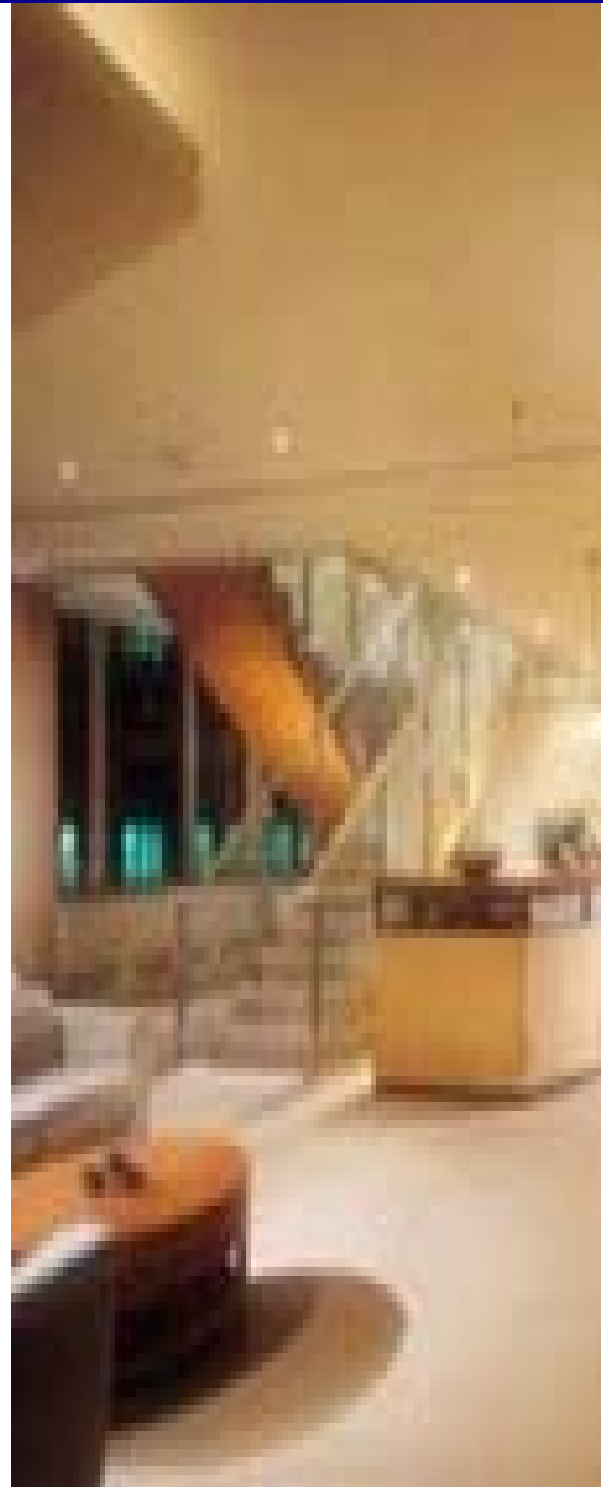




Quick Facts from
MIDNIGHT CROQUET

**Office Furniture Market in
Germany**

A Quick Facts
from Midnight Croquet
August 23, 2002





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Market Overview

"Office Furniture" defined

Office furniture, for the purpose of this report, refers to all types of furniture demanded by corporate and small / home offices.

It includes the following product segments:

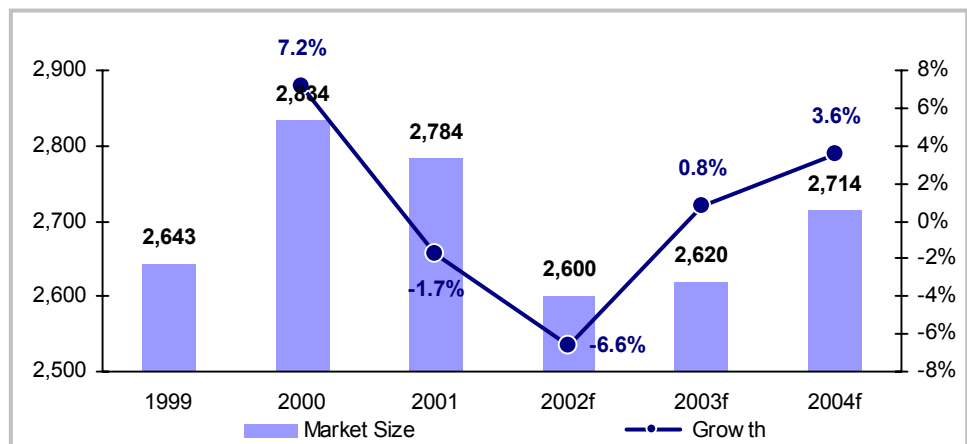
- Storage / Filing Systems
- Desks
- Seating, i.e. Chairs
- Conference and Occasional Tables

