Market Potential Narrative

Chapter 2
## Inhoud

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1 Livability

The starter, as determined as a target group for Celcius, concerns a single person aged 22 to 30 years and a young couple aged 26-35 with a small child. A home for a 22-30 starter may be smaller than the young couple with the child. Only the available mortgage is a lot lower than with double earners.

In principle, all requirements that a starter has regarding the purchase of a home can be divided into three categories:

1. Functional and spatial requirements

These requirements mainly focus on the functions of the house. Which municipality is the house built? What are the distances to, for example, a primary school, supermarket or public transport? What a house should have at least is a kitchen, living room, bedroom with space for a double bed and a toilet? All areas must also be approached independently of each other. A toilet should therefore not only be accessible via a bedroom. Because ventilation is mandatory in houses, all bedrooms must have an opening to the outside of at least one eighth of the floor area of that room. The bedroom must be at least 6 square meters. The kitchen must be at least 5 square meters. The village starter is looking for a home with at least 2 bedrooms and preferably even 3. The urban starter is already satisfied with a small studio. The starter who considers sustainability important is enthusiastic about a small sustainable home. The Celcius house meets all these requirements.

2. Material requirements, shape and style of the house

At Celcius, the shape and style of the house is reasonably fixed within the current design. The house has all areas on the ground floor. The shape is also fairly standard, rectangular with a flat roof. The starter must therefore be willing to agree to this. Brokers indicate that in terms of appearance the 1930s home is popular. The interior must be well finished, most people do not need to renovate. Mainly the kitchen and bathroom must be finished.

3. Technical demands

These requirements are aimed at technical aspects of the home. These are very attractive for Celcius' homes (61 percent of starters demand an energy-efficient home in 2018). Although the majority of starters demand an energy-efficient home, this requirement will not be met in the popular cities mentioned earlier in starter competition. 94% of people who want a sustainable home want it to be able to lower their energy bill. An advantage of this is that the monthly costs will fall and therefore the mortgage costs can be paid more easily.

4. Financial requirements
The research has shown that this target group faces a lot of problems when purchasing a first home. Due to the introduction of the loan system and the stricter rules regarding mortgages, it makes it almost impossible for a single starter from 22 to 30 years old to get a house in a large city. In addition, about 3 percent of the value of the home has to be paid from equity, and that money is often not available. House prices have also increased enormously in recent years and the price of land is also rising. Demand is increasing because the target of the annual new-build homes is not being achieved and because the population is increasingly aging or single. Celcius' house meets the requirements of the starting sustainability is a nice wow factor that they cannot get anywhere else.
2 Market Analysis

2.1 Young professionals
The current number of the Dutch young professionals, people between the age of 20 and 35, consists of 3,500,000. This part of the Dutch population is the most attractive segment to look at for the Celcius House. Therefore, the Abell matrix is a useful model to gain insight in the position of a company in the market and to implement the company’s strategic management on certain changes that may occur in the future. (deloitte.com, sd)

In short, by applying the Abell’s matrix, the business scope of operation can be defined. This model consists of three ashes which are customer needs, customer groups, and technologies. Every factor of this model will be clearly explained to find out how Celcius could implement their strategy based on the current trends.

Customer groups

Celcius’ target, young professionals, is divided in three sub segments which are young couples that have finished their studies and want to live together, young singles that have finished their studies and want to live by themselves, and young couples that just started working and are planning on having children. These segments are characterized by the same lifestyle and interests. Each customer group needs to be served differently to fulfill their wishes. In order to do this successfully, it is important to look at their specific needs.

Customer needs

Among the young professionals, there are some needs that all sub segments have in common. The most common needs young professionals are demanding are: safety, innovation, sustainable, environmentally friendly, affordable price, and comfortable.

Besides these common needs, Celcius needs to be aware of the specific needs of the sub segments.

- Young couples that have finished their studies and want to live together.
- Young singles that have finished their studies and want to live by themselves.

The biggest priority for these segments is paying a house that is affordable and provides enough space. As this house will not be the last house that they will buy, they are not demanding many additional features.

