HARVARD | BUSINESS | SCHOOL

9-502-030

REV: JULY 10, 2006

YOUNGME MOON

Aqualisa Quartz: Simply a Better Shower

Plumbing hasn't changed since Roman times.

—Tim Pestell, Aqualisa national sales manager

Harry Rawlinson (HBS '90) shrugged out of his overcoat and headed to the reception desk of the South Kent County Marriott. "Can you direct me to the breakfast room?" he asked, "I'm meeting some guests from America." The receptionist pointed toward a hallway lined with photographs of the region's golf fairways and putting greens. "It's just to the left down there," she said. As he strode down the narrow corridor, Rawlinson, managing director of Aqualisa (see **Exhibit 1**), a U.K. shower manufacturer, felt a surge of energy. He had been looking forward to this opportunity to discuss an HBS case possibility.

In May 2001 Aqualisa had launched the Quartz shower, the first significant product innovation in the U.K. shower market since—well, to Rawlinson's mind—since *forever*. But here it was early September 2001, and the euphoria surrounding the product's initial launch had long since faded. Rawlinson knew the Quartz was technologically leaps and bounds above other U.K. showers in terms of water pressure, ease of installation, use, and design. But for some reason, it simply wasn't selling.

The U.K. Shower Market

Rawlinson leaned forward as he began to explain his situation. Showers in the U.K. were plagued with problems. While everyone had a bathtub, only about 60% of U.K. homes had showers. Archaic plumbing, some of it dating to the Victorian era, was still common in many homes. For the most part this plumbing was gravity fed; a cold-water tank or cistern sat somewhere in the roof, while a separate boiler and cylinder were needed to store hot water in a nearby airing cupboard.

Gravity-fed plumbing meant poor-to-low water pressure, about 3 to 4 liters per minute.[1] Gravity-fed plumbing also created frequent fluctuations in pressure, which caused the temperature to noticeably vary from minute to minute. If the pressure from the cold-water pipe decreased momentarily, the flow from the hot water pipe would increase, immediately raising the temperature.

[1] Water pressure in the United States, in contrast, is generally at least 18 liters per minute.

Professor Youngme Moon and Research Associate Kerry Herman prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management. Some data have been modified or disguised.

Copyright © 2002 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to http://www.hbsp.harvard.edu. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

These two problems—low pressure and fluctuations in temperature—were typically addressed through the use of either electric showers or special U.K. shower valves.

1. **Electric showers** used water from the cold water supply. Electrical heating elements in the shower instantaneously heated the water to the required temperature, eliminating the need for a boiler to store hot water. While this made electric showers convenient for small bathrooms, the electrical components were usually mounted in a bulky white box that was visible in the shower stall. In addition, electric showers did nothing to address the poor water flow of many showers in U.K. homes, since the flow was limited by the amount of energy that could be applied to heat the water instantaneously. Aqualisa sold electric showers mostly under a separate brand name, the "Gainsborough" brand. (See **Exhibit 2** for shower sales by type and brand.)

2. **Mixer shower valves** came in two types: manual and thermostatic. Both types blended hot and cold water to create a comfortable temperature, but while thermostatic valves controlled the temperature automatically, manual valves required the user to manually find the right temperature mix. Installing a mixer valve meant excavating the bathroom wall, which was often a two-day job. If a user wanted to boost water pressure, an additional booster pump (typically costing from €350 to €600) could be installed to enhance the flow rate.

   The Aquavalve 609 was the company's core product in the mixer-shower-valve category. At about 60,000 units per year, it was by far Aqualisa's top-selling shower. It was regarded by plumbers as being a high-quality, reliable mixer shower with state-of-the-art technology. It cost about €155 to manufacture and sold (at retail) for €675 to €750. The Aquavalve 609 was thermostatic and could be supplemented by an Aquaforce booster pump to create stronger pressure.

3. **Integral power showers** consisted of a single compact unit that combined a thermostatic mixer valve and a booster pump. Although they provided up to 18 liters of blended water per minute, they had to be mounted in the shower, resulting in the presence of a bulky box on the wall. In addition, these units were generally regarded as being less reliable than a mixer-shower and booster-pump combination. The Aquastream Thermostatic was Aqualisa's primary product in this category. It cost about €175 to produce and sold (at retail) for about €670. At about 20,000 units per year, it was Aqualisa's strongest-selling shower in the power shower category.