Office furniture can be made of wood, metal or plastic materials and be covered by textiles, leather or micro fibres.

Size and Growth

The office furniture market in Germany (hereinafter referred to as 'market') notched up combined sales of € 2,784 million¹ in 2001. However, this represented a contraction of 1.7% over the previous year's revenue of € 2,834 million. Figure 1 tracks market size from 1999 to the present, with a forecast till 2004.

Figure 1: Market Size (€ million) and Growth (%) Over Previous Year, 1999-2004^f



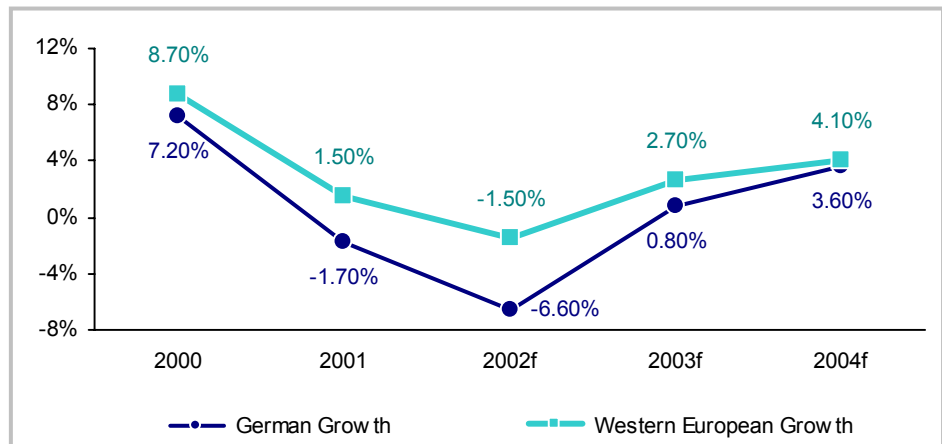
Source: InterConnection Consulting Group, Vienna

Shrinkage Due to September 11 Events

This contraction can largely be explained by the economic crisis following the terrorist attacks of September 11, 2001. These attacks resulted in recessionary conditions the world over, characterised by reduced consumer spending and investor confidence resulting in rising unemployment and production cuts.

This is also evident from Figure 2, which compares market growth rates with those of Western Europe to illustrate this. As it shows, the German market is only mirroring the Western European trend.

Figure 2: Market Growth Rates: Comparison with Western Europe, 1999-2004^f



Source: InterConnection Consulting Group, Vienna

The impact on the furniture market has been fairly direct. Overall, as with other industries, offices postponed expansion plans, delaying purchases of, *inter-alia*, office furniture.

Further, demand for work desks (see next chapter for more) fell as the job market got depressed. To exacerbate this situation, as cost reduction pressures mounted in the face of falling demand, desk sharing has risen in popularity.

The impact on swivel chairs, a premium item, has also been similar. This segment is suffering not only from a reduction in volume, but also from a price deterioration due to a shift towards cheaper products.

Storage systems and conference tables, however, constitute the only silver lining in these dark clouds. These segments continues to out-perform the market as a whole.

