, combine and renew each other resources and capabilities.
- In a market in which the value chain is open to resetting, identity development is a powerful tool for improving your market position. Having a clear identity and knowing how to present it will boost your own confidence and inspire confidence in partners up and down the chain.
- With the value chain being shaken, your buyers are as eager as you are to form lasting, trust-based trading relationships in which both risks and results can be shared.
- Now is the time for you to gain equal footing with your buyers. Whether they are wholesalers, importers or retailers, they will recognise and respect your strength if you develop it well.

Threats

- Building enduring relationships requires a lot of time and energy.
- Stepping out to assert a more central, or at least equal, role in the value chain holds no guarantees for success. It is all about taking the leap.
- In this scenario, entrepreneurs will come to rely more heavily on relational skills than before, as the value chain is more relationship-oriented.

Considerations for action

- Analyse your identity. Define your strengths, whether in terms of production methods, story-telling power, product quality et cetera. Communicate your strengths confidently. Offer maximum transparency.
- Improve your co-creation capacities: pro-activeness, self-reflection, communication & dialogue. Upgrade your packaging and labelling for redistribution by wholesalers.
- Profile yourself as a (co-creation) partner for buyers and a partner for direct sourcing.
- Look for partnership and co-creation opportunities up and down the chain as well as in your region, in Europe, in China. If you have a strong proposition, target retailers directly. Identify market segments and/or buyer types open to co-creation – and don't forget to check your existing buyers.
- Keep a keen eye on the end consumer through online networks like Pinterest, Facebook and Houzz.

This survey was compiled by CBI

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