Dehumidifiers
A Business Case Study

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Abstract
In business, acquisitioning is a tool that can be used to prosper growth. With all acquisitions comes a responsibility to fit the brand(s) into the existing organization.

The purpose of this thesis has been to conduct a market research of the dehumidifier industry in Sweden and to develop a marketing plan for Telcho, a declining brand that recently was acquired by the Baffin Delker group.

An explanatory case study was conducted and revealed that the Swedish market is attractive to enter. The entry should be focused on the construction segment and the products distributed foremost through rental companies. The aftermarket network should be expanded and outsourced to repair shops throughout the country.

The goal for the future will be to meet the two core needs of the customers which is product quality and minimum downtime. If managed properly this time, Telcho has all the potential to increase its market share and be a strong player on the market again.

Key-words: Acquisition, Marketing plan, Market entry, Brand Architecture, Industrial Marketing, Distribution, Aftermarket.
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1. INTRODUCTION

1.1 The Company

Baffin Delker is a world leading provider of industrial products and solutions. The company was founded in 1888 and has its headquarters in Stockholm, Sweden. The Baffin Delker group has until recently been divided in three divisions; Hardware Technique (HT), Mining Technique (MT) and Process Technique (Appliances), see Figure 1.1. The majority of the customers are in the Process, Manufacturing, Mining and Construction segments.

![Figure 1.1. The Baffin Delker Group and its three divisions](image)

In 2010 the group employed around 13,000 people around the world and had revenues totaling BSEK 30. The company manufactures products in 20 countries and the products are sold and rented under different brands reaching more than 170 countries. Half of the sales and service network is either partially or wholly owned by Baffin Delker.¹

The corporate strategy is to achieve organic as well as acquired growth while having a strong aftermarket and remaining innovative. The groups' acquisition of Koddi in 2007 is a direct contributor to the purpose of this thesis.²

1.1.2 Business Unit HT

The business unit HT consists of three divisions, Smallex, Megax and Medex. Generally the Smallex and Megax divisions provide hardware solutions to various segments within the manufacturing and process industry while Medex targets the construction industry. Each division has a Line Manager responsible for the division and its employees. In turn the Line Managers report to the CEO of the business unit HT. This hierarchy exists uniquely in each of

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¹ Baffin Delker (2011). Short facts, Baffin Delker website
² Ibid. Strategies
the regions that Baffin Delker operates in which means that each region has its own CEO and Line Managers. This thesis was conducted for the sales company responsible for the Scandinavian and Baltic region.

1.2 Background

In 2007 the Baffin Delker group acquired Koddi from the private equity firm Ligua. Koddi is a company focused on construction equipment and had revenues of BSEK 2,8 in 2006. With the purchase of Koddi, Baffin Delker came over a new range of products that it had to consolidate in to its portfolio. The Koddi organization was labeled CE and was placed under the MT division within the Baffin Delker group. As time went by Baffin Delker noticed that the product mix in the Koddi organization could be consolidated more efficiently. Within the former Koddi there was a division named Koddi B which produced smaller compaction machines. Koddi B was in 2009 moved to HTO, some other division within MT, see Figure 1.2.

A year after this organizational change Baffin Delker noticed that one of the products in the Koddi B organization had nothing in common with the rest of the product mix in that organization. This was Telcho, a submersible line of dehumidifiers that had been lost in a division that produced construction equipment.

In late 2010, Baffin Delker decided to move Telcho to one of its divisions that had a greater synergy potential with Telcho regarding product mix and target segments. This was the

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3 Baffin Delker (2007). Baffin Delker to acquire Koddi, Baffin Delker website
Medex division (MD) who specializes on delivering portable hardware mainly to the construction segment, see Figure 1.3. The organizational move of Telcho and the potential synergies with the MD were intended to increase sales of the Telcho dehumidifier line and deliver a greater value to the Baffin Delker organization.

1.2.1 Drainage Dehumidifiers
Dehumidifiers are one of the most common equipments in the world and are used to dry fluids. The Telcho dehumidifiers are drainage dehumidifiers used for dewatering, they are submersible and electrically driven. Figure 1.4. represents the segmentation of the dehumidifier types used for dewatering and the market share of the respective segments on the global market. The outlined box is the product category that Telcho belongs to.
The difference between drainage, mud- and silt dehumidifiers is that the latter can handle tougher sediment levels than drainage dehumidifiers. They are used to dehumidify more contaminated water.

1.3 Problem Statement

As of the transfer of Telcho to the Medex division in late 2010 the responsibility of the brand was also transferred to the respective Line Manager (LM) of the MD. The new manager had to develop or modify the existing business plan of Telcho and was the sole responsible of it. The LM for the Scandinavian and Baltic region also appointed a Product Manager for the Telcho dehumidifier line. As the Product Manager had an international role in the Baffin Delker organization and the LM had a restricted amount of time, the LM wanted a student to conduct a research that would help the LM developing a business plan. The initial information that was given indicated that Telcho had been successful for some time in the past but had been underperforming throughout the last two decades because of lack of dedication by the companies that had owned the brand. This was something that the LM wanted to change by investing resources to the Telcho brand yet again. Another aspect of bringing in a student was to get a new and unbiased point of view to the subject and to see how well it matched the existing business plan that had been in place for Telcho. Therefore, the LM and Product Manager were keen on not disclosing too much information in the initial phase of the thesis.
1.4 Objectives
The issues and questions that were to be answered by the student had a direct linkage with the creation of the new business plan. The objectives were divided into two areas:

1. **Conducting a market research that would present information about the current situation regarding:**
   - The drainage dehumidifier industry
   - Customers
   - Product
   - Distribution channels
   - Aftermarket
   - Pricing
   - Competition

2. **Analyzing the findings and proposing a business plan to the LM of the MD.**

1.5 Delimitations
As in all projects some delimitations had to be made because of time- and resource constraints. The delimitations have been mutually decided between the student and the LM of the MD.

The research that was conducted focused on the Swedish market although the LM is responsible for other Scandinavian and Baltic regions. Some basic research was conducted of the Norwegian and Danish market while the Baltic region was totally excluded from this report.

The financial part of the business plan was excluded and no prognosis of future sales will be included in this thesis.

Interviews were primarily held in the Stockholm region due to geographical constraints. In case of the need to interview outside of the Stockholm area, telephone interviews were to be conducted.
1.6 Structure of the Report

To get an overview of the structure of this report a short descriptions of the chapters will be presented.

Chapter 1, this chapter, is called Introduction and presents some of the background information that is needed to understand the purpose of this thesis.

Chapter 2, Method, presents the course of action that was taken to generate the empirical results of this report. It is worth reading to judge the credibility of the presented results and analysis.

Chapter 3, Business and Marketing Theory, presents the theoretical framework behind this thesis. It is important to read this chapter and understand the concepts and language that will be used in later chapters.

Chapter 4, Results of the Market Research, presents the data that has been collected and is of value to answer the research questions. This chapter could be described as a market research where the reader is presented with information about how the industry looks like at the time being.

Chapter 5, Strategic Analysis, discusses the results from Chapter 4 in relation to Telcho and the theoretical framework in Chapter 3. In this chapter the reader can get an understanding of how the proposed strategies have been derived and why a certain strategy is proposed.

Chapter 6, Conclusions and Recommendations, will sum up the key actions that the Line Manager of the Medex division and Baffin Delker has to take. These actions are presented in a chronological order to ease the decision making for the LM of what to do next.
2. METHOD

2.1 Research Paradigm

A research paradigm is a philosophical framework that guides how scientific research should be conducted. Two common extremities of paradigms are positivism and interpretivism, which are opposites of each other. In between, a continuum of combinations of paradigms can co-exist as shown on Figure 2.1.

Positivism is a paradigm that has its heritage in the natural sciences. It assumes that social reality is singular and objective, and is not affected by the act of investigating it. The research involves deductive processes with the desire to provide explanatory theories to understand social phenomena.\(^4\)

Interpretivism on the other hand is strongly associated with social sciences and emerged as a response to criticism of positivism. It rests on the assumption that social reality is in our minds, and is subjective and multiple. Social reality is therefore affected by the act of investigating it. The research involves inductive processes to provide an interpretive understanding of social phenomena within a particular context.\(^5\)

In this thesis the paradigm that was chosen was somewhere in between positivism and interpretivism. This was due to the research phenomena. The research question required a framework that could interpret both numerical data, such as revenues, market shares, times of occurrence etc, and subjective perceptions such as brand image, attributes and so forth.

2.2 Methodology

A methodology is an approach to the process of the research, contained by a number of methods for collecting and analyzing data. Collis and Hussey suggests that the methodology should reflect the chosen research paradigm. In this thesis a case study has been chosen and conducted to answer the research questions. This methodology is used to explore a single

\(^5\) Ibid. p.57
phenomenon (the case) in a natural setting using a variety of methods to obtain in-depth knowledge. Detailed information is collected over a long period of time which then can be presented or analyzed. Furthermore, there are different types of case studies. The one selected for this thesis is explanatory case study which is when existing theory is used to understand and explain what is happening. The choice of a case study suits this thesis as the aim is to both present how the drainage dehumidifier industry looks like and how Telcho should act within this market. The choice of the explanatory case study was taken as this thesis involved a business case. The business field tends to have few dominating theories that the majority of the population seems to have agreed upon, e.g. theories from Kotler, Keller, Porter that dominate most of the business literature. Many people in the business world are familiar with the concepts and language of these theories which I thought would both ease the interviews I planned to conduct and the presentation I planned to present in this report. With these circumstances I assumed that taking a ground in theory would present an adequate result at the end. I did not feel that I needed to reinvent the wheel and develop new theories as I assumed that the drainage dehumidifier industry was similar to most other businesses.

In a case study Yin (2003) identifies the characteristics of the study as follows:

- The research aims not only to explore certain phenomena, but also understand them within a particular context
- The research does not commence with a set of questions and notions about the limits within which the study will take place
- The research uses multiple methods for collecting data, which may be both qualitative and quantitative

As Yin proposes, this thesis will aim to not only explore but also understand the results within this particular context. Although guidelines about the research questions were decided upon in the beginning of this thesis these have mostly acted just like guidelines. This was to not eliminate any important aspects that could affect the results or analysis of this thesis. Finally both qualitative and quantitative methods were used to collect the data.

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7 Ibid.
2.3 Data Collection

Primary data was collected mostly from semi-structured interviews held with competitors, distributors, customers, repair shops and the Baffin Delker organization. In a semi-structured interview, some of the questions are prepared, but the interviewer is able to add additional questions in order to obtain more detailed information about a particular answer.\(^8\) The choice of semi-structured interviews is preferred over unstructured or structured interviews because it gives the respondents enough space to answer and develop their reasoning. With exception for the distributor interviews which were held over phone for about half an hour, the interviews were face-to-face interviews which lasted for approximately one to two hours. Shorter interviews were also conducted during a day at a fair for construction companies.

Due to the time constraint, the Pareto principle (80/20 rule) was applied which means that approximately 80% of the effects derive from 20% of the causes. This was taken into consideration when deciding which companies and people to conduct the interviews with. By targeting the largest actors and the correct ranked individuals within these entities, an attempt was made to cover as much as possible in the given time frame. New interviews were booked depending on the empirical results that had been collected until that time. E.g. early on one could sort out, from secondary data, that one of the segments was unattractive. That segment was not part of the 20% that would be important in this case. Therefore no interviews nor primary data was collected from that segment. The Pareto principle was also used when deciding in which questions to ask to the interviewees. When data was verified from multiple sources, the question was given a lower priority and was turned into a statement which the next interviewee only should confirm. This was to save up time and to extend the research into new areas which was more important than getting the most reliable data on one specific question. As Collis and Hussey recommends\(^9\), sensitive questions were approached slowly and were placed at the end of the interviews to not upset or affect the interviewee. The questions were asked in a similar way to the different respondents and I tried to avoid to show approval or disapproval to the given answers. Notes were taken and summarized shortly after the interviews to avoid any interpretative

\(^9\) Ibid. p.196
mishaps later on. No tape recorders were used so that the interviewees could feel comfortable and answer sensitive questions which they may have been reluctant to do otherwise.

