

Aqualisa case analysis essay sample

[Business](#), [Marketing](#)



Aqualisa has always had a strong reputation in the U. K. shower market, with the company being generally recognized as having top quality showers, a premium brand and great service. It was a highly profitable company and sat quite comfortably with its niche in the market. Harry Rawlinson joined the company in 1998 and believed it was vulnerable for different reasons. In the year 2000, Aqualisa had 18. 1% of the market share in the shower industry. Aqualisa sold electric showers mostly under a separate brand name “Gainsborough”, which was available in 70% of DIY stores. Three product ranges are available under this brand, which were value, standard and premium. The Gainsborough range accounts for 11. 3% of the total market share within the shower industry. This brand is not available in trade shops or showrooms. Aqualisa’s product range has 9 styles and accounts for 6. 8% of the entire shower industry market share. This figure does not include the additional shares acquired by the company through the introduction of the Quartz range. Aqualisa products were available through 25% of showrooms in the UK and 40% of trade shops.

Product- the Aqualisa Quartz shower was a one touch control shower that provided efficient and reliable water pressure and temperature. The Quartz shower coincided with the consumers’ needs and wants and created the wow factor amongst them. It took less than half a day to install rather than a two day installation with the conventional shower. Consumers can either buy the standard Quartz or the Quartz pumped edition which comes with a pump which is easily installed anywhere near a hot and cold water connection.

Price- the Quartz standard shower costs €175 to make and is sold at a retail price of €850, bringing in a margin of €275 after the manufacturer selling

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price. The Quartz pumped edition costs €230 to make and sells at a retail price of €1080, bringing in a margin of €345 after the manufacturing selling price.

Place- Aqualisa had a 20 person sales force that sold to distributors, trade shops, showrooms, developers and plumbers. Their main priorities was to spend 90% of their time on maintaining existing accounts and 10 % of their time spent on developing new customers. Aqualisa's sales force also had long standing direct relationships with a group of plumbers that were loyal to the Aqualisa brand. Aqualisa were relying just as much on these plumbers to make sales as they were on direct channels of distribution.

Promotion- when reading the material it was evident that Rawlinson was hesitant about running any advertising campaign as it was high risk so they ran a test campaign involving a one-time only print advertisement campaign which was scheduled to run in the mail on Sunday magazine. Rawlinson noted that a large scale campaign would cost about €3 million to €4 million over a two year period which would be a very tough sell across the company with a net income of €17 million. Other options were to try and get its partners like B&Q to help push the product, avoiding the need for expensive consumer advertising. Aqualisa also offered developers a 50% discount to incorporate their product but were unable to make any sales. Despite efforts to push the product Aqualisa sold very few in the first 4 months of its release.

AQUALISA – SWOT ANALYSIS

STRENGTHS

- * Company has been profitable for years
- * Aqualisa's market reputation for
- * Hi quality products
- * Great service
- * Position as #3 in shower market
- * Aqualisa's " Showermax" (discounted price) brand selling very well to property developers for installation in new homes * Aqualisa has 40% market penetration in Trade Shops
- * 20 person sales team selling to distributors, trade shops, showrooms, developers and plumbers * Plumbers loyalty to Aqualisa brand

WEAKNESSES

- * Actual service levels dropping
- * Mature market – annual growth rates dropping (was between 5% & 10% in 1998) * Net return on sales dropping (was 25% in 1998)
- * Market share dropping
- * 90% of Sales force focus is on existing accounts
- * 10% product failure after fitting

OPPORTUNITIES

- * The DIY sector in UK which is 36% of total shower market by number of units sold in 2000 (Aqualisa had 650k of 1, 800k market) * New discounted brand named products (similar to Showermax) * Highly skilled new R&D team

- * Aqualisa's "Gainsborough" brand is available in 70% of DIY stores

THREATS

- * Poor brand awareness among consumers
- * Key decision makers are independent plumbers with huge resistance to change (plumber advises/selects Shower Mixer 73% of the time; consumers select in 27% of the cases) * Because of previous bad experience with electronic innovation, plumbers were very sceptical about any new electronic innovation (e. g. Quartz) * Other suppliers catching up on quality, price
- * Aqualisa's service levels are dropping
- * Aqualisa's market share is dropping

