



Funded by the Horizon 2020
Framework Programme of the
European Union



INNOVATE project

WP2 D2.1: Market Gap Analysis

November 2017



Final Version

| | |
|---|---|
| STEP 1: THE TOPIC | 2 |
| STEP 2: THE CURRENT STATE | 3 |
| 2.1 Interpretation of segmentation | 3 |
| STEP 3: IDENTIFY THE MARKET FAILURE: THE GAP | 4 |
| 3.1 Interpretation of barriers and drivers | 4 |
| STEP 4: HOW THE GAP SHOULD BE FILLED | 5 |
| 4.1 Interpretation of the gap filled | 5 |
| 4.2 Actors mapping | 5 |
| 4.3 Interpretation of the actors mapping | 6 |
| 4.4 Services mapping | 6 |
| 4.5 Interpretation of the services mapping | 6 |
| STEP 5: GENERAL CONCLUSIONS | 7 |
| STEP 6: CHECK YOUR ACTION | 7 |
| 6.1 SWOT analysis | 7 |
| 6.2 Strong points | 7 |
| 6.3 Weak points | 7 |
| 6.4 SWOT conclusions | 8 |

STEP 1: THE TOPIC

In 2014, KAW started with the Reimarkt concept to develop a one-stop-shop service for EE-refurbishments to private home owners and housing corporations. This service was targeted on single family housing. Since then more than 2000 houses have been EE-refurbished in rising yearly numbers. In cooperation with the Innovate-programme KAW wants to develop the same approach to condominiums in the Netherlands. Essentials of this approach are: one-stop-shop service; highly standardized approach; financial arrangements fully integrated in the service offered.

STEP 2: THE CURRENT STATE

Refer to spreadsheet for data.

2.1 Interpretation of segmentation

The market for condominiums is very different from the market for individual houses. Important observations include:

Building characteristics: apartments do not necessarily have a lower value per m², but do have a lower overall value due to lower square meterage. Apartments have a lower energy use. General building state is worse, renovations are more necessary.

Owner characteristics: Apartments are more often occupied by starters and elderly people, generally mobility is higher (dwellers tend to move more often). Owner-occupiers on average have a lower income and are less involved in investment decisions. A high percentage of apartments is rented. Many apartments are bought and rented out as an investment by companies and individuals.

Professional characteristics: There are less companies involved in renovation for apartment buildings. Even though they are more professional, they are more focused on process and advice and less on direct implementation of products. As the market situation is increasing capacity is becoming an issue, especially when a big growth in demand can be achieved.

Bank characteristics: Financing in general is more complicated as a division between apartments has to be made, involving different stakeholders and different financial situations. Financing is used less, mainly because the process leading towards loans is more complicated. Subsidies and loans are available and are not expected to be depleted soon. Several experimental financing schemes are tested to properly organize division of costs and benefits over apartments and time, hoping to increase the ease of financing and attractiveness of financing.

At this moment we segment the market mainly based on the size of the apartment building, as the approach differs by this characteristic: the customer (homeowner, homeowner association or building management company) professionalism differs and clearly as buildings have more apartments, we can invest more in the process. More factors might come into play during the INNOVATE process.

We consider all segments to be our target group: small buildings work like the individual houses we know how to assist. For the middle and large group we are now designing an approach. In all cases we focus on the serial-built apartment buildings. Older buildings, buildings with historical value and buildings of a distinct nature do not fit our approach.

Present segmentation: LARGE (>25), MIDDLE (6-25) and SMALL (2-6) apartment buildings that are serial-built.

STEP 3: IDENTIFY THE MARKET FAILURE: THE GAP

Refer to spreadsheet for data.

3.1 Interpretation of barriers and drivers

Central to the Reimarkt strategy is the design, implementation and execution of a clear and transparent One-Stop-Shop process where ready-made products are offered with fixed prices, installation times and guarantees. We see that several barriers for apartment buildings cover the exact same issue.

We clearly see that apartment owners have other barriers and drivers, that differ from individual house owners. Firstly, we need to pay attention to the organization of decision making. The activeness of homeowner associations, the division of apartments between social housing, owner-occupants and private investors and even the contractual division of joined and individual ownership have a big influence on how we should approach the apartments in a particular building.

Secondly, we need to be even more focused on the social dimensions of decision making: the perception of technical possibilities, financing options and the likeability of changes actually happening have a big influence on process involvement by dwellers. This is extra important, as a few apartment owners can block all others in joined investments.