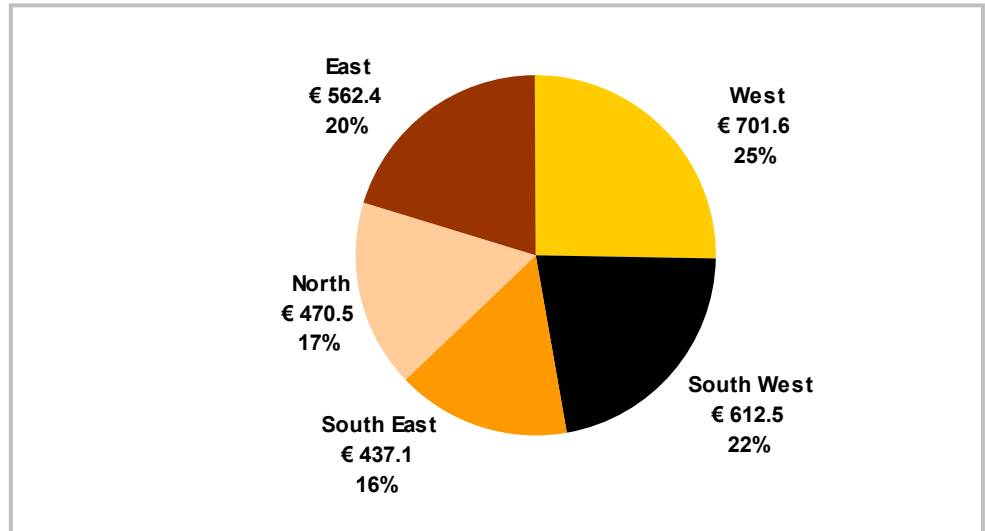
The next chapter contains more detailed information on these and other market segments.

Market Segments

Geographical Contribution

Figure 3 illustrates the revenue of different regions of Germany, as a proportion of the overall market.

Figure 3: Revenue Share Of Different Regions Of Germany (100% = € 2.8 B), 2001



Source: InterConnection Consulting Group, Vienna

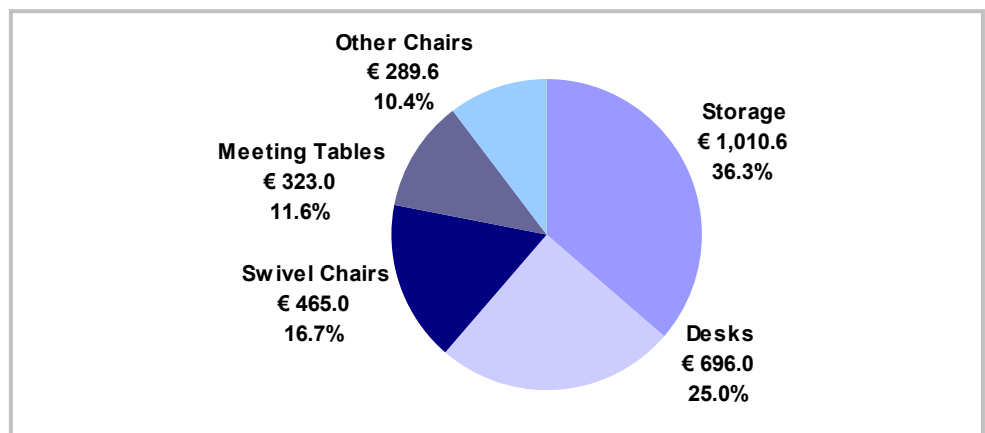
Product Segments

As mentioned earlier, this market has the following product segments:

- Storage / filing solutions
- Seating
- Desks
- Conference, meeting and occasional tables

Figure 4 shows the contribution of each to the entire market.

Figure 4: Product Segments by Revenue (100% = € 2.8 B), 2001



Source: InterConnection Consulting Group, Vienna

The following sub-sections briefly describe each of these product segments.

Storage / Filing Solutions

This segment includes cabinets, containers, separators and filing systems and is the largest segment within the market, representing 36.3% of it or € 1,011 million in 2001.

The segment is experiencing almost uninterrupted growth in demand and militates against the vision of a paper-free office. After 10.6% growth in 2000, this product group grew by another 2.8% in 2001. It is expected to shrink by only 0.1% in 2002.

Seating

This is the second-largest market segment, accounting for 27% of the revenue of the market in 2001, or € 755 million.

Of this, 62% of the sales in 2001, i.e. € 465 million resulted from swivel chairs, a segment facing a reduction in demand due to cost pressures upon buyers.

Desks

This is the third-largest segment and accounted for 25% of the total market in 2001. This corresponds to a market value of € 696 million.

This segment, though the worst hit by the September 11 events, is expected to develop dynamically in the future. Trends such as job-sharing, tele-working and team projects are likely to foster the development of newer and more flexible products such as modular and mobile systems.