QUARTZ – SWOT ANALYSIS

STRENGTHS

- * Quartz perceived to be a 'break-through' product in the industry
- * Quartz benefits for consumers:
 - * Hi pressure water flow
 - * No re-adjustment for temperature control
 - * Light to indicate temperature correctness
- * Attractive, good looking product
- * Quartz benefits for plumbers:
 - * Heat/water 'mixer' located remotely (not in shower itself)
 - * More easily installed
 - * Time saved at installation (1/2 day versus 2 days)

- * Doesn't take excavation work in bathroom for replacement
- * Tested with wide range of consumers and that feedback incorporated in design
- * New suite of products on stream (e. g. Body Jet)
- * Product awarded top prize at Bathroom Expo
- * Journals very positive towards innovative, new product

WEAKNESSES

- * Quartz had associated development costs of £5. 8m in R&D in 3 years *
- Quartz had manufacturing costs of €175-€230 per unit whereas the “Aquastream Thermostatic” Aqualisa core product had associated manufacturing costs of only €175 *
- Pricing of the Quartz unit may be an inhibitor for sales; may need to discount to get sales momentum *
- Lack of take up among channel partners

OPPORTUNITIES

- * The US market is an opportunity (Rawlinson is meeting two guys from US) *
 - Other non-UK markets
 - * New R&D testing facilities that could support new innovative products *
 - Once plumber installs a Quartz unit, he is converted to the product *
 - Once installed in showrooms, product becomes leading seller
- #### THREATS
- * Poor brand awareness among consumers
 - * Key decision makers are independent plumbers with huge resistance to change *
 - New product adoption is a long, slow process
 - * Because of previous bad experience with electronic innovation, plumbers

were very sceptical about any new electronic innovation (e. g. Quartz) *

Possible cannibalization of “ Aquastream Thermostatic” products

Industry Analysis

The UK Shower Market

Aqualisa was operating within the UK shower Market, a market where only 60% of the population had showers. This was due to the unreliable nature of the product and negative reputation built up over years.

Risk of entry Med/Low

For any company wishing to enter this industry they would incur some considerable costs. Growing enough to be able to achieve economies of scale would take a considerable volume of sales. Patented Technological advances would also act as a barrier to entry, decreasing the risk considerably. Brand Loyalty in this industry is considered quite low; this is mainly due to the fact that consumers aren't necessarily aware of the products on offer. The only company with any sort of a brand presence was Triton, this was done so by having a 30% share of the Market. This industry is evolving with advantages in technology, Aqualisa are (according to Rawlingson) 2 years ahead of the competitors with their latest Aqualisa Quartz range. This might enable them to achieve absolute cost advantage. The Aqualisa quartz by proxy creates efficiencies for the plumber that can be seen through the reduction of installation times. It also is proven to be more reliable to the consumer where as previously temperatures and pressure rate fluctuated regularly. Intensity of Rivalry Medium

Consolidated

This industry is considered perfectly competitive, the top five players account for 76.5% of the UK shower market in 2000. Therefore we deem this market to be “Consolidated”. For this reason we deem the intensity to be medium Bargaining Powers of Buyers – medium/High

We have split buyers into two segments, the Plumbers and the Consumers. Plumbers are not brand loyal; ease to install and reliability are the key factors influencing their purchase. The make/model would be subject to the budget of the consumer; however 73% of purchasing decisions were heavily influenced by the plumber at hand. Consumers wanted aesthetically pleasing showers that held good pressure, consistent temperature and were easy to use. Therefore this raises costs by demanding a higher quality. The Plumbers have considerable influence in the decision making process here, they act as a gatekeeper to the end user.

The top 5 players in the industry take up 76.5% of the market share, with in this consolidated industry there are many buyers and sellers of homogenous products. In 2000 all products being offered in the market were very similar resulting in low brand loyalty. This indicated the importance of innovation and USP in order to achieve the maximum market share and differentiation.