Most consumers could readily identify what they disliked about their showers—poor pressure and varying temperature being at the top of the list. But there were other complaints as well. Showers often broke down, or "went wrong," as Rawlinson described. "They break after awhile. The mechanisms get gummed up with lime scale, making the valves stiff and hard to turn; the seals start to leak, or they go out of date." As a result, consumers complained about hard-to-turn valves, leaky seals, and worn-out showers. (Almost half the U.K. shower market consisted of sales of replacement showers—see **Exhibit 3**.) On the other hand, consumers were generally uninformed about showers, and there was little understanding of product options (see **Exhibit 4**). Brand awareness was low; only one company in the market (Triton) had managed to build brand awareness at the consumer level.

Shower buyers in the U.K. tended to fall into one of three pricing segments: premium, standard, and value. Consumers in the premium segment typically shopped in showrooms; they took for granted high performance and service, and for them style determined their selection. Consumers in the standard price range tended to emphasize performance and service; they usually relied on an independent plumber to recommend or select a product for them. Consumers in the value segment

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

were primarily concerned with convenience and price; they liked to avoid solutions that required any excavation and tended to rely on an independent plumber to select a product. (See **Figure A** for Aqualisa's core product offerings in the various shower categories.)

Figure A Aqualisa's Core Product Offerings in the Various Shower Categories[2]

		Aqualisa's Core Product Offerings		
Type of Shower		**Value**	**Standard**	**Premium**
Electric Shower	• Does not require hot water supply • Results in bulky box on the wall • Low flow rate	Gainsborough Retail: €95	Gainsborough Retail: €155	Aquastyle Retail: €230
Mixer Shower	• Requires both hot and cold water supply • Requires additional pump to address pressure problems • Installation typically requires excavation of bathroom	Aquavalve Retail: €390	Aquavalve 609 Retail: €715	
Power Shower	• Requires both hot and cold water supply • Results in bulky box on the wall • Regarded as less reliable than a mixer-shower and pump combination	Aquastream Manual Retail: €480	Aquastream Thermostatic Retail: €670	

Source: Aqualisa.

In addition, there was a sizeable do-it-yourself (DIY) market in the U.K. Do-it-yourselfers generally shopped at large retail outlets that catered to them (for example, the popular B&Q, which modeled itself after Home Depot in the United States). These customers were primarily interested in inexpensive models that were easy to install, even though the DIY products were bulky and unattractive. Electric showers were the overwhelming choice in this segment. They could be adapted to all water systems and could be installed in a day; they were particularly popular among landlords and apartment dwellers.

Finally, there was a significant property developer market in the U.K. Most developers did not need to worry about pressure problems because new homes were almost exclusively built with high-pressure systems. Developers faced a different set of issues, preferring reliable, nice-looking products that could work in multiple settings. Developers were also price-sensitive; with the exception of luxury builders, most developers did not feel the need to invest in premium valves. Developers usually had relationships with independent plumbers who installed whatever product they selected.

Aqualisa sold to developers under its ShowerMax brand, which was available only through specialist contract outlets. Elements of the Aquavalve technology had been redesigned and re-branded for the ShowerMax product line and optimized for developers' specific needs. Because new homes did not use gravity systems, ShowerMax could deliver a high-pressure shower—with

[2] Aqualisa offered a variety of other specialty shower models in each of these categories. The differences between these showers were primarily stylistic (e.g., contemporary, antique, brass, etc.).

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

Aquavalve technology—at a significantly lower cost. Rawlinson commented, "Aqualisa's core products are too expensive for them because of extra features aimed at the retail market. Even at a discounted price, they consider Aqualisa too high-end. But a cut-down product branded "ShowerMax" just for them, at the right price—they love it."