Conference, Meeting and Occasional Tables

This is the smallest segment of the market, yet is the only one other than storage systems that is not shrinking.

Distribution Channels

Distribution may be:

1. Indirect distribution
2. Direct distribution

Indirect Distribution

Suppliers can sell their goods indirectly through:

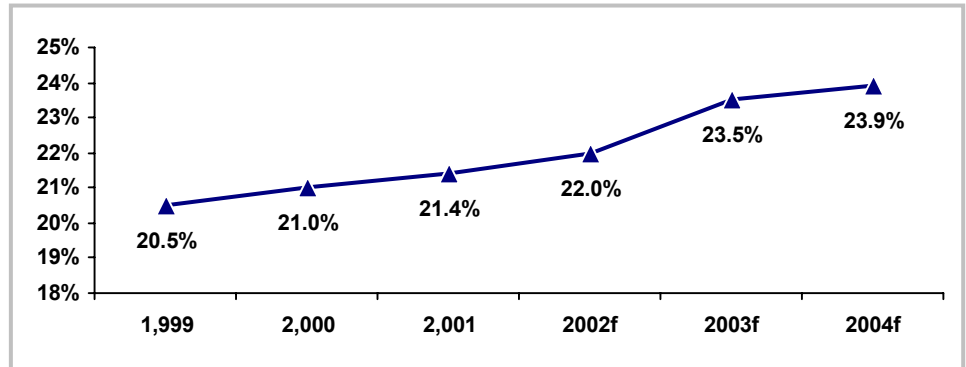
- Independent traders
 - Importers (in the case of foreign suppliers)
 - Wholesalers
 - Retailers
- Sales agents such as
 - Commercial representatives
 - Commission agents
 - Exclusive representatives (independent dealers)

Nearly 80% of all office furniture sold in Germany is put on the market by distributors.

Direct Distribution

In the case of direct distribution, manufacturers supply the goods without any interference by the trade, directly to the end user.

Figure 5: Proportion of Direct Sales in the Market, 1999-2004^f



Source: InterConnection Consulting Group, Vienna

Worldwide, direct sales are on the rise and Germany is no exception. Figure 5 traces the proportion of direct sales to total sales in Germany from 1999 to 2004 (forecasted).

Overview of Key Players

The following producers have been briefly profiled here:

1. Samas Groep
2. Steelcase
3. Dauphin
4. Licentia Group
5. K&M Moebel AG
6. König+Neurath AG
7. Mauser Waldeck AG
8. Armstrong DLW AG
9. Schultz Einrichtungen KG
10. Wilkhahn AG (Wilkening + Hahne GmbH & Co)
11. CEKA Büromöbelwerke GmbH & Co. KG

Samas Groep

Samas-Groep is an international company focusing on the European furniture markets. Turnover for 2001-2002 was € 0.5 billion, down from € 1 billion a year earlier.

Samas-Groep's first business outside the Netherlands opened in 1984.

The Samas Groep has several operating companies in Germany:

1. Samas Deutschland AG& Co. KG
2. schärf Büromöbel GmbH
3. Fortschritt GmbH
4. Drabert GmbH
5. Martin Stoll GmbH & Co. KG

Samas Deutschland AG& Co. KG

Samas Deutschland AG& Co. KG is one of largest manufacturers of office furniture in Germany. It also distributes a comprehensive range of desk-top, storage and seating furniture for offices.

The company has manufacturing operations in Germany, Switzerland, Poland, the Czech Republic and Hungary and sells its products through a network of dealers.

schärf Büromöbel GmbH

This company is also among the largest manufacturers of office furniture in Germany and sells its products via dedicated dealers

Fortschritt GmbH

Established in 1901, Fortschritt develops, manufactures and markets a comprehensive range of office furnishings. Its products include archive and workstation systems to storage elements and integrated partitions. Domestic sales are covered by a nationwide network of some 170 business partners.

Drabert GmbH

The company specialises in the design of ergonomic seating. Drabert has three separate product lines focusing on the three main activities within the office: the

workstation, communication and meeting areas. In Germany, its products are sold via specialised dealers.

Martin Stoll GmbH & Co. KG

The company sells office chairs both nationally and internationally. To this end, it deploys specialised distributors alongside its own branch network.