Secondary data was also collected. Two thesis studies, one in the field of silt dehumidifiers and one about dehumidifiers in the process industry were read to find similarities and dissimilarities with the drainage dehumidifiers industry. Internal documents provided estimates of market sizes and market shares which then were confirmed from primary data sources. The Internet and the competitors' homepages were of use when designing a map of the distribution and aftermarket coverage of the three large competitors. Specific literature about drainage dehumidifiers and the industry was hard to find and much trust was given to the experienced managers within the drainage dehumidifier industry when trying to grasp the basic facts about the industry.

2.3.1 Validity

Validity is a measure of how well a question is representing the reality that it tries to measure. If we want to measure obesity in a population, measuring shoe sizes would not give our research much validity. To ensure a good validity in this thesis an effort was given to get a good initial understanding of dehumidifiers and the drainage dehumidifier industry before conducting any external interviews. This was to act as an insurance that valid questions were asked at the interviews. Although the effort to ask valid questions, the learning curve effect still took place. The initial interviews were more cluttered and may have been filled with more low-validity questions, as I then still tried to understand the basic facts of the industry. As the knowledge level increased the interviews also got more effective and deeper level questions could be asked to the interviewees.

2.3.2 Reliability

Reliability is a measurement on how well the results can be replicated, indicating if the results can be trusted. A reliable study does not necessarily have to be good if it turns out that the validity is poor. This means that you have measured the shoe sizes accurately but it turns out that shoe sizes do not affect obesity. To achieve a high reliability in this thesis data was examined shortly after they were presented to me. I did this by comparing the data to other sources of primary and secondary data. In some instances, an email was sent to the
interviewees with complementary questions if any doubts existed after the interviews. This way, possible inconsistencies could be detected early on and be corrected accordingly by further research.

As some questions touched perceptions and feelings towards brands and attributes, the reliability in these answers could be lower. Although a fair representation of this sample size, the opinions of the whole population could differ. This is somewhat countered as most of the interviews were held with large competitors and customers that represented most of the population in the drainage dehumidifier industry. If more time and resources had been available a more positivistic approach with surveys and questionnaires could have led to more statistically significant results.

2.3.3 Generalization

Generalization is the extent to which the research findings can be extended to other cases or to other settings. The generalization level of this thesis could in fact be good and transferred to other types of settings where some common attributes are shared between the two settings. E.g. if market concentration and growth in some other industry is similar to the figures in the drainage dehumidifier industry, the results and recommendations of this thesis may be applicable to that industry as well. Although the specific results will not be comparable, this thesis can provide an understanding of the meta perspective of business, the competitive environment and provide empirical findings within the field of Industrial Economics.

2.4 Data Analysis

As the raw data was collected it had to be analyzed, reduced and presented. When analyzing the data one of the methods that was used is called informal methods. Researchers often use this method to quantitify qualitative data, such as counting the frequency of occurrence of the phenomena under study.\(^\text{10}\) This means that a statement that had a high occurrence rate (stated at two or more interviews) was considered by me to be a fairly accurate statement. The statement was further analyzed by analyzing the source of the statement. People with a long experience from the drainage dehumidifier industry were ranked higher

than e.g. less experienced. Competitors were ranked higher than distributors for example as the competitors will have a better perspective and knowledge of the total market than an individual in one of the segments.

In the next step the data was reduced. Data reduction helps sharpening, sorting, focusing and discarding data.\textsuperscript{11} The statements were compared to the theoretical framework and categorized. This process of reducing data is called \textit{restructuring the data}.\textsuperscript{12} This will provide categories in which the data can be fitted. In doing so, different statements could be grouped or discarded depending on what else was being presented in the category. This was a very good way to decide which data that was the most important for this thesis. Instead of presenting all the statements in an unstructured fashion I felt that by structuring and reducing the data I would be able to present all the relevant data without losing the reader's attention.

When presenting the data and the results in this paper I wanted to keep a clear thread which could be followed by the reader. The data is presented in such a way that the reader should feel that he/she is the one doing the research while reading. I wanted the reader to come to their own conclusions which then can be compared to the conclusions in this thesis. To achieve this, a clear separation was tried to be kept between the \textit{Results of the Market Research} and the Strategic Analysis chapter.

\textsuperscript{12} Ibid.
3. BUSINESS AND MARKETING THEORY

3.1 The Competitive Environment

3.1.1 Porter’s Five Forces

1979, in Harvard Business Review Michael E. Porter published his article on the competitive forces that shape an industry. Porter described the state of competition in an industry with the five forces exhibited in Figure 3.1. The collective strength of these forces determines the ultimate profit potential of an industry.\(^{13}\)

![Figure 3.1. Porter's Five Forces](image)

**Industry Competitors**

Rivalry among existing *direct* competitors takes the familiar form of jockeying for position - using tactics like price competition, product introduction and advertising slugfests. The rivalry is related to presence of a number of factors:\(^{14}\) Competitors are numerous or roughly equal in size and power, industry growth is slow, the product lacks differentiation and exit barriers are high.

**Potential Entrants**

The ability for new competitors to enter an industry affects the competitiveness of that industry. Porter describes six major sources of barriers to entry; Economies of scale, product differentiation, capital requirements, cost disadvantages, access to distribution channels and

\(^{13}\) Porter, M (1979). How competitive forces shape strategy

\(^{14}\) Ibid.
government policy. When great barriers exist for new entrants the industry gets more attractive and profitable for the companies that are in it.

**Substitutes**
Attractive industries also attracts competition from *indirect* competitors. These are competitors capable of meeting the same customer needs as the *direct* competitors products but which do so in a very different manner. Thus plastic bottles compete with aluminum cans for beverages.\(^{15}\) Therefore if a company is in the aluminum can business, plastic bottles will be regarded as a substitute for that company's products. The number and the threat of substitutes impact the overall industry profitability negatively.

**Suppliers**
The prior three forces that was discussed were horizontal while the two following forces act vertically on the firm. The fourth force is the power of suppliers. Suppliers can exert bargaining power on an industry by raising prices or reducing the quality of the product or service. Suppliers can also integrate forward to compete directly with the competitors of an industry or promote its brand directly to the firm's customers, raising the firm's switching costs as their customers' preferences change to favor the supplier.\(^{16}\) Factors influencing the bargaining power of suppliers include: The suppliers are few dominating companies, product is unique, the industry is not an important customer of the supplier group.

**Buyers**
Likewise as the supplier group very similar forces operate on the buyers group. Customers can force down prices, demand higher quality or more service and play competitors against each other, eroding the industry profitability. The main factors affecting the buyers bargaining power are: Few large customers, the products it purchases are undifferentiated, the purchased products represent a significant fraction of the buyers' cost, the buyer earns low profits, the quality of the industry product does not affect the buyers product, likelihood of the buyer to integrate backwards to compete in the industry.

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\(^{16}\) Ibid. p.75
3.1.2 SWOT

SWOT is a strategic tool that can be used to evaluate Internal and External factors that could affect the outcome of an objective or project. It can be used on corporate as well as on business unit level. A SWOT should always be applied and based in relation to the competition. Figure 3.2. exhibits the SWOT matrix.

The internal side of the SWOT consists of **Strengths** and **Weaknesses** and are parameters that the company can control. If the objective is to gain market share, a good distribution network would be considered as a strength while lack of market knowledge would be a weakness. Note that the company can control both these parameters by e.g. increasing/reducing the number of distributors or deciding to acquire more knowledge in the specific field.

The external side of the model consists of **Opportunities** and **Threats**. These are parameters that cannot be controlled by the company. The only thing that one can do is to decide how to take advantage of the opportunities while avoiding the threats. External factors may relate to market trends, government policy, technology and so on. By executing a full SWOT analysis one can get a clearer picture of the probability for the objective or project to be successful. It can also help structuring the most important meta points and reduce the number of parameters to consider.

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3.1.3 Competitive Strategies

Kotler describes a number of competitive strategies that companies can apply depending on the company's position on the market.\(^{18}\)

1. **Market leader.** The company or companies with the highest market share.
2. **Market challenger.** Trailing companies that compete aggressively to extend market share.
3. **Market follower.** A company that seeks to maintain its current market share.
4. **Market nicher.** A company who wants to avoid direct competition by targeting small markets of little or no interest to the larger companies.

- Market leader strategies involve in finding new users, new uses and creating more usage while defending against potential attacks by building the brand and utilizing a number of defense strategies.

- A market challenger should first decide the strategic objective, most objectives aim to increase market share. The next step is to decide who to attack. It can attack the market leader(s), firms of its own size that are underperforming or are underfinanced, or small local and regional firms. Kotler distinguish between five attack strategies:\(^{19}\)

  1. **Frontal attack.** The attacker matches its opponents' product, advertising, price and distribution. The principle of force says that the side with greater resources will win. Kotler suggests that the challenger should have at least a 3-1 resource advantage over the leader. A modified frontal attack such as cutting price could also work if the market leader does not retaliate and if the challenger can convince the market that its product is equal to the leader's.

  2. **Flank attack.** A flank attack can be directed along two strategic dimensions; geographical and segmental. In the geographical attack the challenger spots geographical areas where the opponent is underperforming and attacks them. The segmental attack is all about serving uncovered market needs.

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\(^{19}\) Ibid. p.265
3. **Encirclement attack.** This is a combination of the frontal and flank attack where the challenger commands superior resources and believes the attacks on several fronts will break the opponent's will.

4. **Bypass attack.** An indirect attack that seeks to diversify into unrelated products to broaden one's resource base.

5. **Guerilla Warfare.** Smaller attacks on random corners of the competitors business. It can include selective price cuts, intense promotional campaigns and so on.

- Market followers tend to follow the market leader and let them be the innovator and bear expenses for product development and informing and educating the market. The behavior is common in industries where the opportunities for product- and image differentiation are low and service quality is comparable. Most firms decide against stealing one another's customers. Instead, they present similar offers to buyers, usually by copying the leader.

- With market nicher, the key idea is specialization and the goal is to serve those segments better than the competition. Some of the specialist roles are:
  
  - **End-user specialist.** The company specializes in serving one type of end-use customer.
  - **Customer-size specialist.** The company specializes on selling to either small, medium-sized, or large customers. Many small customers are often neglected by the majors.
  - **Specific-customer specialist.** The company limits its selling to one or a few customers.

### 3.2 Customer-led business

The purpose of a business is to satisfy the needs of its customers. A business that fails to do this in a competitive economy will not survive because customers will go elsewhere.\textsuperscript{20}

Only after knowing what jobs customers are trying to get done and what outcomes they are trying to achieve are companies able to systematically and predictably identify opportunities and create products and services that deliver significant value.\textsuperscript{21}

The core idea of the customer-led company is to be focused on needs and not products. The customer wants to meet a need, not purchase a product. This recognition is fundamental to the way the business defines and research its markets, develops and prices its product range.

\textsuperscript{20} Doyle, P (2002). Marketing Management and Strategy. 3rd edition. p.31

\textsuperscript{21} Ulwick, A (2005). What Customers Want. p.19
and communicates it to its customers. Most managers are doing the mistake to define their market by a product, not a need. IBM successfully took a market leader position by defining their market, not as computers, but as managers wanting better information to make more profitable decisions. Notice the difference between product and need. The former CEO of SAS, Jan Carlzon, carefully redefined itself as meeting the travel needs of business people rather than being in airlines. Another example is Rolex who defines its market as the status and not watches industry. Once a company has defined its market it must research that market’s needs. For SAS that could have been investigating the needs of business people. Accordingly, Rolex has to know what drives the status industry and how to meet those demands. If Rolex had defined its market as a product, high-end watches, they would for example have not noticed many indirect competitors and potential distribution channels.