Lastly, the split incentive problem plays a big role. Even if possibilities exist to earn back EE investments by raising rent costs, apartment owner are reluctant to engage in this because of the "hassle" it includes.

STEP 4: HOW THE GAP SHOULD BE FILLED

Refer to spreadsheet for data.

4.1 Interpretation of the gap filled

The target audience will be motivated to embark on a renovation project if:

- This is promoted by the homeowner association
- Payback can be transferred to future new owners
- Offerings are clear, including costs, savings and warranties
- The company realizing the renovation is considered to be trustworthy
- Benefits towards the apartment value are clear
- Split incentive can be solved by legally raising rent

Our challenge is to design ready-made products and a clear and transparent approach that accommodates different organizational setups of decision making, stimulates apartment owners to really engage in the process and solves the split incentive problem without any hassle. Of course, this includes full support of the customer journey.

4.2 Actors mapping

Refer to spreadsheet for data.

4.3 Interpretation of the actors mapping

We see that all actors are available to fill the roles needed for the challenge we have. Several actors (municipality, social housing corporations, installation companies, building management companies) have to be enticed to form a “city-wide” alliance where agreements can be made that apply to all buildings in the municipality. Other actors (homeowner associations, private investors, private owner-occupiers, dwellers) have to be enticed to join the projects on a building-by-building basis. The “force field” of actors around each building project depends heavily on the division of apartments between the three central actor groups (private owner-occupiers, private investors, social housing corporations) and the form of building management (sleeping homeowner association, active homeowner association, professional building management).

The Reimarkt approach conflicts with the traditional view of most contractors and advisors, who are focused on projects (advice hours) more than on products (selling the renovation). We will have to invest in the relationship with these actors to jointly experience that our approach will lead to more revenue for these actors as well.

The Reimarkt approach also conflicts with the traditional decision-making process of the three central actor groups. They are used to make collective decisions instead of (partly) individual decisions. And they are used to take their time to work on (almost) unanimity and look for lowest prices instead of high product&process quality.

4.4 Services mapping

Refer to spreadsheet for data.

4.5 Interpretation of the services mapping

We draw a clear distinction between the provision of ready-made products and advisory trajectories. Reimarkt provides ready-made products and centralizes a lot of activities at Reimarkt to create the One-Stop-Shopping experience we aim for. At the same time some buildings are not fit to provide ready-made products. These buildings will be served by a partner following the “traditional” advisory project approach.

To reach our target of OSS ready-made product provision, we still have to develop / upgrade many services. The incorporation of financing is a major challenge. Besides, we need to focus on the development of our marketing communication, combined with other stakeholders that communicate with the public (municipality, social housing corporations and professional building management organizations).

STEP 5: GENERAL CONCLUSIONS

We can conclude that even though the market segment of apartment buildings is very different from individual housing, apartment owners and dwellers will be interested in the Reimarkt offering: ready-made products in an OSS service concept.

Critical success factors will be the provision of products fit for individual apartments, as well as products for renovation on building level. A smart design of the customer journey support is another success factor, as this is essential to keep the total project time short and the support hours limited.

We need to work together well with stakeholder on municipality level and building project level to prevent conflicts of interest between all actors involved. Professional homeowner association management companies can help to “implement” our process towards a broader public, but we still need to sell our process just as much as our product to both homeowner associations and individual apartment owners and dwellers.

STEP 6: CHECK YOUR ACTION

6.1 SWOT analysis

Refer to spreadsheet for data.

6.2 Strong points

We see that indeed the Reimarkt concept has value towards apartments over present competition. We enter into a market that is still looking for the right solution with a clear product proposal. As competition is not really focused on apartments, we can quickly gain momentum and from that use referral cases to get interest from a broader group of apartment owners.

6.3 Weak points

The market segment of apartment buildings is significantly different from the individual house segment and requires a truly distinctive approach. We enter into this market knowing that the decision structure differs per building and is complex, where decision makers are used to many

7 INNOVATE \ WP2 \ task 2.1 \ market gap analysis

hours of advice and few apartment owners can block a decision for everyone. This combined with the split incentive issue provides a huge challenge.

6.4 SWOT conclusions

We do see the potential of our approach, as long as we keep other stakeholders committed to our approach. Rapid learning and improving based on first cases will be needed to quickly identify the “force field” of every building and act accordingly to stimulate the enthusiasm of apartment owners and dwellers and solve the split incentive without having to spend too many hours per project.