- Young couples that just started working and are planning on having children.
This segment, values adjustability the most as they may want to expand their family, have a pet or may need an office in home at a later stage. For this reason, it is important for this customer group to have enough space and they like to have the ability of expanding this. Another need is the technological features of the house. This will make their live environment much more comfortable as they have sufficient knowledge of technology. Moreover, as they have a child, the need for safety needs to be fulfilled in an outstanding way. This segment needs to be considered as the most relevant target for the Celcius as this group will perceive the value of the house regarding features and costs the most. Moreover, it could be the house that they will live in for the biggest part of their lives. The Celcius House could be the perfect solution for this target. (conductor.com, sd)

Technology
Regarding technology, the Celcius House needs to have sufficient knowledge to provide customers the most innovative features. These features could consist of a battery charger for electric cars, solar panels, or technology regarding the adjustability of the house. The technology should be used effectively to address the needs of the customer groups Celcius is aiming at. This means that the usage of sustainable material is very important. Moreover, it is important to keep up-to-date with recent technology developments. For instance, by applying a new technology development, the battery capacity of charger for electric cars could be expanded.

The Celcius House has an attractive position in this market regarding opportunities. The market growth shows an attractive increase among the topics sustainability and environmental friendly. This means that the interest towards products that include this, increases. The market where the Celcius House is aiming at, is interested in the possibility of adapting a house to their own wishes in a sustainable way. This means that the Celcius house has the potential to become successful. As every need will be taken into account, the Celcius House is able to be the solution to many young professionals.

2.2 Young professional with children
The age group for the children has been set at 0-11 years old. According to CBS, there are 692.466 households with small children (0-11 years old) in the Netherlands. Their average income is 34,7 thousand euros per year. Most families (149 thousand in total) make less than this, between 28 and 30 thousand euros per year. The market growth at the moment does not have a lot of potential, because of the Corona crisis many people have been without a job for at least a few months. The percentage of people aged 15 to 75 in paid employment fell from 69.3 percent in February to 67.9 in April. Household consumption also fell by 6.7% in March 2020 compared to last year. According to CBS, consumers are still reluctant to spend large amounts. Young families with small children are often moving away from expensive cities such as Amsterdam. High house prices are a major cause of the moving of families. They
cannot afford a larger house in the city, with enough rooms for the children. In addition, many parents consciously choose a future outside the city, with more space and hopefully even a garden. Almost forty percent of families who want to move indicate that they currently have fewer rooms than family members. Couples are always more prone to moving just before or just after a child is born. The wish: a home with financial security, in a safe and green living environment for their children. Previous research shows that the preferences of families with regard to living in a city have hardly changed in the last decades; that demand has always been large. But, as previously mentioned, a city with very high living costs is often the motivation for families to move.

So, where do these families want to live? The answer is: in a city, but not in the centre. Living in the city offers several advantages for a family with two working parents. Facilities such as day-cares are often close by and you can easily move between work, childcare, school and home. The expensive costs of living in the centre are decreased, but the benefits remain almost the same. As can be seen in the graph to the left, the percentage of families wanting to move away from the city centres (in the four largest cities in the Netherlands: Amsterdam, Rotterdam, Den Haag and Utrecht) grew steadily for many years. In 2015 almost 50% of all families wanted to move away from these city centres.
3 Buildability

Living is a fairly conservative industry. Developments develop slowly. However, the perspective is changing and will change more in the upcoming years. Due to climate change, globalization, changes in family situations and an inevitable economy crisis due to corona. There are a lot of aspects to change the way you live. Tiny houses seems to fit a lot of the changing aspects and expectations on the area of living. The biggest trends on the housing market are explained below.

**Smaller:**
A big trend on the housing market: we are going to live smaller. In 2005, the average living area was 126 square meters of housing. Nowadays this has declined to 114 square meters of housing. Remarkable is the fact that homes with an area of less than 50 square meters are becoming increasingly popular. Due to the fact that there are a lot of single-persons households in the Netherlands (currently 3 million), which will only increase according to CBS. Also people agree to live smaller if they can live closer to an urban environment with all the facilities nearby. Popular is living determined by the space that people really use.

**Cheaper:**
Living smaller is way cheaper. Due to the fact that a lot of people are single or want to live in the city a smaller house is better. People are not tied to an expensive mortgage and a smaller house means less upkeep. For example; you need less space to keep warm and luminous, so it is very energy efficient. The compactness of a smaller house also keeps people from buying too much stuff.

**Environmental friendly**
People also choose for less living space because of the environment. Do we really need 114 square meters of housing? Keeping this space warm and maintained brings a lot of costs that are often not necessary. There will be a lot of change in the field of energy supply. Energy sources becoming depleted, prices are rising and people are looking for energy alternatives. The fast developments of energy supply, will lead to taking more care of our own energy supply at house. There is a revolution in energy saving and climate adaption and everyone knows you cannot deny the facts anymore. There is more focus on energetic improvements in the housing stock than ever before and people feel a social pressure to contribute their share. Almost every tiny house contains energy-generating and environmentally solutions, which keeps the ecological footprint very limited.
4 Market Potential Innovation

Celcius consists of a team full of students from different studies who are joining forces in order to make a real impact regarding changing the world for the better. Unfortunately, there is a lack of information about Celcius regarding Corporate Social Responsibility. However, we do know that Celcius is deeply engaged in minimizing global warming and hence the environment in general. This means that the company is aiming for minimizing its ecological footprint.