3.3 From Strategic to Tactical Marketing

3.3.1 Segmenting, Targeting and Positioning (STP)

All marketing strategy is built on STP—Segmentation, Targeting, and Positioning. A company discovers different needs and groups in the marketplace, targets those needs and groups that it can satisfy in a superior way, and then positions its offering so that the target market recognizes the company’s distinctive offering and image.

A market segment consists of a group of customers who share a similar set of needs and wants. The major segmentation variables are; geographic, demographic, psychographic and behavioral segmentation.

The marketer does not create the segments; the marketer’s task is to identify the segments and decide which one(s) to target. Segment marketing offers key benefits over mass marketing. The company can presumably better design, price, disclose and deliver the product or service to satisfy the target market. The company also can fine-tune the marketing program and activities to better reflect competitors' marketing.

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24 Ibid. p.279
Once the company has identified the market segments, it has to decide which one(s) to target. It must first look at two factors: 

1. **The segment’s overall attractiveness.** Does the segment look attractive in regards to size, growth, profitability, scale economies and low risk? 
2. **The company’s objectives and resources.** Does investing in the segment make sense given the company’s objectives, competencies and resources? 

Having evaluated the company can next choose between five patterns of target market selection. These are shown in Figure 3.3.

- **Single-segment concentration.** One product for one market. Could be a niche product that serves a specific segment, e.g. Lamborghini.
- **Selective specialization.** Multiple products for different segments. Could be a radio broadcaster offering different radio channels for different audiences.
- **Product specialization.** One product for multiple segments. Could be a manufacturer of microscopes selling to university, government and commercial laboratories.
- **Market specialization.** Multiple products to serve the needs of one segment. Could be a company selling skis, snowboards, boots and jackets to serve the skiing industry.
- **Full market coverage.** Multiple products for multiple segments. Could be large corporations like Coca-Cola, IBM targeting various markets with multiple products.

The final step is to position the brand in relation to the competitors. Positioning is the act of designing the company’s offering and image to occupy a distinctive place in the mind of the target market. The end result of positioning is the creation of a value proposition, a cogent

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reason why the target market should buy the product.\textsuperscript{26} Three strategic choices can be chosen from when positioning an offer. The first is to strengthen its own current position in the consumer's mind. The second, to grab an unoccupied position. The third, to de-position or re-position the competition in customers' minds.\textsuperscript{27} An offering can be positioned based on several attributes such as quality, price, technology, benefit, use or application etc. To communicate the brand positioning a marketing plan should include a positioning statement. The statement should follow the form: To (target group and need), our (brand), is (category membership) that (point of difference).

3.3.2 The Marketing Mix
While the STP, segmenting, targeting and positioning has a broad strategic perspective on marketing strategy the marketing mix looks more into the tactical side of the offering. The marketing mix or the 4P as it is sometimes called consists of \textit{Product, Price, Place and Promotion}.\textsuperscript{28} Together these points form an offering to the market. Depending on how you alter the parameters, the offering and the perception of it will take a specific position on the market. If you offer a high quality \textit{product}, for a high \textit{price}, via high-end distribution channels (\textit{place}), with exclusive \textit{promotion} campaigns, that offering will be perceived as a premium positioned offering on the market. Consequently strategic decisions made in the STP phase can be translated to tactical tangible parameters in the marketing mix, see Figure 3.4.

\textsuperscript{27} Ibid. p.309
\textsuperscript{28} Ibid. p.16
Kotler describes a product as anything that can be offered to a market to satisfy a want or need. In planning its market offering, the marketer needs to think about three levels of the product as seen in Figure 3.5.

The most fundamental level is the *Core benefit*, customers buying a camera are buying more than just that, they are purchasing memories. The next level is the *Actual product*, companies can choose to differ attributes like quality, color branding of the camera that they want to offer to the market. The third level is the *Augmented product* where attributes that exceeds customer expectations can be included to the product, these include warranties, service level and so on. When planning a market offering it is important to have knowledge about the different customer preferences on the market. Camera purchasers in.

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Swedish markets may be divided into several segments where they all share the core benefit while differing on the actual- and augmented benefits. Some may only want to purchase memories for a cheap price while others may like to achieve the same task but also get an opportunity to show off their wealth by purchasing a high-end camera. In addition, one has to know that different markets can vary regarding customer preferences. Camera purchasers in Sweden may want to purchase memories while a wholesaler in Africa may buy cameras to extract the metals inside of it. Gathering information about markets, customer segments, and their preferences is therefore vital if the company wants to be able to satisfy customer needs and wants.

**Price**

Developing a pricing strategy starts with the assessment of price competitiveness. The first task is to determine which competitors in the market are seen by customers as offering the best value. Value is a combination of price and perceived quality. Assessing value therefore requires research into how customers perceive the quality of alternative offers. Most techniques focus around the following steps:

1. **Identify the dimensions of quality.** Find out what product and service attributes customers are looking for when they choose suppliers.
2. **Weigh quality dimensions.** Determine which of the attributes are regarded as the most important by customers.
3. **Measure competitors along dimensions.**
4. **Discover price/quality preferences.** What are the combinations of price and quality most preferred by customers?

By plotting competitors in a value map, as seen on Figure 3.6, a distinction can be made between the different offerings on the market. This makes it easier to distinguish how the company's own offering compare to the competitors'. It also

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31 Ibid.
helps the company detect less competitive and unserved segments. The basic strategy is to position along the fair value zone where customers are paying for the relative quality of the product.

There are three basic strategies when setting the price of an offering: 32

1. **Cost-based pricing.** The cost per unit is calculated and a markup is added to get the price.
2. **Value-based pricing.** The cost of goods sold is disregarded and the focus is instead directed on how much the customers are willing to pay for the product.
3. **Competitive pricing.** Price is decided based on competitors prices on the market. Deviations can then be made from that reference price depending on the product the company will offer.

Competitive pricing is similar to the value map model where the own business is related to the overall market. Cost-based pricing have to be used by caution as it does not take any regard for the customers and their willingness to pay for a product. Decisions to offer products should be based on the price the customers are willing to pay and then work backwards and decide if the company could produce that product below that price.

Note that value-based pricing can be adopted on different segments. The goal is not to price every product as a premium, it is to get the most value for each one of them.

**Market entry strategies**

Two strategies that are popular when launching new products or entering new markets are *price skimming* and *price penetration* strategies. 33 Price skimming is when the company sets a high initial price to gradually reduce it as it reaches demand/supply equilibrium. Skimming is effective when a first mover advantage exists and the demand for the product is inelastic. The iPhone is a good example where this strategy is used by Apple. Price penetration is in turn the opposite where the company sets a low initial price in hope to acquire new customers, raise market share and sales volume. The sacrifice is the short term profit but the upsides are a fast adoption of the product as well as word of mouth (e.g. people telling their friends). The price is then gradually increased.

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33 Ibid. p.196
Place
The choice of place, or distribution strategy will depend on the company’s sales and profit goals, the resources it has available and its positioning strategy.\textsuperscript{34} There are generally two ways to distribute a product, \textit{direct} or \textit{indirect}. Direct distribution involves a high fixed-cost operation with an own sales force or self owned distribution channels but gives the company complete control over their product. By contrast, selling through an external distributor involves a minimal fixed-cost but a high variable-cost element because of the discounts paid. Selling direct requires a higher resource commitment and can therefore set constraints depending on the financial position of the company. After deciding whether to distribute direct- or indirectly the next step is to choose between three distributional options, this will depend on the type of product the company is selling:\textsuperscript{35}

1. \textit{Intensive distribution}. Normally used for low-priced or impulse products. The more places carrying the product, the more likely it is to be bought.

2. \textit{Exclusive distribution}. For high-priced, luxury products, the manufacturer will often limit distribution to a very small number of distributors. The goal is to achieve a greater sales effort, greater control and a superior brand image.

3. \textit{Selective distribution}. Manufacturers of specialty goods will often look for a compromise between intensive and selective distribution. Here the manufacturer aims to have a large geographical spread, but to restrict it sufficiently to be able to select motivated, knowledgeable dealers.

Promotion

\textit{It is not enough to have good products and services. To generate sales and profits, their benefits have to be communicated to customers. Promotion is the process of transmitting messages with the objective of making the organization’s products or services attractive to target audiences.} \textsuperscript{36}

Industrial marketing communications account for a lower portion of total marketing expenditures than is characteristic of consumer marketing. The central role played by the industrial sales representative must be supported by a blend of other communications tools,

\textsuperscript{34} Doyle, P (2002). Marketing Management and Strategy. 3rd edition. p.316
\textsuperscript{35} Ibid. p.317
\textsuperscript{36} Ibid. p.239
including sales promotion, trade shows, publicity and public relations. Knowing your customers and the brand identity of your brand will help the decision of what type of channels to use. Advertising a high-end premium brand with flyers on the street would clearly not be the best option. The type of product and buying behaviors will also greatly influence the promotional strategy. Buying decisions can be classified on two criteria:

1. **Degree of customer involvement.** Customer are likely to be highly involved in the purchasing decision where purchases are infrequently, involve relatively large amounts of money or where a mistake poses a significant risk. Conversely, customers are not particularly involved in items that are frequently purchased, relatively low cost, and where the risk of a mistake is little.

2. **Degree of customer rationality.** A decision is "rational" if choice is based primarily on the perceived functionality of the product. Most industrial buying is rational. Irrational decisions are in turn those made on the basis of taste, feelings or image.

In industries where there is low customer involvement and highly rational buyers, some important aspects are to be considered.

*Customers do not want to learn about new products. They screen out information that is inconsistent with the current routine. For the brand challenger, research suggests that the best way to change habit is to force new behavior. Free offers, samples, price cuts and other promotions are better than advertising for such a task. Once people have successfully tried the brand, cognitive dissonance theory suggests that customers may change their attitudes to make them consistent with the new behavior.*

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39 Ibid. p.250
3.4 Brand Management

3.4.1 Points of Difference & Points of Parity

*Points-of-difference (PODs) are attributes or benefits consumers strongly associate with a brand, positively evaluate, and believe that they could not find to the same extent with a competitive brand. Strong, favorable, and unique brand associations that make up points-of-difference may be based on virtually any type of attribute or benefit.*

*Points-of-parity (POPs), on the other hand, are associations that are not necessarily unique to the brand but may in fact be shared with other brands. These types of associations come in two basic forms: category and competitive.*

*Category points-of-parity are associations consumers view as essential to be a legitimate and credible offering within a certain product or service category. Consumers might not consider a travel agency truly a travel agency unless it is able to make air and hotel reservations, provide advice about leisure packages, and offer various ticket payment and delivery options. Category points-of-parity may change over time due to technological advances, legal developments, or consumer trends.*

Competitive points-of-parity are associations designed to negate competitors' points-of-difference. If company A has come up with a new technological feature (POD) for their product, company B can try to imitate the same feature, thereby turning company A's POD to a POP. In the long run, a company should try to negate competitors PODs while developing their own PODs.

3.4.2 The Brand Relationship Spectrum

The Brand Relationship Spectrum developed by authors Aaker and Joachimsthaler is a theory covering brand architecture and can help to maximize brand leverage on the market. It helps managers in their decision to brand their offerings on the market. Having the right brand architecture is a vital part of brand management and helps customers understand the product that they are offered. Why did Toyota create a new brand Lexus instead of naming it Toyota Lexus? Did you know that Lipton, Dove and Crème Bonjour are all owned by a

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41 Ibid. p.313
42 Ibid.
company named Unilever? Why are the products not named Unilever Lipton or Unilever Dove Soap? These are all questions that can be answered by the Brand Relationship Spectrum.

There are four categories in the spectrum; Branded House, Sub-brands, Endorsed Brands and House of Brands, see figure 3.7. The Branded House- and House of Brands strategies are each other’s opposites. The Sub-brands- and Endorsed Brands strategies are in between the two opposites. 

Most offerings on the market can be categorized in one of these four categories. Depending on the circumstances of the situation a manager should choose one of these categories when branding a new offering:

**Branded House**

This strategy uses the master brand as the primary indicator of the offering. Master brands can for instance be Audi or Skoda which in turn are part of the Volkswagen group which is the corporate brand. One company that uses this strategy is GE, which is a master brand.