Rawlinson continued:

> Real breakthroughs are pretty rare in the shower market. Innovations are primarily cosmetic. Most of the major manufacturers recycle their product line and relaunch their main products about every four or five years. It refreshes your brand, but market share doesn't really change. At Aqualisa, we've tended to do a relaunch every three to four years. Aesthetically we've changed the look, and we've made incremental technological improvements to boost the performance and quality, but it's basically been the same mechanisms inside. These aren't breakthrough innovations we're talking about.

Channels of Distribution

Showers in the U.K. were sold through a variety of channels (see **Exhibits 5** and **6**), including trade shops, distributors, showrooms, and DIY outlets.

Trade shops. Trade shops (or plumbers' merchants) carried products across all available brands. Their primary customer was the plumber, who worked for developers, showrooms, contractors, or directly for consumers. Trade merchants tended to stock whatever there was demand for. The Aqualisa brand was available in 40% of trade shops. As Rawlinson put it: "The staff in these outlets don't have the time to learn all the features and benefits of the 45,000 items they offer. They focus on making sure they have the right stock of products that are in demand. Their customers are looking for reliable product availability more than technical advice."

Showrooms. Distributors supplied showrooms, which tended to be more high-end. Showroom "consultants" typically led consumers through the process of selecting and designing a bathroom "solution." A shower might be one small part of an overall renovation project. Various shower and bath options were displayed in the showroom, and although no inventory was held on location, these ensembles allowed the consumer a chance to view the product in a pleasant environment. Showrooms preferred to carry high-end product lines and brands (for example, Hansgrohe, a high-end German brand) unavailable in other channels. Showrooms also offered installation services by subcontracting with contractors and independent plumbers. There were about 2,000 showrooms in the U.K.; the Aqualisa brand was sold in about 25% of them.

DIY Sheds. Do-it-yourself retail outlets like B&Q offered discount, mass-market, do-it-yourself products. Electric showers, because they were cheaper and easier to retrofit, led sales in this channel. The Aqualisa brand was unavailable through this channel, but its Gainsborough brand was available in 70% of the approximately 3,000 DIY outlets in the U.K.

Plumbers (Installers)

There were about 10,000 master plumbers in the U.K. Plumbers had to undergo several years of training and three years of apprenticeship to become master plumbers. There was a significant shortage of master plumbers in the U.K., and as a result, consumers often had to wait six months before a plumber could take on a new job.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

A standard shower installation was usually a two-day job and required significant bathroom excavation.[3] Plumbers—who installed 40 to 50 showers a year—charged about €40 to €80 per hour, plus the cost of excavation and materials (plumbers usually passed the cost of the shower and other materials on to the consumer with a small markup). Because prices to consumers were usually quotes as lump sums, consumers were often unaware of how the costs broke down (labor, materials, excavation, and so on).

For plumbers, unfamiliar products could present unknown performance problems, and a bungled installation often required a second visit, paid for out of the plumber's pocket. For this reason, plumbers generally preferred to install a single shower brand and were extremely reluctant to switch brands. Loyalty to a single brand created expertise in a given brand's installation idiosyncrasies and failure problems. Over time, plumbers also liked to familiarize themselves with the service they could expect from a manufacturer.

As a general rule, plumbers distrusted innovation. For example, in the 1980s some manufacturers had introduced electronic "push-button" controls for temperature settings. Rawlinson recalled: "The mechanisms were poorly designed and didn't work well at all. Ever since that, there's been a great deal of skepticism toward anything that seems technologically newfangled—especially if it involves electronics."

The Development of the Quartz Shower Valve

Historically, Aqualisa's reputation had always been strong in the U.K. shower market; the company was generally recognized as having top quality showers, a premium brand, and great service. Aqualisa's market share ranked it number two in mixing valves and number three in the overall U.K. shower market. (See **Exhibit 7** for additional information on Aqualisa's financials.)

However, when Rawlinson joined the company in 1998, he believed it was vulnerable, for several reasons. First, Rawlinson believed that other companies were catching up to Aqualisa in terms of product quality. Second, Rawlinson feared that the market was beginning to perceive Aqualisa products as being overpriced (see **Exhibit 8**). Third, while Aqualisa's service was still regarded as being "great," actual service had slipped over the past few years. And finally, about 10% of Aqualisa showers still "went wrong," a percentage that hadn't improved in many years. Rawlinson remembered:

> When I first joined Aqualisa in May of 1998, what I found was a highly profitable company that was quite comfortable with its niche in the market. It had 25% net return on sales and was enjoying 5% to 10% growth in a mature market. Everyone was happy. But I was worried. I knew the current points of difference were eroding and that eventually the market might implode on us. From the start, I firmly believed that the future was to focus on innovation.