Steelcase

Steelcase had a turnover (exclusive of taxes) of € 0.7 billion in 2001, up from € 0.5 billion in 2000. In Germany, it operates through Pohlschröder (Furniture and Furniture systems) and through Werndl (Modular wood furniture).

Dauphin

The company is one of the leading office seating manufacturers in the world. With revenues of € 200 million, it operates in Germany as F. W. Dauphin GmbH & Co.

Licentia Group

This is one of the largest furniture manufacturers in Scandinavia. Licentia A/S has five factories in Scandinavia and core markets in Scandinavia and Germany. Its customer base consists of major furniture chain stores (including Ikea) and 275 shop-in-shop outlets.

K&M Moebel AG

The company's principal activity is the manufacture and distribution of office, household, kitchen and bedroom furniture. It operates through two divisions: pre-assembled furniture and furniture flat-packed for 'do-it-yourself' (DIY) assembly.

The company supplies its products through large-scale retailers, the specialised trade, mail order businesses, self-service markets and DIY markets.

Sales in 2001 were € 228.4 million, a decrease of 10.9% from the previous year levels. Pre-assembled furniture accounted for 53% of 2001 revenues. Flat-packed furniture accounted for the balance.

König+Neurath AG

Established in 1925, the company is one of the leading German producers of office furniture. Sales in Germany are based on a network of 300 authorised dealers, supported by regional sales offices and showrooms. The company's product range includes desk systems, workstations, ergonomic systems, modular systems, lateral files, storage cabinets, pedestals, bookcases, vertical files and storage cupboards.

Mauser Waldeck AG

The company is involved in the design, manufacture and distribution of office furniture. Sales in 2000 were € 95.1 million. Office furniture accounted for 60% of 2000 revenues; shelving, 20% and seating, 18%.

Armstrong DLW AG

Formerly DLW Aktiengesellschaft, the company operates through the following divisions:

- Commercial (PVC flooring, linoleum, rubber floorings, textile floor coverings including tufted carpets, woven carpets, carpet tiles and needle punched floorings)

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- Sports surfacing including linoleum for sports floorings, tufted and needle punched floorings, artificial sand-filled grass, artificial lawns, multi-use fields)
- Residential: (CV and wood floorings, roof and wall panels, insulating systems and roofing membrane)
- Other (services and finance)

The company had sales of € 463.9 million in 2001, a decrease of 8% from the previous year levels. Textile coverings accounted for 62% of 2001 revenues; elastic coverings, 38%.

Schultz Einrichtungen KG

The company's product range consists of desk systems, workstations, ergonomic systems and modular systems.

The company delivers to customers in Belgium, Denmark, Germany, France, Italy, Jordan, Yugoslavia, Luxembourg, the Netherlands, Austria, Poland, Russia, Saudi Arabia, Switzerland, Slovakia, Spain, Syria and the Czech republic.

Wilkhahn AG (Wilkening + Hahne GmbH & Co)

Product range consists of desks and workstations, multipurpose tables, training tables, meeting tables, work tables, round conference tables, square conference tables, conference folding tables and occasional tables.

The company has a staff of over 600 throughout the world; sales outside Germany account for over 50% of the total.

CEKA Büromöbelwerke GmbH & Co. KG

Their main product categories include workplace systems, cupboards and storage walls and open place furniture.

Other Players

Some other players include Grammer Burostuhle GmbH (develops, produces and sells seating systems for home, office, events and airports), Skandinavisk Group and Kinnarps.

Market Trends

Recent Market Trends

The following trends seem to have characterised the market in 2001:

1. Shakeout amongst producers
2. Rising unemployment
3. Rising foreign outsourcing of production

These, and the trends in distribution, are profiled in the following sub-sections.

Shakeoutⁱ

Between January and September 2001, 24 companies active in furniture making were forced to close shop. As such, the number of manufacturers with 20 or more employees has fallen year-on-year by 1.7% to just under 1,400.

Rising Unemployment²

At least 5,000 workers were made idle in this industry during the first nine months of 2001, bringing the number of employed to around 159,300. According to VDM, more job cuts are in store if the effects of the current economic downturn cannot be absorbed by short-time work or the reduction of overtime – where this is still possible.