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under which the company sells its offerings; GE Healthcare, GE Money Bank and so on. This strategy leverages on an established brand and minimizes the marketing and communication investments required for each product in the portfolio. An advertisement with the GE brand would automatically benefit both the Healthcare and Money Bank department, creating economies of scale regarding marketing costs. The branded house strategy is also good at creating clarity and potential synergy in the eyes of the customers. A satisfied customer of the GE Money Bank may be inclined to choose the services of GE Healthcare believing that the brands are delivering the same brand promises although the GE Healthcare division may consist of several small companies that just share the name of GE. This leads us to some of the disadvantages of the branded house strategy. One is the inflexibility and ability to alter the unique offerings. If the heritage of the GE brand is quality, premium price and great service this would lock in the company to a premium position in all of its businesses if they use the branded house strategy. This means that both the Healthcare and Money Bank would be forced to hold a premium position on their respective market. This can of course create problems when reacting to changes in the market or when acquiring new businesses that requires different positioning compared to the master brand. The risk of negative spillover also increases, this means that bad publicity in the GE Healthcare division will most definitely also affect the brand image of GE Money Bank division, because of the GE brand that unifies them.

**Sub-brands**

Sub-brands are brands that modify the associations of a master- or corporate brand which remains the primary frame of reference. Sub-brands can add associations (Toyota Corolla), personality (Audi TT), associations (Microsoft PowerPoint) or even energy (Nike Force). The sub-brand strategy helps to stretch and modify the master brand into new categories and new markets. It is a strategy that takes advantage of a strong master brand as it remains flexible to extend the brand and take advantage of new opportunities on the market. Notice the difference between GE Healthcare and Toyota Corolla. Healthcare is a generic word in language and therefore functions as a descriptor whereas Corolla is a unique word which therefore can capture brand equity. The general rule is that when a brand name becomes generic it loses its brand equity. Nylon was once a brand owned by DuPont but as the word nylon eventually was being used by the public as a word to describe the fabrics and
not the specific brand, the brand Nylon lost all its brand equity. The sub-brand strategy is also good at protecting against the master brand being overstretched into markets that do not fit the master brand. The strategy also allows the company to signal that an offering is new and different without starting over with a new brand which can be costly.

**Endorsed Brands**

The purpose of this strategy is to allow further separation between the two brands than the sub-brand strategy. In the sub-brand strategy the primary frame of reference was the master brand, in the endorsed brands strategy it is the opposite. The new brand is the driver of the offering while the master brand acts like an endorser to supply credibility and substance. *Obsession*, by Calvin Klein gives the new brand Obsession more space to be unique and function on its own while Calvin Klein supports with recognition and associations that would benefit the new brand. This strategy gives even more freedom to stretch the master brand, like when Marriott, a premium positioned hotel chain launched Courtyard, a hotel chain targeted for the mass market with cheaper prices. Instead of launching a completely new brand Marriott used its brand name to endorse the new offering, *Courtyard* by Marriott. The name signaled that this was a new offering but at the same time it was endorsed by one of the most premium hotel chains in the world, giving it associations that Courtyard was the best hotel chain in the mass market segment.

**House of Brands**

This strategy is the opposite to the branded house strategy. There is no link between the brands and they all function on their own. This strategy is great when targeting different markets or niche segments. Because of the disconnection between the brands the company can stretch and enter whatever markets as they may wish with different categories of products. This is why Unilever has not branded their offerings as "Unilever Lipton" or "Unilever Dove Soap". That would have created confusion among the customers, diluted the Lipton and Dove brands and in turn reduced their brands equities, nobody wants to buy tea that has associations with a soap. Instead, by letting the brands function completely on their own Unilever takes advantage of its cross-functional skills. This can for instance be the company's core competence in marketing, sales or even R&D. By applying the house of brands strategy Unilever can focus on their competence in marketing and apply that skill on multiple brands that they own. When a company acquires a brand that has a significant
brand equity the best would be to use this strategy without diluting the successful offering. Of course the negative side of this strategy is that it does not take advantage of any economies of scale regarding the branding of the offerings. All brands in the portfolio will carry their own costs and will have their own respective budgets. A Lipton ad would not have an effect on the Dove- or Unilever brands because of the total separation between the brands, created by the house of brands strategy.

**Selecting the right position in the brand relationship spectrum**
When selecting which of the four categories to place a new offering, Aaker and Joachimsthaler suggests that the choice rests on the analysis of these three questions:44

1. Will the existing brand enhance the offering?
2. Will the offering enhance the brands that define the offering?
3. Is there a compelling reason to generate a new brand (whether it be a stand-alone brand, an endorsed brand or a sub-brand)?

If the answers to the first two questions are positive and the third negative, the optimal choice will tend to be to the branded house side of the spectrum. However, if the answers to the first two questions are negative and the third question is positive, the best choice will tend to be the house of brands side of the spectrum.

3.5 Achieving Competitive Advantage

3.5.1 Porters Generic Strategies
A business has a competitive advantage when it is able to utilize its resources and competences to generate a value-creating strategy that other firms find difficult to imitate.45

Porter suggested there are two basic ways to achieve competitive advantage:46

- Offer the lowest price to the customer
- Provide a differentiated product

Depending on the type of industry one of the strategies should be chosen. An industry characterized by little price differentiation or little difference in product offerings would be a

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46 Ibid. p.202
typical cost leadership industry. On the other hand, if there is a substantial difference of customer preference between two offerings at the same price level and a clear difference between the product offerings on the market, that industry would be characterized as a differentiated industry. The next step would be to choose the right focus to target your offering. Having a broad focus means that you would target all the segments that your offering could sell to while having a narrow focus means that you only target one or few of the segments. The decision should be based on the company's capabilities and ability to meet customer needs together with the competition and the risk for substitutes in the respective segments. If the company can fulfill the needs of all segments it should have a broad focus unless the competition is fierce in some of the segments. If the company only has capabilities to fulfill the needs of a few segments a narrow focus strategy should be chosen and the offering be tailored to those customers. Figure 3.8. shows a graphic presentation of Porter's Generic Strategies and the strategic paths in it.

Figure 3.8. Porters generic strategies
4. RESULTS OF THE MARKET RESEARCH

4.1 History of Telcho

The Telcho company started back in 1927 in Motala, Sweden. Once a successful brand it can be stated that the decline of the Telcho brand started when the brand was placed in the Koddi organization, as no one at Koddi actually cared or had any knowledge of dehumidifiers. With the lack of interest, the dehumidifiers were managed passively and hence the steady decline of Telcho dehumidifiers on the global market. As Koddi was sought after and acquired by numerous companies, Telcho received the role of an attachment that just followed along. Also, due to all the acquisitions, the production facilities of Telcho changed numerous times during these years and Telcho had issues in securing deliveries of dehumidifiers and spare parts.
4.2 The Drainage Dehumidifier Industry

4.2.1 Market Size
The drainage dehumidifier industry in Sweden is worth approximately MSEK 100 including sales and aftermarket. Out of the MSEK 100 market, 60-70% is believed to be constituted from sales of dehumidifiers and 30-40% from aftermarket services.

4.2.2 Market Shares
The drainage dehumidifier market is primarily divided between three major competitors; Disep, Mofi and SWA. Figure 4.1. displays the approximate market shares in 2006 which should also give a fair representation of the market shares in 2011 as the market has remained fairly unchanged.

![Market Shares in the Drainage Dehumidifier Industry (Sweden 2006)](image)

Figure 4.1. Market shares in the drainage dehumidifier industry (Sweden 2006)

4.3 Customers

4.3.1 Segments
Customers who purchase drainage dehumidifiers have been divided into four segments. Figure 4.2. displays these and adds an estimation of the respective size of each segment. The pie charts represent estimations of competitors' market shares in respective segment.
Construction

**Buying behavior:** Construction companies either purchase or rent dehumidifiers. They prefer to rent as they usually work on a project basis. They may only need the dehumidifiers for a couple of months and not for the entire year. Therefore it may be more financially beneficial to construction companies to rent their dehumidifiers. The companies will not have to worry about logistics, maintenance- and repair costs etc and can instead focus on their core business. Approximately 60-70% of the revenues on the MSEK 45 construction market (Total Market x Segment percentage = MSEK 100 x 45% ) comes from sales to rental companies while the remainder constitutes of sales to distributors and end-users. The trend has been that sales via the rental channel has been growing and it is predicted that it will continue to grow as more and more end-users in the construction segment want to rent their drainage dehumidifiers.

**Product type:** Almost always, small dehumidifiers are used. Larger dehumidifiers are used less frequently, and when they are used, they are always being rented. Larger dehumidifiers are mostly used for tunneling projects.

**Customer needs:** Attributes that are of value for end-users is product quality, availability, and also light weight for small dehumidifiers. To understand why these attributes are important one has to understand the needs of the customer. Construction companies use...
dehumidifiers to prevent leakages that could stop or slow down their operations. In other words they seek an offering that can provide minimum downtime for their businesses. If the product quality is good the risk for hazards is reduced. In case of a flooding the solution must be available instantly, this is where availability comes in. If the supplier does not have any dehumidifiers in stock it will always lose the deal to a competitor.

**Mining**

**Buying behavior:** These companies purchase their dehumidifiers directly from the supplier. Predetermined contracts exists and these agreements are complied reasonably well. Contracts for drainage dehumidifiers are usually signed over a period of one to three years as the mining companies do not want to lock themselves out of new and better market opportunities. The consensus seems to be that the mining industry is very conservative in regards of changing to new products and brands when it comes to drainage dehumidifiers. This is not because of a narrow-minded procurement department but due to conservative miners who are operating the dehumidifiers. They have probably used the same brand and products for many years and are unwilling to change to something new. The operators have a major influence when it comes to mines choosing a drainage dehumidifier supplier, no matter how lucrative the offered contracts are from the suppliers.

**Product type:** All of the dehumidifier sizes are used by mining companies. Budget dehumidifiers which we will discuss later on are not used in this segment.

**Customer needs:** Mining companies are even more focused on product quality than the construction segment. Drainage dehumidifiers are used more frequently and in tougher conditions than in the construction segment. They want their dehumidifiers to be able to withstand the wear and tear and last for as long as possible. Additionally; service, availability of products and spare parts, warranties and guaranteed spare parts supply for a number of years is valued by these customers.

**Industrial**

The industrial segment is a niche segment and not the typical market for drainage dehumidifiers. Factories, mills and plants within the process industry and wastewater plants are classified as the industrial segment. These companies usually use other types of dehumidifiers (industrial dehumidifiers) in their plants. If a supplier of industrial
dehumidifiers should have drainage dehumidifiers in their product portfolio that supplier can try to find possible areas of use for the drainage dehumidifiers in that specific plant. This is achieved by sales representatives from the supplier visiting their customers' plants and trying to find potential application areas. This prerequisites a great competence from the supplier towards e.g. the process or wastewater industry. The supplier has to be totally dedicated to the customer's business and understand their processes in the factories. Industrial companies purchase drainage dehumidifiers either directly via the supplier or via a local distributor.

Others
This segment could consist of companies that need a drainage dehumidifier for temporary use or very specific niche solutions. Some examples of segments could be municipal, fire protection, power plants etc. Some distributors have niched themselves to target these segments. The suppliers of drainage dehumidifiers rarely target this segment with their own sales force, these customers usually purchase from a local distributor.

4.4 Product
One thing that is unanimously agreed by all customers is that the products are very similar to each other. Not much differentiation exists between the different product series offered by the suppliers. They can perform the same tasks and have similar quality level. This is not so unexpected as only two designs exist on the market. On one side SWA and dehumidifiers, formerly owned by the Owalu group and on the other side Disep and Mofi dehumidifiers, owned by the Awicha corporation. Additionally one more category exists within the drainage dehumidifier segment. These dehumidifiers are called budget dehumidifiers and function like disposable cameras in contrast to professional drainage dehumidifiers that have long life cycles. Budget dehumidifiers can be used until they break down and are then disposed as it is not worth repairing them (repair cost vs. purchasing cost of a new dehumidifier). This is the type of dehumidifiers Lagako is known for but the other competitors have budget dehumidifiers in their product mix as well.