Rawlinson's first priority was to build a research and development (R&D) team:

> We brought together a top-notch team of outsiders and insiders to look at the future of showers. We had engineers, R&D, our sales and marketing director, and a market research guy. We did research studies to understand peoples' problems and attitudes to showering. We had a top industrial designer and a bunch of Cambridge scientists who apply technology to industrial applications. We put all these people into a huddle—held brainstorming sessions,

[3] Typically, the plumber would either excavate himself, or he would subcontract the work to a plasterer. The price plumbers charged for excavation varied significantly.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

with flip charts and felt-tip pens. And we came up with all kinds of things to improve in a shower.

As a result of their market research, Rawlinson realized that the consumer wanted a shower that looked great, delivered good pressure at stable temperatures, was easy to use, and didn't break down. Plumbers wanted a shower that was easy to install, with a guarantee to not break down or require servicing. The team's brainstorming led to some real breakthroughs. Rawlinson noted:

> The breakthrough idea was to locate the mechanism that mixes the water remotely—*away* from the shower. All the problems with showers come down to the fact that you have to put a clumsy, mechanical control right where the user doesn't want it—*in* the shower. And that's why you get these big bulky boxes on the shower wall. Or you're constrained to put the mechanism somewhere in the wall behind the shower—equally difficult and costly to install or repair. But locating the mechanism remotely—all of a sudden that opened up all kinds of opportunities because now you didn't necessarily have to excavate.
>
> The problem was, how could a user control a mechanism that was located remotely? And that's when we brought the electronics people in. Of course, that generated a lot of skepticism, because electronics had flopped so terribly in the '80s. But nobody had ever thought of using the electronics to control the valve remotely. And when we came up with the idea, we realized very quickly that it had *huge* potential.

Once the product started to take shape, field tests were next. Rawlinson arranged for about 60 consumer field test sites, installing showers in the homes of sales reps, company personnel, and friends of friends. Feedback from the field tests prompted constant modifications. He recalled:

> Consumers told us they wanted maximum pressure. But once we gave them maximum pressure (about 18 liters per minute) consumers felt it was wasteful. So we had to give them the option to run at two-thirds speed—which they liked more than maximum pressure.
>
> With the temperature settings, it was the same thing. We knew from our research that the optimal water temperature was 41° [Celsius]; anything above that would be uncomfortably hot. So we created this temperature control that had an upper limit of 41°. But people hated the fact that it required them to turn the valve all the way to the right, into the "red zone" on the indicator. Even though nobody wanted their water hotter than 41°, they all wanted the *option* of being able to make the temperature hotter. So we reset the maximum to 45°, people set their temperature at 41°, and everyone liked that much better.

After three years of development—during which the company spent €5.8 million—the result was a radically different kind of shower (called Quartz) that cost the company about €175 to €230 to make. By this time, the company had invested in a new state-of-the-art testing facility, had acquired nine patents, and had grown its engineering team from 6 to 20. Several additional products were in advanced stages of development, while dozens of other ideas were in the early stages of the new-product development pipeline.

