



## **Water Heater Marketplace**

**Mike Parker**  
**Vice President Marketing**  
**& Strategic Planning**

# 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

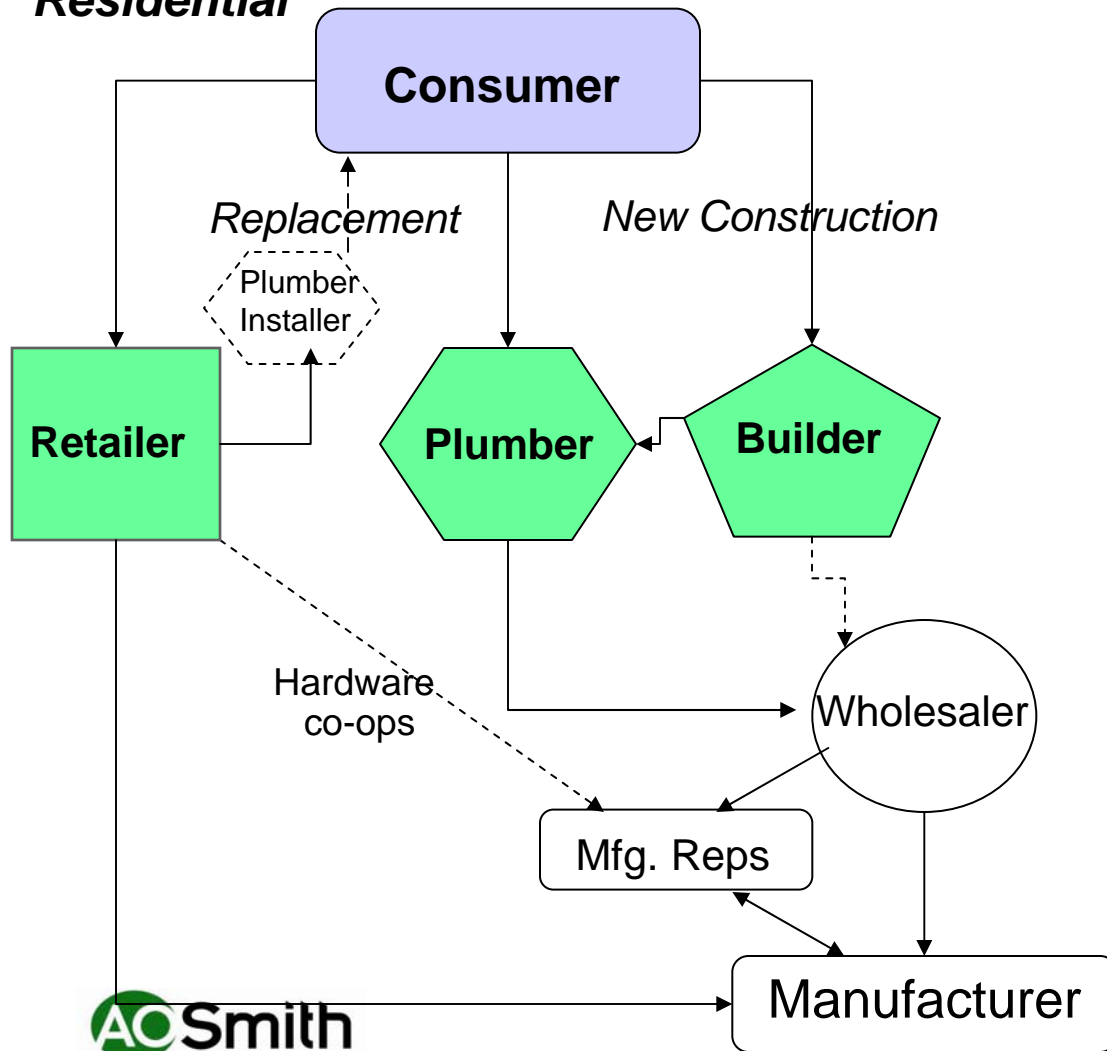
# Summary of Research Findings

- 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

## *Residential*



Engage the Consumer

Incentivize the decision maker / influencer

Facilitate distribution availability



Innovation

Energy  
Efficiency

Industry  
Leader

# A.O. Smith Vertex

- Unlimited hot water
- High efficiency water heating (90% TE)
- High output in small footprint (123 gal 1<sup>st</sup> hr)
- Latest technology
- Electronic control
- Innovative Appearance



# The case for higher value products



=



GM\$

# Plumbing Industry Evolution



1946

\$1089



2006

# Plumbing Industry Evolution



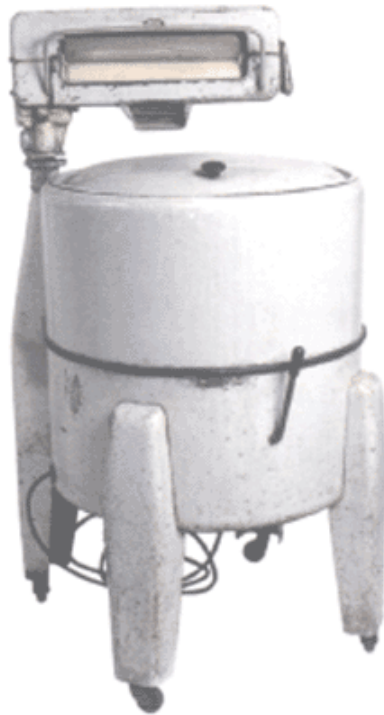
1946

\$3900



2006

# Plumbing Industry Evolution



1946

\$2500



2006

# Water Heater Evolution



1946

\$212



2006





*Innovation has a name.*