According to distributors and rental companies dehumidifiers are seen as commodity products by end-users. End-users rarely purchase dehumidifiers by brand name, they are buying them on pure functionality. Whichever dehumidifier that may be available at the
time the customer enters the shop is also what the customer will purchase or rent. End-users are often familiar with dehumidifiers and have purchased dehumidifiers in the past. If multiple brands are offered by a distributor one distributor explains the customers buying behavior; "If they already own a Disep dehumidifier they will ask for a Disep dehumidifier. If they have had any bad experience with Disep dehumidifiers they will say, give me a dehumidifier, just not a Disep".

The segments within the drain category function on their own, that means that a new entrant do not have to have drainage-, mud- and silt dehumidifiers in their product mix. In fact previous research has shown that many customers are unfamiliar with mud- and silt dehumidifiers. 80-90% of the competitors' revenues within the drain segment are coming from the drainage dehumidifiers while mud and silt dehumidifiers represent the remainder.

Approximately 80% of sold drainage dehumidifiers are small dehumidifiers while 20% are large dehumidifiers. Small dehumidifiers are classified as up to 3-4 kW and larger dehumidifiers as 4kW and up. Small dehumidifiers are used like portable devices which one can move to and from different water holes while large dehumidifiers are used as stationary devices. Telcho's small dehumidifiers weigh considerably less than the competitors' dehumidifiers in the same range. Figure 4.3. displays the differences in the 1kW and 2kW range and shows how much more the competitors' models weigh compared to the Telcho models.

<table>
<thead>
<tr>
<th></th>
<th>SWA</th>
<th>Disep</th>
<th>Mofi</th>
<th>Telcho</th>
<th>Weight difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1kW</td>
<td>(24kg)</td>
<td>(28.5kg)</td>
<td>(31-36kg)</td>
<td>(19kg)</td>
<td>28% / 52% / 68-92%</td>
</tr>
<tr>
<td>2kW</td>
<td>(32kg)</td>
<td>(34kg)</td>
<td>(36-38kg)</td>
<td>(24kg)</td>
<td>45% / 40% / 50-60%</td>
</tr>
</tbody>
</table>

Figure 4.3. Weight comparison on the small dehumidifiers
4.5 Distribution Channels

A numerous amount of distribution channels exist to distribute drainage dehumidifiers to end-users. Figure 4.4. shows a graphic representation of the main channels that are used to serve the mining, construction and others segments. Green boxes represent direct channels while red represent indirect channels. The colors on the arrows represent the competitors and the channels that they are using.

Sales Force

The company sales force is a direct channel and can be utilized to either distribute the product to end-users or to indirect channel. This depends very much on the company's strategy. In some industries companies only work with direct channels, distributing the products by themselves while others solely work with indirect channels and let others sell their products to the end-users. The drainage dehumidifier industry utilizes a mix of these strategies and uses both direct and indirect distribution channels to reach the end-users. The downside with a sales force is that it is a high fixed-cost operation. The larger the sales force, the more dehumidifiers have to be sold just to break even. As a result the company has to decide how much of their time the sales force should spend on direct versus indirect operations. In the drainage dehumidifier industry the competitors use their sales force to target mines and larger construction companies in terms of direct operations. The remainder of the time goes to indirect channel activities such as visits, promotions and sales propositions to rental companies and distributors.
**Rental (direct)**

Two companies have chosen to operate their own rental service. These are Disep and SWA. Consequently this distribution channel becomes a competitor to the indirect rental channel where other rental companies operate. The sales manager of SWA explains this strategy: "Larger construction companies demand a higher service level than what the indirect rental channel can offer. We are experts on dehumidifiers and can satisfy the end-users' needs better than Rentut and Falisa" (two indirect rental companies). Construction companies rent from indirect rental companies when they need a complete solution with various products while they rent from us when they're only in need of dehumidifiers. SWA can also provide extra service to large key customers by placing spare dehumidifiers on the construction site without any charge. These can be used if one of the original dehumidifiers would stop functioning. This acts like an added insurance to the customers. Some larger construction companies have established contracts on corporate level of which rental company they should rent from. Sometimes the Project Managers in these organizations are dissatisfied with those rental companies and choose to rent from us instead. Bailea and Epeo are two end-users that are examples of this phenomenon. If the Sales Manager has established a personal relation with these Project Managers in the past he is able to rent dehumidifiers to these companies. As one of the Epeo Project Managers explains; "On projects up to MSEK 300 nobody above me cares if I follow the corporate contract or not".

**Rental (indirect)**

The rental industry was as of 2009 worth BSEK 6 in Sweden. Figure 4.5. displays the market shares between these companies. Rentut, Falisa and Kilo are all independent companies while Kawa and Epeo are rental companies founded by two companies in the construction segment, Madbo and Epeo. Lastly, Jiffa- is a trade association for smaller rental companies. The companies within the Jiffa are independent of each other and therefore the 22% share is actually fragmented between some 80 companies. The total amount of depots cover a wide area of

![Figure 4.5. Market shares between rental companies](image)
Sweden with products for end-users primarily in the construction segment. As mentioned, SWA- and Disep's own rental services are competing with these companies. Though, only Rentut has chosen to reply with sanctions against SWA and Disep by choosing not to distribute their drainage dehumidifiers. Therefore Rentut solely distribute Mofi products. This is not optimal as the rental companies usually prefer to have at least two suppliers of drainage dehumidifiers, referred as an A/B supplier relationship model where the A supplier supplies 60-80% of the demand while the B supplier supplies the remaining 20-40%. This encourages competition, keeps prices down and prevents locking the company to one supplier.

**Distributors**

There are two common types of distributors in the drainage dehumidifier industry. One is distributors focused solely on distribution. These are distributors of budget dehumidifiers and small dehumidifiers. The dehumidifiers have a serial number in the distributors' catalogs and are shipped from the distributors' warehouses. The other kind of distributor is also the most common in the drainage dehumidifier industry. These distributors act both like distributors and repair shops (D&R). In fact these companies make their living on service and repairs. Dehumidifier sales constitutes just for a small proportion of their revenues. These local distributors may sell to smaller construction companies, nearby factories or have a niche within their region. These companies have small sales forces but can also sell dehumidifiers by having customers into the local shop. The D&R category can subsequently be classified into two categories, electromechanical and dehumidifier-focused D&Rs. The difference between a electromechanical and dehumidifier-focused D&R is their core business. Electromechanical companies work with engines within electromechanical devices and have customers mainly in the construction segment. Dehumidifier-focused distributors are as the name states experts on dehumidifiers. They sell and repair not only drainage dehumidifiers but all sorts of dehumidifiers. Most of these dehumidifiers are used in the industrial segment within plants, factories etc. Although this is the theoretical explanation of the difference between the two, the differences do not have to be that strict. Some dehumidifier-focused distributors can in fact have good ties with the construction segment as well. This varies much with the specific region and distributor. Some distributors are required to stock smaller dehumidifiers by the suppliers while some suppliers do not have
this requirement. One thing that all of the competitors have in common is that they can supply smaller dehumidifiers and spare parts to these distributors within one day (two days to the very north of Sweden). As indirect channels become customers of the supplier the needs of these channels can vary from the end-users. Both rental companies and distributors value the lifetime of a dehumidifier (product quality) and the easiness/time to service and repair the dehumidifiers.
4.6 Aftermarket

The aftermarket is an important factor to consider as it stands for a good proportion of the total revenues. There are basically two ways of setting up an aftermarket service. Either **direct** where the service and repairs is done by the supplier or **indirect** where the aftermarket service is outsourced to other companies. The choice of doing it in house or to outsource depends a lot on factors such as; the type of product, customer needs, value of the aftermarket, potential volume etc. Figure 4.6. exhibits how the aftermarket is set up in Sweden. As discussed earlier, distributors are also repair shops and have therefore changed names in the figure from distributors to repair shops. The arrows indicate the various routes that dehumidifiers can take to be serviced or repaired.

1. Some larger mines can have their own repair shops where light service can be performed. Consequently the mining companies do not want to have too many suppliers as this would increase the amount and types of spare parts.
2. Heavier service and repairs are usually done by a local repair shop near the mines.
3. In the rental business, the rental company is the owner of the dehumidifiers. When a customer who rents from the Disep and SWA rental service experience a faulty dehumidifier, he will leave it to the rental company and get a new dehumidifier as replacement. Consequently the responsibility of serving and repairing the drainage dehumidifiers lies on Disep and SWA. They have chosen to do these repairs in house.
at their service centers where many other types of dehumidifiers also are serviced and repaired. They have around five to seven service centers throughout the country.

4. Usually indirect rental companies do not want to start up their own repair shop business. They may prefer to do some light service but leave the tougher repairs to repair shops. Rentut for instance has a central service center in Stockholm. From here a Mofi repair shop/distributor will come and pick up the faulty dehumidifiers and leave it back when the repairs are done. Members of the Jiffa association particularly pointed out the importance of a nearby repair shop which they could send their faulty dehumidifiers to.

5. Construction companies who have purchased dehumidifiers will service and repair their dehumidifiers at local repair shops.

6. This segment will service and repair their dehumidifiers at the local repair shop.

To summarize, it can be said that two aftermarket strategies are in use on the Swedish market. One is the indirect, to completely outsource the aftermarket operations to repair shops, as Mofi has chosen to do. They will not even sell spare parts directly to end-users, but refer the customers to the nearest repair shop. The other strategy is a combination of direct and indirect aftermarket service which Disep and SWA have chosen to adopt. In general the greatest value in aftermarket service lies in the mining segment and tunneling projects in the construction segment where the dehumidifiers are run in tougher conditions and break down more often.

4.7 Pricing

The price of a drainage dehumidifier is often diminished compared to other equipment that is used in the mining and construction segment. Additionally the price is weighed against the costs of a potential stoppage in the operations due to a flooding problem. This makes attributes like product quality and availability very important. These attributes must be met before the customers even consider the offering. The three large competitors are fulfilling these requirements very well and are unthreatened on the market. They can therefore charge premium prices for their products. Figure 4.7. displays the perceived price/quality positioning of the competitors and Telcho on the market. The regressed chart is based on the competitors perception of each other as well as some customer perceptions.
Although the customers value quality products, they are not completely price insensitive. The Sales Manager of Mofi states how surprised he is that they have been allowed to have so high margins in Sweden. Generally customers in Northern Europe are more quality conscious than in e.g. Southern Europe or Latin America. He also explains how budget dehumidifiers make customers more price conscious. "If the customers are able to purchase two or three budget dehumidifiers for the price of one Mofi dehumidifier, that offering is worth to contemplate". Opinions from rental companies also suggest that that the three suppliers somehow have managed to set quite high prices on their drainage dehumidifiers. "I do not see why the dehumidifiers should be priced higher in Sweden" says one Project Manager at Rentut.

4.8 Competitors

SWA

SWA supplies dehumidifiers for the drain, wastewater and process industries while is solely active in the drain industry. SWA and are currently in the process of launching a new series of drainage dehumidifiers which are intended to improve the quality of the dehumidifiers. One interesting note is that SWA purchases, rebrands and includes a Lagako budget dehumidifier in their product range.
**Disep & Mofi**

Disep and Mofi are both owned by the Awicha corporation. In 2007 Awicha decided to close the production facilities of Mofi and merge it with Disep's facilities in Trollhättan. The dehumidifiers are therefore exactly the same in design but with different brand names. As of that decision, Mofi was turned into a sales company with the sole responsibility to distribute Mofi dehumidifiers. Prior to the merger Mofi had a couple of repair shops and a self-owned service center within the factory. As the factory was closed, Mofi decided to fully outsource the service and repairs to repair shops and grew the number of repair shops around in Sweden. In retrospect this decision was a good one says the Sales Manager for Mofi as it brought the service closer to the customers with the help of the local repair shops.