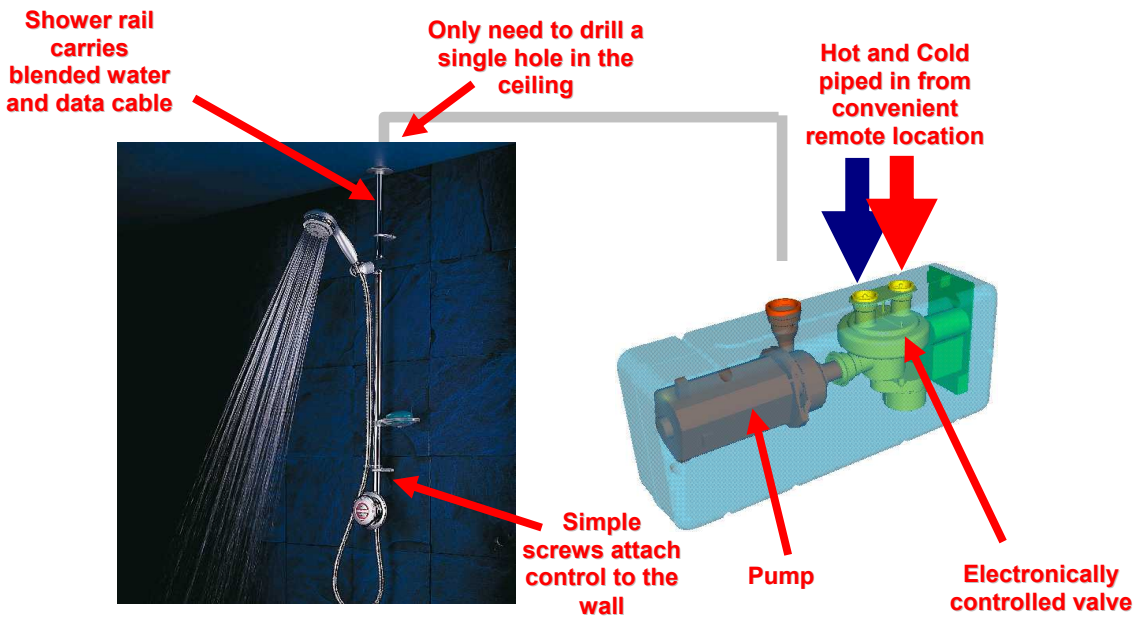
The Quartz: A Breakthrough in Shower Technology

The Quartz came in two versions. The Quartz Standard Shower was designed for installations that already had, or did not need, a pump; the Quartz Pumped Shower included a pump.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

To install the Quartz shower, the plumber had to identify a physical space to accommodate the remote processor, which was about the size of a shoe box. The processor contained the thermostatic mixing valve, and when applicable, the pump. The location of the processor could be anywhere within reasonable proximity to the shower—under a cabinet, behind a wall, inside a closet, in the ceiling, wherever. The device could be mounted horizontally, vertically, or on its side, depending on space constraints. The only requirements were that it had to be in a location where cold and hot water could be piped into the processor, and it had to be plugged into a standard power outlet. Once these requirements were met and the processor was in place, a single pipe fed the mixed water from the processor to the showerhead. Because of the flexibility associated with locating the processor remotely, excavation of the bathroom could often be avoided altogether. Instead, a plumber had only to drill a single hole (to accommodate the pipe feeding the mixed water to the showerhead, along with a data cable) into the ceiling above the shower (see **Figure B**).[4]

Figure B The Quartz Technology



Source: Aqualisa.

The benefits of Quartz were significant. Whereas a traditional shower installation took two days, some plumbers were already reporting an installation time of a half-day for the Quartz. Plumbers were finding that the installation was so straightforward that they could even send their young apprentices—many with little or no experience—to complete the entire job. Rawlinson had spoken to several plumbers during the field trials, "They raved about it. They said, 'It's just what we want! We need something like this that we can push-fit-connect-you're done. It's not in the wall, and it's very easy to use.'"

[4] The ease of installation was a big selling point for the Quartz. In fact, it was so easy that the installation guide itself was being used in Quartz's promotional and sales materials.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

For the consumer, the Quartz shower provided efficient and reliable water pressure and temperature. In addition, it featured a "one-touch" control mounted on the shower wall. The easy-to-use push-button control light on the valve flashed red until the desired temperature was reached (see **Figure C**). Rawlinson remembered that this had been another feature with unexpected psychological benefits:

> When consumers turn a traditional shower on, they almost always turn the shower to very hot … and then wait for it to warm up. They usually have to stick their hand in the shower a few times until they feel it's hot enough to get in. Once they're in the shower, they immediately start fiddling with the controls again. It's incredibly inefficient and inconvenient.
>
> With our Quartz technology, the temperature control is automatic—there's no more fiddling. You don't have to manipulate anything anymore. Just set the temperature once, and leave it on that setting. When you want to use the shower, just press a button, and you've turned the shower on. When the red light stops flashing, you know the water's at the right temperature. Get in.