Rise of Outsourcing Production Abroad²

Faced with stagnating or falling sales and decreasing profit margins, furniture manufacturers are looking beyond domestic borders to countries with cheaper production and lower wage costs.

While production of high-quality furniture tends to remain in Germany, low-priced, mass-produced articles are systematically moved abroad. Many jobs have migrated to eastern European countries such as Hungary and Poland. For instance, German companies are involved in at least two thirds of all furniture imports coming from Poland.

If high employment costs in Germany do not change soon, many companies will be forced to increase production in foreign countries. The SHSieder Möbel group announced at this year's furniture fair that it plans to expand into Russia this year, by erecting three production facilities. The company will invest up to € 20 million to realise its goal of generating at least 10% of its sales in this region by 2005.

Trends in Distribution

The following trends in distribution are described in this sub-section:

1. Concentration of the 'trade'
2. Rising popularity of large showrooms
3. Financial difficulties for retailers

Concentration in Distribution

As a result of mergers and buyouts, the distribution system, especially on an international level, is becoming more concentrated. This especially applies to smaller companies whose products are distributed directly and sold through projects.

Rising Popularity of Large Showroomsⁱⁱⁱ

Germany has approximately 23 major furniture buying/distributing groups, the largest of which (as of August 2001) were Begros, Atlas, Union and VMW-Gruppe. Large

showrooms have been gaining in popularity, at the expense of these purchasing organizations, in recent years.

This gain in the influence of large showrooms is partially linked to the downward trend of prices in the furniture market.

Large showrooms are also becoming more popular as a result of the financial difficulties posed by independent retailers who form the purchasing organizations. In such an environment, the lower prices due to consolidated buying and selling provides an advantage to large showrooms.

This trend is expected to continue, although the German Furniture Association recommends that retailers should stop investing in new floor space and focus on getting the maximum mileage out of the space they already have.

Financial Difficulties for Retailers²

Most retailers in Germany, like Möbel Walther did not fare too well. After sales stagnated in 2000 at € 329.8 million, the retailer posted a drop in sales of 1.3% for the first nine months of 2001. However, this was better than the performance of most of the other larger retailers.

Swedish-owned Ikea was one the few furniture retailers which performed well in Germany in 2001, generating approximately 21% of Ikea's group sales. Ikea Germany has become the country's largest furniture retailer, posting sales of € 2.1 billion in the business year ending August 31, 2001. In 2000, when most of the large retailers had disappointing results, Ikea Germany posted a 3.4% sales increase year-on-year, despite a fall in its world sales.

Key Success Factors²

The German market is the largest in Western Europe. It represents more than one-fourth of the office furniture revenue in Western Europe.

Further, German manufacturers have an advantage over their European neighbours: the average German spent € 428.75 on furniture in 2000, which was significantly more than any other EU nation.

However, in the face of the present downturn, the sector needs to innovate to bring about a surge in demand, as consumer confidence is the key for the industry's success.

Innovation is the Key

New opportunities are surfacing which revolve around the intelligent office, requiring a new range of new office forms, dynamic tasks and user specific office worlds. For instance, the mobile office is an answer to the demands of structural transformation.

Create Consumer Awareness

The furniture Industry has generally trailed behind the automotive, entertainment and tourist industries, with regards to emphasis on advertising. The industry thus needs to spend more on advertising in specialised magazines on decorating, interior design and architecture to create customer awareness.

Innovate and Automate Production

The furniture industry could also innovate in its production process: This would include automation, the use of Computer Aided Design or Manufacturing and the introduction of new materials that are more resistant or cheaper than previous ones.

Market led Innovation

The Industry would also need to innovate with respect to changing customer needs. For example, change in tastes of consumers (fabrics for upholstered furniture, recyclable materials, etc.) or environmental concerns of the consumers (safety, health, etc.) may lead to changes in the production processes (for instance use of coating without solvents, etc.).

References

ⁱ IC-Market Monitor Panel®; "Office Furniture in Europe 2001"; InterConnection Consulting Group, Vienna

ⁱⁱ "German Brief;" January 25, 2002; Volume No. 13; Issue No. 2

ⁱⁱⁱ "An Overview of the Furniture Market in Germany;" Market Research Centre, Department of Foreign Affairs and International Trade, Canada

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