Unnecessary shipping costs to and from the prior service center together with the expenses of having a service center were avoided. A service center will only be profitable if it has enough volume of repairs to support its costs. Because Mofi only offers drain dehumidifiers and not other types of dehumidifiers like Disep and SWA the decision to outsource the aftermarket services was logical. In deciding which repair shops/distributors to partner with it was important to find a regional balance so that they did not cannibalize on each other's territories, which could lead to less motivated dealers. Having authorized repair shops means that Mofi will only sell spare parts to these repair shops. If an unauthorized repair shop wants to repair a Mofi dehumidifier, he will have to purchase spare parts from the authorized repair in the region as Mofi will refuse to sell spare parts directly to the unauthorized dealer. Because small drainage dehumidifiers and spare parts need to be available within a short time frame these are held in stock in the factory in Trollhättan. The sales force is constituted of five individuals covering the Swedish market. In recent years Mofi have been successful in entering the mining segment which Disep has traditionally dominated. A mining customer may require ten times the attention a customer in the construction segment requires, but with hard work we have been able to grow in the mining segment explains one of the sellers. Looking forward, both the sales manager of Mofi and SWA believe that prices in Sweden will decline in the future as of increased competition.
Lagako

Lagako is an American brand of dehumidifiers. Lagako have had very little presence on the Swedish market with few distribution- and aftermarket channels. Lagako's relatively good quality score in the perceived price/quality chart is mainly credited to the perception of their budget dehumidifiers and not their professional drainage dehumidifiers. It is unanimously agreed that Lagako's professional drainage dehumidifier range decline in quality as the dehumidifiers get larger in size. Lagako has also been poor in delivering spare parts to their customers.
5. STRATEGIC ANALYSIS

5.1 Industry

*The drainage dehumidifier industry in Sweden is an attractive industry to enter for Telcho.*

The drainage dehumidifier industry is a mature and slow growth industry. Applying Porter’s five forces\(^{47}\) the market is divided up between three large companies, SWA, Disep and Mofi. The rivalry among these existing competitors is not too fierce and they seem to benefit from sharing the market between themselves. Price wars have been avoided and consequently profit margins have been set very high. Because of the demand for high quality products in Sweden the threat of potential entrants declines. Many of the dehumidifier manufacturers in the world are competing in the mid-segment as demand for quality seems to be lower outside of the Northern European region. The threat of substitutes is coming from budget dehumidifiers and affects the whole industry, not only Telcho. The bargaining power of suppliers is nonexistent as the competitors own the whole supply chain from manufacturing to distribution. Buyers’ power is reduced as drainage dehumidifiers do affect the buyers’ product. The dehumidifiers are there to act as an insurance to the end-users’ value generating processes. The dehumidifiers often stand for a small proportion of the buyers’ costs and the threat for backward integration is small. The buyers’ power is increased due to few large buyers such as mines and rental companies. In summary the drainage dehumidifier industry in Sweden is an attractive industry when analyzed by Porter’s five forces model.

5.2 Segmenting

*The construction segment is the optimal segment thanks to its size and its fit with the Medex division. The mining segment is the second most attractive segment with its large size but with greater entry barriers. The industrial segment should be avoided completely due to very high entry barriers along with various misfits. The "Others" segment is considered too small and should therefore not be targeted directly by the sales force.*

Four segments have been identified and sorted based on size. When choosing which segment(s) to compete in Kotler\(^ {48} \) suggests two questions to be asked.

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\(^{47}\) Porter, M (1979). How competitive forces shape strategy

1. *The segment's overall attractiveness.* Does the segment look attractive in regards to size, growth, profitability, scale economies and low risk?

2. *The company's objectives and resources.* Does investing in the segment make sense given the company's objectives, competencies and resources?

**Construction**

The construction and mining segments both appear as attractive segments. Together they make up 75% of the drainage dehumidifier market. The construction segment also strongly matches the business unit's objectives, competencies and resources as the Medex division already serves the construction segment with portable hardware. Regarding segment competence, a fairly low amount is required in the drainage dehumidifier industry. The competitors are dehumidifier companies serving multiple segments. This somewhat diminishes the synergy between the Medex division and the construction segment in regards to competence. Instead, the synergy potential lies in already established customer relations with existing customers where Baffin Delker has a huge advantage against the competitors. Being able to enter this lucrative segment is crucial for the success of Telcho.

**Mining**

The mining segment on the other hand, although large in size, has less synergy with the business unit. It is also harder to get into the mining segment as these customer are very conservative in regards of changing between brands. They have even harder requirements on product quality than the construction segment which does not look to good in the current situation where Telcho is ranked in the mid-segment. Finally as some mines could have their own repair shops with stocks of spare parts, this can act as an entry barrier for a new entrant as the amount and types of spare parts are tried to be kept to a minimum. But there are upsides with the mining segment too. Although little synergy with the Medex division the mining segment has great synergy potential with the MT division in the Baffin Delker portfolio. This opens up a greater possibility for the classical expression of "getting a foot in" by e.g. letting the sales force of the Medex division co-visit MT customers together with the sales force of MT. Also, the low requirements of segment competence in the drainage dehumidifier industry this time favors Telcho. Although long lasting relations with Disep, several mines have changed to other suppliers thanks to the dedication of the sales forces of these companies. This dedication must of course be balanced against the business unit's
resources and objectives. The Line Manager of the Medex division has to decide how to allocate the resources of his sales force to generate the best overall performance for the business unit.

**Industrial**
The industrial segment with its 15% may look fairly attractive when looking at the market size. There are however several reasons to why this segment is the hardest and the most invaluable to enter. First the size of the industrial segment is considerably smaller than the construction and mining segment. Second this market is dominated by Disep which has great synergy with the segment as it offers other products and solutions to the industrial segment. This brings economies of scale to the equation and new entrants will struggle to sell drainage dehumidifiers to industrial plants and factories whom are Disep customers. Although SWA is similar to Disep in terms of type of company, the results indicate that they have not taken advantage of this synergy for their drainage dehumidifiers as well as Disep. Sales to these customers require great competence and total dedication to the segment. Drainage dehumidifiers are used as niche solutions which makes attributes important in the construction and mining segment less important in this segment. Much of the sales is through the sales force which will require a high fixed-cost operation. Although the Hardware Technique division, where Medex division resides, has some synergy with the industrial segment the efforts and resources it takes to enter this segment simply is not worth it.

**Others**
The segment named others is the smallest in size and is therefore not attractive enough to enter directly. Directly means that the sales force should not bother selling to these end-users. An indirect approach similar to the competitors should be utilized instead. This will be explained more in detail under the *Distribution and Aftermarket* chapter.
5.3 Targeting

Telcho should initially target the construction segment and specialize in meeting that segments needs. If successful, an entry into the mining segment could be considered in the future.

As we have shown the construction segment is a key segment for Telcho and the success of the brand will depend on whether or not the Telcho brand can successfully enter the construction segment. As the Medex division serves this segment with portable hardware, the targeting strategy should be market specialization\(^49\), see Figure 5.1. This in fact means that the Medex division will extend its product range with drainage dehumidifiers to better meet the demands of a specific segment, in this case the construction segment.

In the process of targeting the construction segment, one of the keys will be to find more repair shops/distributors, which we will discuss further on. As these distributors also target the "Others" segment Telcho will automatically obtain a presence in this segment. This means that Telcho will initially mainly target the construction and the "Others" segment.

If successful, an extension into the mining segment could be considered. By then the brand and the products will have built up some brand equity and image from its existence in the construction segment. As the customers in the mining segment are conservative they may be easier to convince when they are not the first ones switching to a new brand. Also, hopefully the brand image of Telcho in regards to product quality will have improved by then as the customers in the mining segment sees that the dehumidifiers have been trusted upon by large companies in the construction segment. This is particularly of importance as the Telcho dehumidifiers currently have a brand image ranked lower than the competition regarding product quality.

5.4 Product

_Baffin Delker_ should sub-brand the Telcho dehumidifiers as "**Baffin Delker - Telcho Line Dehumidifiers**" and enforce the name to be used in all distribution channels and by the company in its communication with the market. The focus should be on the two key needs; product quality and availability. The product range does not have to be extended into new types of dehumidifiers and the threat from budget dehumidifiers has to be monitored.

5.4.1 Branding

In the process of developing an offering to the market a brand name should be chosen to get the maximum possible equity. The Telcho dehumidifiers would best benefit from a sub-brand relationship with the Baffin Delker brand, named as "**Baffin Delker - Telcho Line Dehumidifiers**". The reasoning behind this is due to several factors. First is the unsteady history of the Telcho brand which have deteriorated some of the brand image. Once being equal in size to Mofi, the brand then almost disappeared from the market and failed to deliver on brand promises to the declining amount of existing customers. With the frequent change of owners and production facilities Telcho have had issues in securing deliveries of dehumidifiers and spare parts until of today. Therefore it would not be smart to continue brand the dehumidifiers solely as Telcho if one has the intentions to turnaround the brand and make it successful again. Depending on the level of support, next, the level of internalization has to be decided. In this specific situation Telcho would do best by getting the maximum support from the much stronger Baffin Delker brand without losing its name completely. This is because although the unsteady history, the Telcho name still has some recognition on the market and a heritage dating back to 1927. It would be more expensive for Baffin Delker to launch a completely new brand name for the dehumidifiers. This leaves us with the sub-brand option in the Brand Relationship Spectrum.\(^5^0\) This decision is also supported by the statement that end-users perceive drainage dehumidifiers as commodity products and buy dehumidifiers almost always based on functionality, and not by brand. If it was a highly differentiated product and brand it would have may been wiser to keep the brand as an own entity.

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\(^{50}\) Aaker, D (2004). Brand Portfolio Strategy. p.46
As Aaker and Joachimsthaler suggested the following questions should be asked before selecting one of the four positions in the spectrum:

1. Will the existing brand enhance the offering?
2. Will the offering enhance the brands that define the offering?
3. Is there a compelling reason to generate a new brand (whether it be a stand-alone brand, an endorsed brand or a sub-brand)?

By answering no to question 3 and yes to questions 1 and 2, that the Baffin Delker brand name will enhance the offering, and that "Baffin Delker - Telcho Line Dehumidifiers" enhances Telcho but also Baffin Delker by extending the Baffin Delker brand into a new product category, we can conclude that we should lean to the branded house side of the spectrum when choosing a branding strategy. This is also what we have done by choosing the sub-brand alternative.

It will be important that the new brand name is enforced to be used in all distribution channels and by the company in its communication with the market.

5.4.2 Focus on Needs

The core idea of the customer-led business is to be focused on needs and not products. The customer wants to meet a need, not purchase a product. For professional drainage dehumidifiers in the construction, mining and in some of the "Others" segment, this need or core benefit as Kotler\textsuperscript{51} states it, is risk reduction. When this statement is understood, it becomes very logical why customers value product quality and availability, the actual product. We define risk as downtime, which is the time frame in where the operations are run with reduced capacity. This leads to less value generation, which in the end results in reduced revenues. Downtime can occur in two ways. One is if the risk reducing element stops functioning, e.g. a construction company draining a hole which leaks out some amount of water per hour. If that dehumidifier that is in use breaks down and stops functioning the water will flood the construction site and prevent the company to continue its operations as effective as it did earlier. That is why product quality is important, so that the dehumidifier does not break down in the first place. The other way downtime can occur is if the risk reducing element is not available. Let’s say that the construction company digs a new hole

on their site and water starts pouring out. In this case the downtime is the time it takes until a dehumidifier can be purchased and placed in the new hole. Alternatively with the one hole example, the downtime is the time it takes to get the dehumidifier repaired and placed back again. This is why availability is a customer value. If a supplier has a wide distribution net and can deliver dehumidifiers and spare parts in time this will reduce the customers' downtime.