During field trials, consumers loved it. "We call it the 'wow' factor," Rawlinson said. "They loved how it looked; it delivered great power, and now it had neat fittings and push-button controls that lit up. Parents loved it because it was safe for their kids to use on their own. The elderly loved it because they didn't have to fight with stiff valves. What wasn't to love?"

Figure C The Quartz Thermostatic Control

Source: Aqualisa.

Rawlinson was already anticipating upcoming product releases. In a few months, Aqualisa would be ready to launch a Body Jet product that fit easily on top of the Quartz control valve, creating several jets of water that sprayed horizontally from the wall onto one's body. This feature was popular in spas and health clubs; women particularly liked it because it allowed them to shower without getting their hair wet. The R&D team had also just finished designing a "slave" remote for the Quartz. Rawlinson described it: "Imagine waking up in the morning, rolling over, and pushing a 'remote control' next to your bed that turns your shower on. By the time you stumble in the bathroom, your shower is ready with the water at the right temperature, waiting for you to get in. Because we're dealing with electronics, the wireless technology to do this is almost trivial."

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

In fact, Rawlinson and the R&D team could spend endless hours coming up with new product ideas; as Rawlinson liked to say, "Once you put a computer in the bathroom, the potential is unlimited!"

To launch the new product, Aqualisa had hit the major shows, like the Bathroom Expo in London in May 2001. At the Expo, the Quartz had been awarded the top prize.[5] Press events had been coordinated with demonstrations. The trade press had raved about the "cleverness" of the product and its "elegant design." One reporter wrote:

> Imagine a shower that takes less than a day to fit, doesn't have flow problems, offers accurate temperature control, is simplicity itself to use and comes in versions to suit all water systems. It sounds too good to be true—but after three years of brainstorming . . . Aqualisa has achieved the apparently impossible with a product that takes a genuinely new look at a set of old problems—and solves them.[6]

Other reviewers had been similarly positive, and the Quartz had been featured on the covers of several prominent trade journals.

Initial Sales Results

Aqualisa had a 20-person sales force that sold to distributors, trade shops, showrooms, developers, and plumbers. Tim Pestell, Aqualisa's national sales manager, described the sales team's priorities: "Our sales force spends about 90% of their time on maintaining existing accounts—servicing existing customers: distributors, trade shops, contractors, showrooms, and developers. Ten percent of their time is spent on developing new customers." Aqualisa's sales force also had long-standing direct relationships with a group of plumbers—"our plumbers" as director of marketing Martyn Denny called them—who were very loyal to the Aqualisa brand.

With the launch of the Quartz, the Aqualisa sales force had contacted its network of plumbers, calling face-to-face to introduce and explain the new product, but few actual sales had resulted. Indeed, despite all the early excitement over the product, and despite being made available in all of Aqualisa's normal channels, very few units had sold in the first four months on the market. Rawlinson worried:

> Our channel partners are sitting there having bought a thousand of these Quartz products, and they've sold 81. The poor product manager is looking pretty stupid at this stage. This is a huge problem for us—pretty soon they're going to write this off as a failure and forget about us. I can see a scenario in six months' time where real sales in the market—currently about 15 units a day—are still down at 30 or 40 units a day. We'll look like a niche product. We've got to sell 100 or 200 a day to break through to the mainstream.

Part of the problem was that plumbers were wary of innovation, particularly any innovation involving electronics. Rawlinson told the story of a personal friend who had to insist that her plumber install a Quartz:

> His initial reaction was negative. He said, "Oh no, I wouldn't put one of these in, Madam. I've had these electronic showers before. They don't work." She insisted and made him put it

---

[5] "Showered with Success," *Bathroom Journal,* June 2001, p. 13.

[6] Ibid.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

> in. He told her it would take two days. He was done by lunchtime the first day. And he said, "That was so easy. Can I have the brochure?" And now he's got two or three more jobs. So once a plumber puts one in, he's a convert.

