



## **Water Heater Marketplace**

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# A.O. Smith Corporation

- Water Heaters and Electric Motors
  - 2007 Sales: \$2.3B
- Water Products Division
  - 2007 Sales: \$1.4B
  - Water Heater Market Leader in U.S. & Canada
    - Residential & Commercial
    - Plumbing Wholesale & Retail
  - Strong Position in China
    - \$150M; Since 1996;
    - Growth ~ 30% / Year
  - Small operation in Europe
  - Entering India



# U.S. Residential Water Heater Market

- 9 million units
- 50% Gas; 50% Electric
- 50% Retail; 50% Wholesale
  - Retail = more electric (more DIY)
  - Wholesale = more Gas (more DIFM)
- 80% Replacement; 20% New Const.
- 65% Emergency; 35% “Planned”
  - Most “planned” = fear of failure

# U.S. Residential Water Heater Market

- Heavily Commoditized
  - A. O. Smith: over 4000 skus
    - Heavily concentrated in
      - Minimum efficiency 40 & 50 Gallon (gas)
- Large, relatively low value
  - Fills the truck
  - Takes up warehouse & “shelf” space
  - Plumbing Contractor carries only one
  - Heavy, difficult to install

# U.S. Residential Water Heater Market

- Obstacles and inertia in both channels
  - Retail & Plumbing Wholesale
  - Highly Competitive: Low margins
  - Profitability dependent on “turns”
  - Velocity is critical
  - Channels respond to demand
    - Don’t drive it

# U.S. Residential Water Heater Market

- Consumer not engaged
  - Doesn't interact with water heater
  - Doesn't understand it
  - Doesn't know what it costs to run it
  - Can't replace it easily
  - Scared of gas
  - Scared of water
  - A mystery