To determine how good the product quality and availability has to be one has to look at the competitors and the desired position one wants to occupy compared to them. Applying a category points-of-parity framework can give some insights to why Telcho has been unsuccessful. As explained in the Theory chapter, category points-of-parity are associations consumers view as essential to be a legitimate and credible offering within a certain product or service category. If a supplier manufactures a car without locks and with no windshield wipers, the customers will not legitimate that car as a credible offering as those two attributes are essential associations to what a car should deliver. The same goes for drainage dehumidifiers, product quality and availability has to be met before any other attributes if Telcho wants to compete against the three large competitors. It does not matter how the dehumidifiers are priced or promoted if Telcho does not claim to those category points-of-parities first. This means that the product quality image of the Telcho dehumidifiers has to improve. As discussed this can be achieved by:

- Branding the offering as a sub-brand, "Baffin Delker - Telcho Line Dehumidifiers" and letting the superior image of the Baffin Delker brand spillover to gain the Telcho brand.
- Getting the dehumidifiers out on the market and prove it to the customers by experience, let them see it for themselves. Telcho has almost been non-existing on the market for numerous years. People may have based their opinion on the lack of activity of the brand.
- Benchmarking the durability and service friendliness of the dehumidifiers, again to minimize downtime. If noticeable differences exist, develop the product to catch up on to the competition.
- Stabilizing the brand image and manufacturing process to give customers a sense of security, contrary to Telcho's history with multiple owners and relocations of the
production facilities. The customers have to feel that Telcho dehumidifiers and spare parts will be available not only for the next year, but also in the future.

Next, Telcho has to make its dehumidifiers and spare parts more available on the market. This can be achieved by:

- Increasing the number of distribution channels and repair shops.
- Improving stock management and logistics to reduce the long lead times. Telcho has to be able to deliver small dehumidifiers and spare parts within one day (two days to northern Sweden) and at least match production times on larger dehumidifiers.

After these category point-of-parities are met Telcho can differ itself from the competition by finding points-of-differences which are attributes or benefits consumers strongly associate with a brand, positively evaluate, and believe that they could not find to the same extent with a competitive brand. The most remarkable point-of-difference is the low weight of the small dehumidifiers at Telcho. Telcho’s small dehumidifiers range weigh 28-92% less than comparable models from competitors. This also happens to be a valuable benefit to the construction segment if the initial requirements of product quality and availability has been met.

5.4.3 Product Mix
As the segments within the drain category function on their own, an extension into mud- and silt dehumidifiers is not necessary to be able to sell drainage dehumidifiers. The focus should be on professional drainage dehumidifiers and budget dehumidifiers, the two types of dehumidifiers that Telcho has today.

5.4.4 Budget Dehumidifiers
Another factor to consider in the drainage dehumidifier industry is budget dehumidifiers. These dehumidifiers function as a substitute in Porter’s Five Forces model. They compete in the lower levels of the small dehumidifiers range. As this range is the most volume intensive (80% of the sales), the threat of budget dehumidifiers has to be accounted for. The business model for budget dehumidifiers is to manufacture cheap disposable small dehumidifiers that last long enough to be comparable or cheaper than professional dehumidifiers in the long run. E.g. if a budget dehumidifier is priced to 1/3 of a professional dehumidifier, the two
offerings would be equal if the budget dehumidifier broke down three times a year while the professional dehumidifier did not break down at all. We can call this the product quality ratio. If a budget dehumidifier has even better quality than that, that offering would benefit the customers more in the long run. Similarly if it breaks down more than three times a year it would be a bad investment. The business model with budget dehumidifiers have mainly been introduced by Lagako and the other suppliers have followed and added budget dehumidifiers into their product portfolios as well to retain market shares. Some indications have been disclosed to indicate that the Lagako budget dehumidifiers may have a better performance than the competing budget dehumidifiers. This has to be benchmarked more in detail to find out the true difference between the models. Anyway, while a threat from this substitute is existent, several factors also diminishes it. First of all a comparison has to be made between a professional dehumidifier and a budget dehumidifier to see what the product quality ratio is. It may be that the professional dehumidifiers can show better ratio numbers than the budget dehumidifiers. If this is the case this has to be communicated to the market by all the large competitors to let the customers understand that budget dehumidifiers, although cheap, will be a more expensive investment. If the product quality ratio is equal the competitors may need to improve the quality of their own budget dehumidifiers and take advantage of their size and distribution channels to compete against Lagako. If the product quality ratio is in favor for budget dehumidifiers the industry has to understand that this substitute poses as a big threat, especially in an industry where customers purchase based on functionality and not by brand name. The consequences will be eroding sales on small professional dehumidifiers while the budget market will increase. The competitors will have to extend their range of budget dehumidifiers and refocus. As we can see, the determinant in this equation is the product quality ratio. This means that one way to compete against this substitute is to improve the product quality of the professional dehumidifiers without increasing the prices, which would increase the product quality ratio. Another factor that would diminish the threat of budget dehumidifiers is the presence of repair shops. These companies make their living on the service and repairs of dehumidifiers. They would most likely want to keep budget dehumidifiers out of the market and thereby also choose to not distribute budget dehumidifiers because it threatens the future of their businesses. This would mean that Lagako would find it difficult to partner with these repair shops/distributors. Consequently Lagako would need to have a more fixed-cost operation.
with direct distribution and larger sales forces. It also hinders them to gain market shares on their professional dehumidifiers as they would not possess the wide network of repair shops that is needed. Depending on the circumstances, entry to indirect rental channels could be easier for budget dehumidifiers, but barriers also exist here. The rental companies usually want to have good quality products to get satisfied customers. Even if the product quality ratio would be equal between professional dehumidifiers and budget dehumidifiers, this will not be apparent to the end-users renting the dehumidifiers. They will experience more break downs and this may not be what the customer nor the rental company wants. Because drainage dehumidifiers stand for such a small amount of the total revenues for a rental company, the rental company may not want to risk to upset and lose customers because of more frequent break downs on drainage dehumidifiers. One Manager for a Rentut depot was for instance very keen on declaring that they would not purchase budget dehumidifiers as that would not fit with their brand's quality ambitions. The rental companies could also get increasing logistic costs as there will need to be more deliveries to and from the construction site with the increasing amount of breakdowns. If these logistic costs are on a fixed tariff with the logistic company that the rental company is using these costs can add up and make the budget dehumidifiers valueless in the long run. To secure the future of professional dehumidifiers it is evidently important to have a wide network of repair shops that can assist the rental companies with their drainage dehumidifiers. "The dehumidifiers are as good as they are serviced", as the chairman of the Jiffa organization stated in one of the interviews. This seems to hold true when analyzing which rental companies that have introduced budget dehumidifiers to their product range. Epeo is one example, which have a policy to repair their own dehumidifiers. As they are not very good at it many project managers in the Epeo organization have been unsatisfied and rented dehumidifiers from elsewhere, although not actually allowed to. This may have led to Epeo purchasing budget dehumidifiers instead to counter that trend. In turn, Mofi has tried to give more educational seminars to Epeo to improve their ability to service the dehumidifiers. This means that rental companies that want to service and repair their own dehumidifiers need to be educated better from the suppliers, in a way to counter the threat of budget dehumidifiers.
5.5 Positioning & Pricing

*Telcho should capture an unoccupied position in the fair value zone of the premium segment, priced lower than the competitors.* The positioning statement: *To professionals that do not have time for any downtime, Telcho is a drainage dehumidifier that will help reducing your risks, so that you can focus on what you are best at. Equal to the best drainage dehumidifiers on the market, Telcho can offer you the same product for half the weight and for a considerably better value. Initially, when entering the market, Telcho should use a price penetration strategy.*

Because of Telcho almost being absent from the market for the past years the positioning of Telcho is seemingly unclear. Although the products are pretty much capable of performing as good as the competitors according to the Product Manager, the brand seems to rank considerably lower than the competition in the premium segment. This is most likely because of Telcho’s history and the inability to deliver on its brand promises once it was placed in the Koddi organization. Because of lack of dedication, not much active marketing has been going on and many people would probably not even know that the brand is still existing. Theory suggests that three strategic choices can be chosen from when positioning an offer. Considering the history of the brand, Telcho should choose to *grab an unoccupied position*\(^52\) on the market. There is a good opportunity to do this as the three large competitors have been sharing the market between themselves and set high profit margins on the Swedish market. Although customers in the mining segment are quite price insensitive the same does not hold for the construction segment where some sensitivity can exist after the initial requirements of product quality and availability is met. Particularly rental companies seem to think that price matters. This opens up an opportunity for Telcho to capture an unoccupied position in the fair value zone of the premium segment, priced lower than the competitors, see figure 5.2.

5.5.1 Positioning Statement

To communicate the brand positioning a marketing plan should also include a positioning statement. This will help customers understanding why they should choose Telcho and also help the business unit in its activities. A positioning statement should follow the format:

To (target group and need), our (brand), is (category membership) that (point of difference).

For Telcho a positioning statement as follows would sum up the desired position that Telcho seeks to occupy.

To professionals that don't have time for any downtime, Telcho is a drainage dehumidifier that will help reducing your risks, so that you can focus on what you are best at. Equal to the best drainage dehumidifiers on the market, Telcho can offer you the same product for half the weight and for a considerably better value.

We are first declaring which segment we are targeting and propose that we know their needs. We then take category membership (POP) and at the same time try to enhance the image of Telcho by saying that it is equal to the best drainage dehumidifiers on the market. Finally we present how our offering differs (POD) by pointing on the lower weight and the better value which means that we are priced lower than the competitors.

5.5.2 Pricing

The proposed pricing strategy is called *competitive pricing*\(^{54}\), this is when the price is decided based on competitors' prices on the market. Because of the commodity factor of drainage dehumidifiers and that all the competitor models are similar to each other, these markets tend to compete more on price. As Porter suggests, an industry characterized by little difference in product offerings would be a typical *cost leadership* industry\(^{55}\). Note that when the term competing on price is used, this means within the premium segment and not within the overall market. As neither Telcho's history nor current perceived position is favoring a premium pricing, Telcho’s chances to be able to enter the market and set the same prices as the three large competitors is slim. Instead the option becomes to compete on price within the premium segment. This strategy leads of course to that Telcho will contribute to the decrease of the profit margins for the drainage dehumidifier industry if the competitors decide to reduce their prices too, but will at least give Telcho a good chance to enter the market and increase its market share. As the profit margins have been set quite high in Sweden Telcho could still make a good profit even if priced lower than the competitors. Another factor in favor of this position is that the competitors all think that margins will drop in the future and that price will matter more and more.

5.5.3 Market Entry

To be able to reposition itself from its current position Telcho has to gain market entry and demonstrate that Telcho dehumidifiers are as good as the competitors dehumidifiers in the premium segment. Strictly communicating it with promotions or leaflets will not be sufficient, the dehumidifiers must get out on the market and prove its qualities to the customers. Telcho has to act as the *market challenger*\(^{56}\), which Kotler describes as "The trailing company that competes aggressively to extend its market share". The next step will be to decide who to attack. As the entrance to the construction segment is vital Mofi will be the key competitor of Telcho. Mofi is the largest player in the construction segment, utilizes a similar strategy as proposed for Telcho with a large network of outsourced repair shops/distributors and has a unique position with the largest customer in the construction segment, Rentut. Depending on the level of dedication and resources available to enter the

drainage dehumidifier industry, Baffin Delker should engage in a head on frontal attack or guerilla warfare. With a frontal attack Baffin Delker should match its opponents' product, advertising, price and distribution. With a strong financial organization Baffin Delker can compete long enough to succeed with this kind of attack. A smaller entrant would either run out of money or be outcompeted by the competitors as they would begin selling their products under the entrants price until the entrant chose to exit. This is something that Baffin Delker can counter with their size and strong financial organization. The importance of getting the products out on the market is also corroborated by promotional theory which states the same for industries with low customer involvement and highly rational buyers, which is true for the drainage dehumidifier industry.