Although we are seeing a positive trend in Aqualisa’s sales figures in the last 3 years, which is quite impressive considering this industry is in the mature stage of its lifecycle. We see Rawlinson point out some issues in the company, which could cause a major collapse in the company’s sales, if not addressed. This is what we are looking to improve with our recommended

strategies. In hope to accelerate our growth of sales year on year with the introduction of the Quartz. Profitability

Cost of Sales:

Appears to be quite high at 53. 2%, this is pointing out the cost of which we are producing our products as a percentage of the overall sales. This is a figure we could look to reduce in the coming years by becoming more efficient in producing goods, and as the company grows in terms of sales volume, possibly achieving superior economies of scale. Expenses:

Our entire expenses are 21% of our overall sales. If we break this down into each individual expense as a percentage of sales we can have a look at where the company is leaking money. * We can see the Finance, Admin & Depr. expense is the highest at 7% of sales, although this is incorporating a number of expenses in one, we could look to improve on this expense by addressing the internal working of the company and possibly improving the efficacy. This would in turn free up money for a larger marketing budget which we believe will be needed to launch our new Quartz product, without reducing our net profit. * Our second biggest expense is our sales expense (6%), this would be relative to our net sales figure (units) and would be a figure which we would just have to factor into account as there is not much we could change unless we hired or fired from our sales team.

* Our Marketing expense is the next highest at 4% and one we feel we need to higher if we are to launch a big marketing campaign to truly improve awareness of our brand and new product the quartz. We could higher this expense by taking away from other expense to retain the same net profit, or

higher the expense margin meaning a reduction in net profit. * Our R & D expense is at 2.6% of sales and it is an expense we believe could be reduced to make more money available for other expenses such as marketing which we forecast to grow, we feel that with the R & D we have at the minute we are already two years ahead of the competition, but we aren't selling the products we're designing, so it only makes sense to invest more into the marketing of the product and reduce the R & D spend. * Customer Service is another expense we should look to possibly higher slightly it is the smallest expense at 2% of sales, but to maintain the reputation the company has we need to invest in this area, as Rawlinson pointed out, despite the "great" reputation, the company seems to be slipping in actual service. This being a unique selling point, as one of people's biggest problems is the issue over faults, we need to maintain this great customer service.

Gross Profit Margin:

Is 46.8%, this in coordination with the cost of sales, and could be improved if we implement some of the improvements to lower the cost of sales, this would in turn increase our G. P margin. Net Profit Margin:

This is reasonably high at 25.5% and seems to have improved from '98 when it was at 25%, this could point to the company becoming more efficient in its processes, this could be improved much like the G. P margin by further improving efficiencies and reducing the cost of sales. Although we may have to reduce this margin in the coming years to give more money to our advertising budget to push sales of our new product in an attempt to take the Quartz mainstream, as it states in the case they are only selling 15 units

a day, and to go mainstream they need to sell 100 – 200 units a day.

Perceptual Map

Quality – High

Premium

- * Quartz Pumped
- * Quartz Standard
- * Aquavalve 609
- * Aquastream Thermostatic
- * Aquastream Manual
- * Aquavalve

Price – Low

Quality – Low

Price – High

Standard

Value

(Perceptual map doesn't include the Gainsborough products.)

From the Perceptual Map, we can identify the various market segments, and how our product range fits into each of the segments to meet the needs of each of the segments.

Quartz Pumped would be considered a premium product, with the highest of quality but with a premium price too.

Whereas The Aquavalve would be considered a lower quality with a lower price to meet the needs of the value segment. In saying this, all Aqualisa's products are considered quite highly priced and this will be a subject we will address.

These various products will appeal to different customers with different demands and budgets. Nature of Purchase

- * Purchases made through different channels (depending on different segments).

- * Showrooms.

- * Customer in the premium segment showed here, they took high performance and service for granted and were concerned about the aesthetics. * Independent Plumbers.

- * Customers in the standard and value segments used this channel to influence their purchase, although the standard segment demanded performance and service the value wanted convenience and a good price. * Large Retail Outlets. (DIY)

- * Customers here installed the products themselves hence they valued cheap and easy to install products. * Property Developers.

- * Had independent plumbers install the products but were concerned about aesthetics and also were price sensitive. * Reasonably high involvement purchase, although in most cases, reliant on 3rd party. * “ Consumers were generally uninformed about showers, and there was little understanding of product options.” * 44% of shower purchases were replacement showers, leaving customers angry. This is why we will offer a warranty with our

product to prove the quality over other brands. * Only 27% of people select the type and brand of shower alone (without advice from plumber) * This is why it is important to target the plumbers as our strategy suggests. *

Plumbers often stuck with one brand and were reluctant to switch, meaning they suggest the one brand to all their customers. * Important to have plumbers using our brand.

Ansoff Matrix

We are using the Ansoff matrix to show our strategy for the products we are introducing and how they will fit with the companies existing products. As you can see we plan to leave our original products in the same market to continue the market penetration whilst updating them every four years has suggested in the case. For the Quartz line we can see them in the product development section, as they are new products being introduced in an existing market.