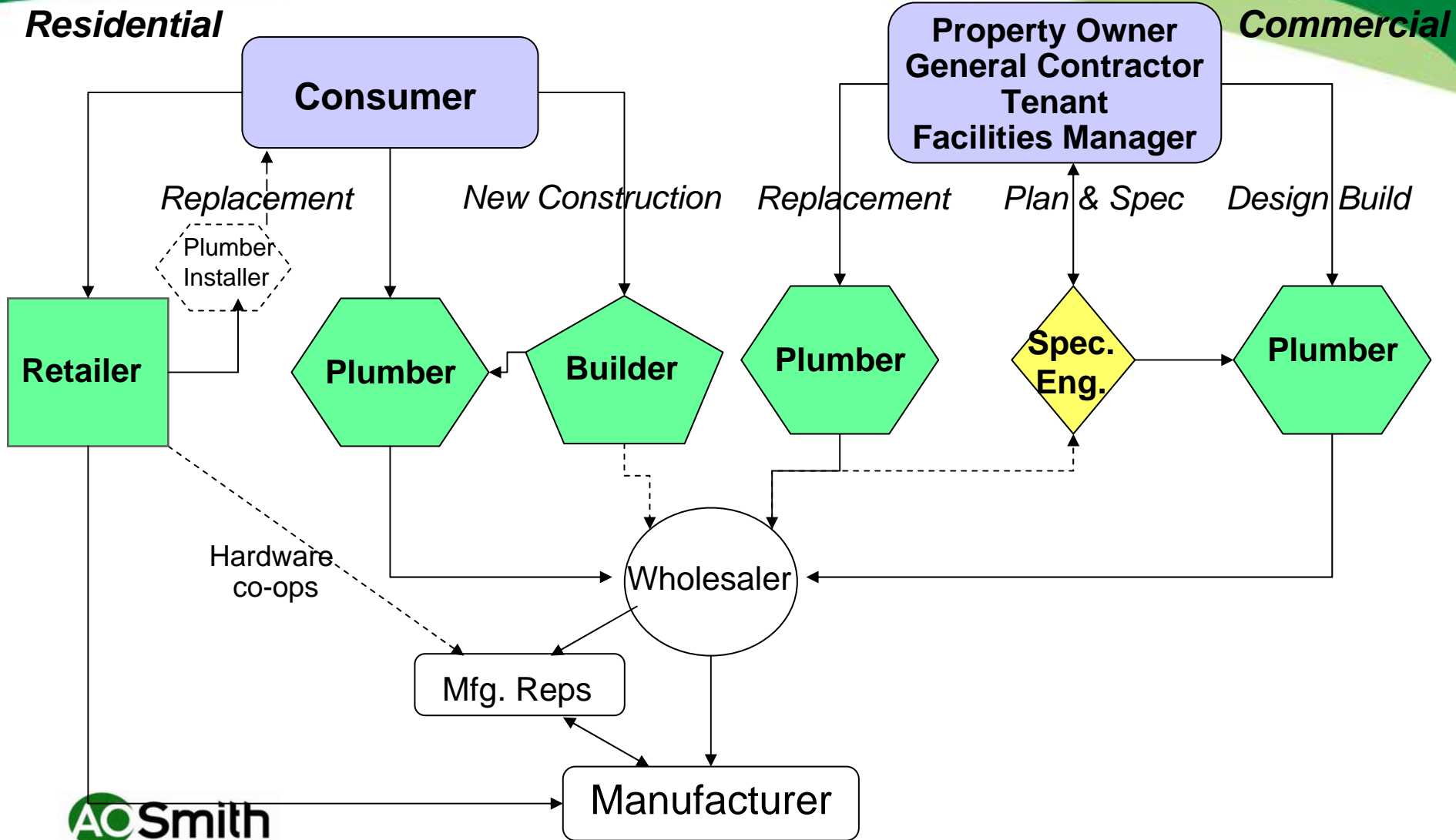


# Market Research

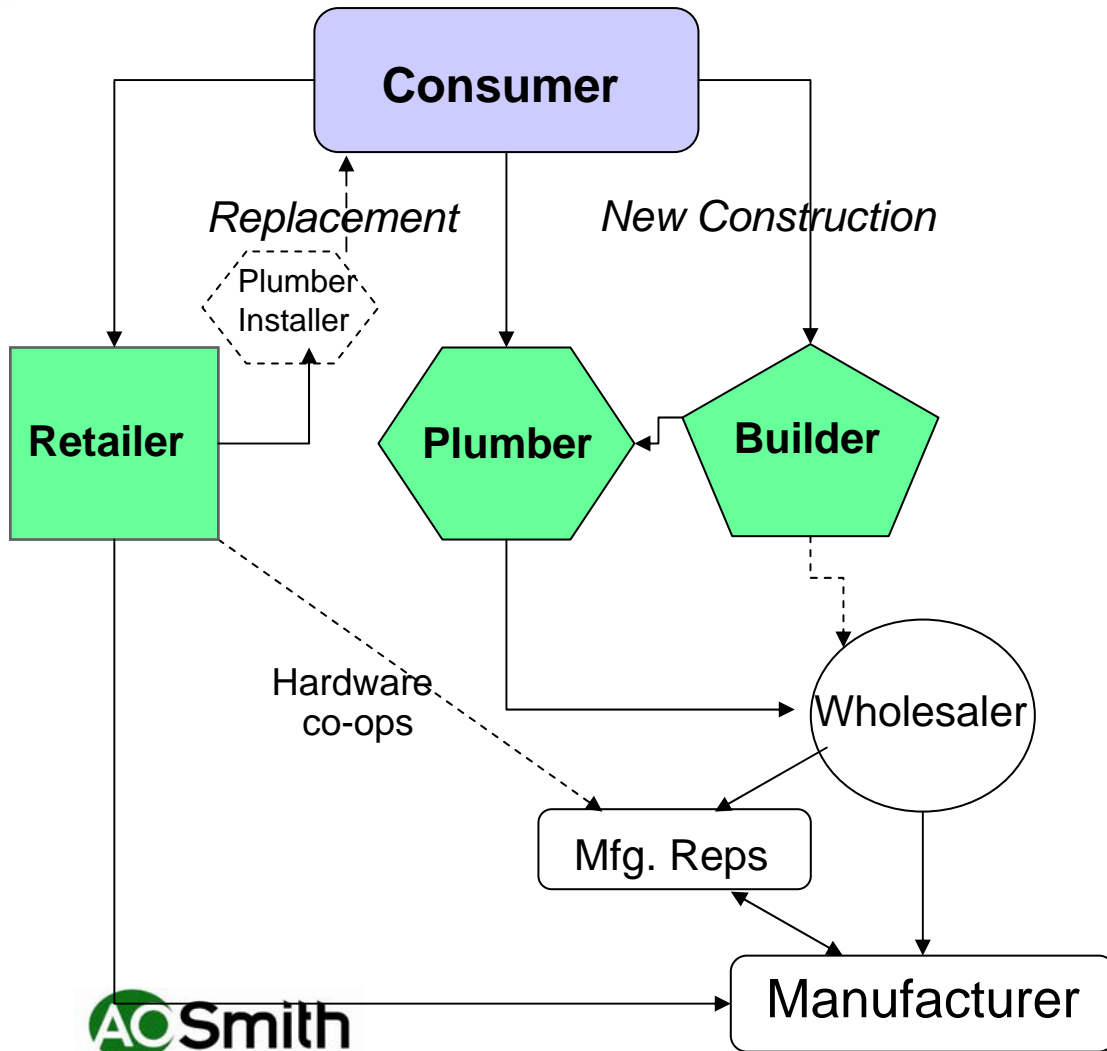
# Summary of Research Findings

- Decision Makers: **Plumbing Contractors, Builders, Property Managers, Home Owners, Specifying engineers (influencers)**
- Defined eight distinct purchasing segments
- Plumbing Contractors **remain loyal to Wholesale Channel (91%)**
- Plumbers desire to offer good, better, best options (71%)
- New Paradigm: Consumer (Home Owner) “Pull”
  - Proactive Residential Replacement = **37%**
  - Home Owners driving Tankless Growth
  - Consumers (today) choose channel / outlet first; then brand

# Purchase Process



# Purchase Process



Engage the Consumer

Incentivize the decision maker / influencer

Facilitate distribution availability



# Plumbing Industry Evolution



1946

\$1089



2006

# Plumbing Industry Evolution



1946

\$3900



2006

# Water Heater Evolution



1946

\$212



2006