For the brand challenger, research suggests that the best way to change habit is to force new behavior. Free offers, samples, price cuts and other promotions are better than advertising for such a task. Once people have successfully tried the brand, cognitive dissonance theory suggests that customers may change their attitudes to make them consistent with the new behavior.57

Consequently, in the initial phase, a price penetration strategy should be adopted. As theory explains:

Price penetration is when the company sets a low initial price in hope to acquire new customers, raise market share and sales volume. The sacrifice is the short term profit but the upsides are a fast adoption of the product as well as word of mouth. The price is then gradually increased.58

In doing so customers will get to experience the dehumidifiers and see its qualities and capabilities. This will lead to an improved image of Telcho which will increase its position from the current to the future as shown on Figure 5.2. Telcho can then increase its prices accordingly to match its new position. One important factor is to not deviate from the price competitive position in the future, even if market shares have risen. The brand needs to fulfill a meaningful position on the market and stand for something unique. Just like the automobile brand Lexus is competing on price within a premium segment Telcho should

stand for something that can be promised to the market over a longer period. This is particularly important as the brand has had an uneven history in the past.

5.6 Distribution & Aftermarket

As the initial target segment will be the construction segment a distribution strategy has to be chosen. As construction companies prefer to rent and 60-70% of the sales comes from sales to rental companies, Telcho has to grow in the rental sector. Because of numerous reasons Telcho should not compete against rental companies with its own rental service but should instead use indirect rental channels to target the construction segment. In doing so the needs of these rental companies have to be met. Beside product quality and availability the rental companies will require local repair shops in close proximity to their depots and/or service centers. Therefore Telcho has to extend its network of aftermarket services in Sweden by finding new authorized repair shops. This will also make it easier to sign distribution deals with the rental companies when Telcho can show that they have a nearby repair shop in the area. By extending the amount of repair shops Telcho will automatically also acquire more distributors, this is due to repair shops also functioning like distributors. These distributors can further increase revenues by selling drainage dehumidifiers to local construction companies and the "Others" segment.

Construction

In the construction segment, sales via rental channels stands for approximately 60-70% of the revenues, this has been growing past years and is predicted to continue to grow in the future. The important decision of entering the rental channel directly or indirectly has to be made. Telcho should enter via indirect rental channels and thus not compete with large rental companies such as Rentut, Falisa and so forth. There are numerous factors for this. Most importantly these rental companies are already distributors of other products of the Medex division. By competing with them on drainage dehumidifiers it would a.) not be worth it financially, and b.) damage relations which would affect the whole business unit of Medex division. Why statement a.) is true is because having an own rental service demands higher resources dedicated to logistics, which is not present today. Both Disep and SWA have service centers where the rental service has its hub and personnel. Fixed-costs would therefore definitely rise if Telcho were to introduce its own rental service. Another issue is that many large construction companies tend to sign contracts with rental companies such
as Rentut and Falisa. This would definitely act as a barrier in the future. Although only Rentut has set sanctions against Disep and SWA for competing against them, this could change in the future with other rental companies following the same path. This poses as a risk and therefore the conclusion is to use the indirect rental channel when targeting the construction segment. As of today, because of the sanctions set by Rentut, this large rental company do not have much choice than choosing Mofi drainage dehumidifiers. The option of having a A/B supplier relationship is not available for Rentut as both Disep and SWA are competitors to them with their own rental service. As this is the rental company with the least channel competition initial efforts should be directed to secure a B supplier status for Telcho with Rentut.

As the rental channel will be vital, the needs of rental companies will have to be met. Rentut for instance has a service center in Stockholm where all its dehumidifiers in Sweden are sent to. Rentut will require a competent repair shop in the Stockholm region to help them repair the dehumidifiers. Though Rentut has a central service center in Stockholm, many of the other rental companies use local repair shops to service and repair their drainage dehumidifiers. As of today Telcho barely has any authorized repair shops/distributors in Sweden, a major difference compared to the competitors. The choice of doing it in house or to outsource depends a lot on factors such as; the type of product, customer needs, value of the aftermarket, potential volume etc. In this case the product is a relatively inexpensive, which makes each service or repair relatively invaluable. Consequently, having own service technicians traveling to the construction sites would be too expensive. The customers need a local repair shop to reduce their downtime. Even if their dehumidifier cannot be repaired instantly they can at least get hold of a replacement dehumidifier for the time being. If this is to be done in house, Baffin Delker would have to have numerous amounts of repair shops throughout the country, which they do not, they have a couple of service centers. Although the value of the aftermarket is fairly good the volumes to sustain a profitable business will not be present unless the company can service and repair many different types of dehumidifiers, like Disep and SWA. If Mofi finds it unprofitable to have a service center and service and repair the dehumidifiers themselves, Telcho will definitely experience the same situation. The aftermarket services should therefore be indirect and outsourced to local repair shops throughout the country. By signing contracts with these repair shops Telcho can
offer a greater level of security for the rental companies. At the same time it will also be easier to sign distribution deals with the rental companies when Telcho can show that they have a nearby repair shop. This reasoning is particularly important if Telcho wants to enter the rental companies of the Jiffa association where proximity to a repair shop was an important attribute for most of the companies. By extending the amount of repair shops Telcho will automatically also acquire more distributors. This is due to repair shops also functioning like distributors. These distributors can further increase revenues by selling drainage dehumidifiers to local construction companies. When choosing which repair shops/distributors to partner with Telcho should use a selective distribution strategy\(^{59}\) where "The manufacturer aims to have a large geographical spread, but to restrict it sufficiently to be able to select motivated, knowledgeable dealers". In addition the repair shops/distributors should be spread in such fashion that they do not cannibalize on each other's territories, which could lead to less motivated dealers as stated in one of the Mofi interviews. Finally the sales force can also be utilized to sell the dehumidifiers directly to the end-users. When doing so they should of course target large construction companies, preferably existing companies within the Medex division. As the rental channel constituted for 60-70% of the revenues, the remaining 30-40% comes from the distributors and the sales force selling the drainage dehumidifier to end-users. It is important to separate end-users renting dehumidifiers and end-users purchasing dehumidifiers.

**Others**

Besides selling drainage dehumidifiers to construction companies, distributors are also selling dehumidifiers to the "Others" segment. So, by signing contracts with the repair shops with the intention of meeting the needs of the rental companies Telcho can further increase its revenues when these repair shops/distributors sell Telcho dehumidifiers to the "Others" segment.

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5.7 SWOT

*SWOT analysis from Telcho's point of view.*

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<tr>
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<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
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<td>• Insufficient amount of repair shops</td>
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<td>• Financially strong organization</td>
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<td></td>
<td>• Leveraging on the Baffin Delker brand name</td>
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<td><strong>External</strong></td>
<td>• Chance to seize an unoccupied position</td>
<td>• Budget dehumidifiers</td>
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<td>• Slow growth industry</td>
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Figure 5.3. SWOT analysis from Telcho’s point of view

**Strengths**

Telcho has an advantage compared to its competitors by having dehumidifiers in the small dehumidifiers range that weighs considerably lower than the competitors’. It has a financially strong organization which can support its market entry without running out of money. The drainage dehumidifiers have great synergy potential with the Medex division. Thanks to the Baffin Delker organization synergy potential is also available with the MT division. Telcho has a great opportunity of signaling a turnaround by leveraging on the Baffin Delker brand name.

**Weaknesses**

The distribution and aftermarket networks are undeveloped. The brand image of Telcho has suffered because of its history. Lead times have been and are too high on small dehumidifiers and spare parts.
Opportunities
Telcho has the chance to seize an unoccupied position on the market.

Threats
The budget dehumidifiers category is a threat and should be monitored. The slow growth of the industry will affect the market entry and make it harder to increase market share.
6. CONCLUSIONS AND RECOMMENDATIONS

In this chapter we will discuss key strategies and requirements that have to be fulfilled for a successful reentrance of the Telcho brand into the Swedish market. The main goal with this business plan will be to increase market share and establish the Telcho brand as a credible offering on the market. The recommendations are written in a chorological ordering as they are interrelated and prerequisite previous recommendations to have been fulfilled.

Rebrand the offering and leverage on the Baffin Delker brand

The Telcho brand has had a difficult past and failed to deliver on its brand promises. The brand needs help to regain credibility on the market. Baffin Delker should brand the new offering as a sub-brand ("Baffin Delker – Telcho Line Dehumidifiers") and let the brand image of the stronger Baffin Delker brand spillover on the Telcho brand and at the same time signal to the market that a change has taken place. Baffin Delker has to enforce the new brand name in all its communication with the market and make sure that the correct name is used in the distribution channels.

Reach parity level on key needs and enforce the low weight of Telcho’s small dehumidifiers range

Customers in the construction segment have two key needs which have to be met in order to consider a new offering.

1. Product quality
2. Minimum downtime (Availability)

Today, Telcho is not able to meet these needs. Its product quality is ranked less than the competitors’ and its undeveloped distribution/aftermarket network leads to high downtimes compared to the competition.

To increase product quality Telcho has to:

1. Initially do whatever it can get the dehumidifiers out on the market with a price penetration strategy. Convince the market that the dehumidifiers are equal to the competitors regarding product quality. Much of the bad brand image have come from the incompetent management of the brand throughout the years and not necessarily from actual product quality.
2. In the long run develop the product to match the competition.

To reduce the downtime for customers Telcho has to:

1. Outsource and expand its service network and acquire authorized repair shops throughout Sweden. As repair shops also function like distributors this will further reduce the downtime for customers by increasing the availability of the product.
2. Keep a stock of small dehumidifiers and frequently used spare parts to be able to deliver to any repair shop/distributor within one day (two days to Northern Sweden). Being able to keep this lead time is one of the most vital points for the success of Telcho.

If the needs of product quality and minimum downtime are met, customers in the construction segment value low weighted drainage dehumidifiers. Telcho's small dehumidifiers range weighs 28-92% less than comparable models from competitors. It is very important that this benefit is communicated to the market.

**Target the construction segment**

The construction segment constitutes 45% of the total market. It is also the segment which has the most synergy potential with the Baffin Delker Medex division.

**Target the rental channel within the construction segment, focus on Rentut**

For multiple reasons construction companies prefer renting drainage dehumidifiers instead of purchasing them. Hence, approximately 60-70% of the sales in the construction segment comes from sales to rental companies. Of all rental companies Rentut will be the key customer. They are the largest and have actively set sanctions against Disep and SWA for competing with their own rental service. Rentut is stuck to Mofi and does not have an opportunity to acquire a B-supplier to its desired A/B supplier relationship. Rentut will require a trusted repair shop in the Stockholm region that can help them with service and repairs.

**Expand to new rental channels, take advantage of the expanded aftermarket network**

By having expanded its aftermarket network, Telcho can leverage on this when increasing its presence in the rental channel. Both local rental companies as the Jiffa companies and
companies like Falisa with regional service centers value the closeness of repair shops to their depots and service centers.

**Use sales force to target existing end-customers and large construction companies that purchase dehumidifiers**

To reach the remaining 30-40% of the construction segment that purchases dehumidifiers the sales force should be utilized to target existing end-customers within the Medex division and larger construction firms. Thanks to the expanded aftermarket network, Telcho will also get sales revenues from these companies, as repair shops also act like distributors.

**For the next phase; synergize with the MT division**

If a successful entry to the construction segment has been made, an extension into the mining segment could be considered. As the customers in the mining segment are conservative and require high quality standards from the dehumidifiers an extension can only be possible if these needs are fulfilled. By having distributed and grown in the construction segment the Telcho dehumidifiers will have raised its credibility and perceived quality. To overcome the conservatism, a highly dedicated effort is needed by the sales force. Co-visits with the MT sales force will help getting a foot in but an active effort is then needed to fully enter and retain the mining customers.

**6.1 Final Thoughts**

Much of the decline of the Telcho brand seems to have been caused by bad management and lack of interest in the past. If managed properly this time, Telcho has all the potential to increase its market share and be a strong player on the Swedish market again.

"Nothing great will ever be achieved without great men, and men are great only if they are determined to be so." ~ Charles De Gaulle
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**Interviews**

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