As a contingency plan, if the case occurs where our new Quartz line fails, we would suggest, implementing some of the technology used in the Quartz line to improve our existing products, as we can see the advantages the new line has with many improvement, we could trickle these improvements down through the other products we already offer. Recommendation 2: Target Consumers

We can see from the pie chart even without the plumbers influences we can see that over a quarter of installations are done without consulting a plumber. Traditional media should be used to target these consumers.

Television advertising would be an excellent way to create awareness among consumers. By targeting property owners in this fashion in time slots in mid-late evening, they can see the unique benefits of Quartz and will either go to showrooms, contact plumbers about installation, or perhaps link them to a website in the adverts so they could have a look online. Specific reference to the ease of use, convenience, efficiency and especially the 5 year warranty will be crucial as 44% of shower sales by installation are replacement showers. A suggested 40-50% of the advertising spend should be allocated to this sector as it has the most expensive types of advertising.

Targeting plumbers

When looking at our strategy targeting plumbers would be one of our main focuses. Plumbers have some form of influence when interacting with customers and we can see from the stats that they influence approximately 73% of the market including developer's property owners and consumers. We recommend targeting plumbers rather than developers as consumers tend to take the advice off plumbers when making any decisions to do with plumbing and fixtures. In addition, from the article we know that developers had already been offered a 50% discount on the Quartz range but they failed to respond to this generous offer, therefore it is not ideal to target this market segment. In the case study we are told that many times people would have to wait up to 6 months for a master plumber to call out to carry out a job for the customer, which generally took days to complete. Installation of the Quartz only takes half a day and plumbers could get numerous jobs done in the time that it used to take them to install a normal shower. Also it also gave plumbers the opportunity to send out young apprentices to carry out the job

as it was so easy to do. We believe this would encourage plumbers (if marketed appropriately) to purchase a Quartz product. Plumbers tend to be reluctant of new innovative products, however from the case it is obvious that if plumbers were targeted effectively to try the Quartz product, this will lead to repeat purchases as they will appreciate the unique selling points of the product in relation to their line of work.

How are we going to target the plumbers?

To get plumbers on board with the product we must first inform them about the products benefits to them as well as to the consumer. They must be persuaded into the whole concept behind the Quartz range, which is efficiency and likability for both the plumber and the consumer. This can be achieved through demonstrations at trade shows and incentives for using the product. This will hopefully in turn diminish reluctance to using innovative and technologically advanced products. Incorporating this along with an advertising campaign to customers should work in sync to increase demand for the product hence increasing brand awareness and profits. In order to get people to attend these trade shows a direct marketing approach shall be undertaken. This will involve contacting plumbers directly and informing them of the discounts on offer as well as demonstrations of the product on offer.

At these trade shows incentives will be on offer to entice customers into purchasing the product e. g. money off recommended retail price such as the retail price is €850 for the standard Quartz product and will be offered at the trade shows for €700. Another example would be the premium product, Here

the recommended retail price is €1080 and will be offered at a discounted price of 850 euro. At these shows demonstrations will be carried out showing the plumbers the advantages and ease of installation of the product. From these trade shows we hope to gather a database in which details of the plumbers will be held. If plumbers are recorded on this data base they will be offered Aqualisa products at a discounted price in the future. In addition to this marketing approach, we also suggest advertisements to be placed in trade magazines as 65% of the total advertisement spend should be allocated in targeting plumbers for the Marketing reasons given above.

Further Recommendations

Aqualisa currently dedicates 90% of the time of its sales force to existing clientele while only using 10% trying to acquire new business. We believe that this is inefficient delegation of resources. We recommend staff should spend more time and energy acquiring new and profitable customers. This can be done through direct marketing, Digital Marketing advertising and trade shows. Aqualisa could invest in creating a presence on line. Initially, Aqualisa should set up a website displaying the unique selling points to their innovative product range. Using demonstration videos supported by popular social networking sites they could allow both the consumer and the plumbers experience their offering and ultimately choose their brand over their competitors. Although we fully understand the services provided to current customers must be maintained, regional segmentation and Key Account Managers dedicated to regions can utilise resources in order to optimize sales and growth. In relation to cannibalisation, we recommend that obsolete products should be replaced with more innovative products in order to

maximise sales. Products may become obsolete due to technological advances. Any unprofitable products should be reviewed and possibly withdrawn from the market.