The future of Corporate Social Responsibility (C.S.R.) mainly includes topics such as sustainability, running out of resources, the ecological footprint, and ethics & immoral behaviour. Ultimately, C.S.R. could be very beneficial, especially if C.S.R. strategies are well-applied. Key CSR issues are: environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labour standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures. (Unido, 2019)

Regarding sustainability, two sustainable segments are likely to be interested in Celcius’s housing: the sustainables (embracing a green lifestyle), and the critical citizens (conscious consumers). Regarding the ecological footprint, Celcius could use various easy and actionable ways to reduce their carbon footprint: go paperless, get green web hosting, recycle your e-waste, and work from home. By doing so, the company not only impresses its customers, it also saves a lot of money. (Wells, 2019)

Ethics in the (sustainable) supply chain is also of greater importance for Celcius. Celcius could do the following to manage this:

1. Reduce waste by simplifying supply chain processes
2. Ensure ethical sourcing and introduce transparency
3. Minimize overproduction through efficient supply and demand planning
4. Decrease fossil fuel consumption by optimizing routes
5. Fully utilize containers and transportation to consolidate shipments
6. Monitor for existing environmental risks

As consumers are getting more conscious about their purchases and expect organizations to meet a certain set of ethical standards, it is considered very important for Celcius to take the aforementioned steps. (Johar, 2019)

A McKinsey report on sustainability shows that more than 90% of the damage caused to the environment comes from the supply chain. Additional approaches to improve sustainability in supply chains:

- Locate critical issues across the whole supply chain
- Link supply-chain sustainability goals to the global sustainability agenda
- Assist suppliers with managing impact - and make sure they follow through

(Swartz & Bové, 2016) (van Niel & Burioni, 2019)
Celcius currently employs the following C.S.R. strategies:

- Sustainable product development (sustainable housing = sustainable materials)
- Focus on sustainable lifestyles

For SMEs such as Celcius, a properly implemented C.S.R. concept can bring along a variety of competitive advantages and opportunities such as improved brand image and reputation hence increasing competitiveness, and innovation capacity.

It would be recommended for Celcius to highlight their sustainable character within the brand identity (brand values, branding). However, the main recommendation is to not only talk about your own company's sustainable values, but to serve the consumer in achieving difference on their own as many consumers are open to making a difference, however, they just need help.

Current trends and developments in the housing or real estate industry in the Netherlands are essential for the company to understand in order to successfully enter the market.

**Trend #1: Home prices are still rising slowly**

In April 2020, the home prices rose with a small percentage of 0.6% compared to last year when there was a growth of 4%. This slow growth is essentially due to the COVID-19 virus and market uncertainty. However, in May 2020 the growth rate was 3%, so the home prices might be gaining to a certain level. For Celsius it is important to take a look at the prices of competitors and to keep these facts in mind during the process, especially in the pricing stage.

**Trend #2: Mortgage interest rates are low**

Mortgage interest rates have been trending down—even before the pandemic. In May, the average interest rate for a conventional 15-year fixed-rate mortgage to 2.69%—the lowest it's been in over seven years. If interest rates stay low, buyers will be more motivated to buy our home sooner than later. But if interest rates do start to increase later in the year, we will have to just plan for our house to be on the market a little longer.

**Trend #3: Equity is unlikely to decrease through 2020.**
With most housing markets at low risk for a downturn, the 2020 Housing and Mortgage Market Review estimates home prices will continue to rise for the next couple of years. Which is great for sellers. If we sell our house before 2023, we’ll likely still make a nice profit. We will have to continue to monitor how much our home is worth to make sure our equity (what your home is worth minus how much you owe on it) is going up. (Ramsey, 2020).

Dutch residential real estate had a total worth of over 1.7 bln euros. This is over 3 times the Gross domestic product (GDP) of the Netherlands and over 4 times total household savings. Experts such as the Dutch Central Bank as well as the rating agency Moody’s expect house sales and prices to show a further increase in the following years. A growing number of households leads to increasing housing demand in the medium term. (Overheid, 2020).