Pestell, however, noted that given the conservative nature of most plumbers, "Adoption is a long, slow process. It takes time." In addition, he pointed out:

> Some people at the company think the Quartz will eventually replace our core product—the Aquavalve—and become mainstream. I think it's really a niche product—it's good for homes with children, or for the elderly and the handicapped. It's easy to use, safe and so on, but we can't forget our core products every time we launch something new. The Aquavalve is our bread and butter, and it can go away if no one's watching.

Denny concurred, "How do we pitch our other products alongside Quartz? Right now, if Quartz is mentioned, our salesmen tend to gloss over our other products. In fact, to sell the Quartz, they have to point out *deficiencies* in our existing products. That doesn't really make any sense, does it?"

According to Rawlinson, the only place Quartz seemed to be gaining any traction was in the showrooms:

> Showrooms are traditionally quite a niche market. But I think we've made some penetration into that sector, and we're starting to get working displays around the country. Because you put one of these things in, you press that control button, the little red light comes on: it's sold! Everybody loves it. And where it's gone in—a working display—it's become the leading product in that showroom almost immediately.

A Shift in Marketing Strategy?

The waitress began to clear the coffee cups. Rawlinson absently dusted at the crumbs on the tablecloth as he leaned forward and said:

> Once upon a time Microsoft was a tiny little provider of specialist software. Bill Gates had the vision to see that if you own the operating system on the PC, you can build from there. One of our presentations calls the Quartz the "Pentium Processor" because we can do so much once we have this kind of control over your bathroom . . . we can use this technology with a shower . . . but in the future we could use it with a bath, the sinks, whatever . . . . We're only limited by our creativity.

The question was, how to generate sales momentum? Was the problem that the Quartz was priced too high? Rawlinson wondered whether a discounted price might generate more market enthusiasm for his innovation. Because Quartz was such a breakthrough product, Rawlinson was loath to go this route. On the other hand, Rawlinson *was* willing to rethink his overall marketing strategy for the Quartz. Some of the marketing options he was debating included the following.

Targeting Consumers Directly

"We have so many problems reaching the plumbers," Rawlinson continued. "So I'm thinking to myself, why not target consumers with this product and try to build a consumer brand? Triton has proven that it can be done. And if there's ever been a breakthrough product to do it with, this is it. I think this is a 'bet the company' kind of product."

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

The problem with this option was that Rawlinson was finding it tough to justify a high-risk, high-reward strategy when company results were already healthy. As a test, a one-time-only print advertisement campaign was scheduled to run in *The Mail on Sunday* magazine in October (see **Exhibit 9** for copy of the advertisement). But, as Rawlinson noted, "One ad does not a campaign make. I'm not overly optimistic." A large-scale consumer campaign would cost about €3 million to €4 million over two years. With a net income of about €17 million, this would be a very tough sell across the company.

Targeting Do-It-Yourselfers

A second alternative was to target the do-it-yourself market. Rawlinson noted, "The Quartz is so easy to install, you or I could even do it." Aqualisa was currently selling its Gainsborough line to this market. The risk, as Rawlinson pointed out, was that "once you show up in the DIY sheds, you can't climb back out. You have to be careful about associating your premium brand with your discount channel."

On the other hand, the value proposition of the Quartz was so superior to that of the electric showers that dominated this market, [that] perhaps it *was* possible to charge a premium for this product through that channel, Rawlinson thought. In addition, he wondered if Aqualisa could get its partners like B&Q to help push the product, avoiding the need for expensive consumer advertising.

Targeting Developers

A third alternative was to target developers more aggressively. Rawlinson thought aloud: "The plus side is that this could conceivably be a large-volume channel. If we could get a couple of developers on board, we'd sell a lot of showers. In addition, it would force plumbers to get familiar with our product since they would have to install whatever the developers tell them to install." But there were downsides—including the significant time lag before showers would reach consumers through this route. As Rawlinson noted with some urgency, "We've got *at most* a two-year lead on the competition."

Rawlinson also wondered how tough a sell it would be to developers. Developers had already shown a reluctance to spend money on conventional Aqualisa products because they perceived those products to be premium brands; even at a 50% discount, the company had been unable to make the sale. And again, given that Quartz was such a breakthrough innovation, Rawlinson was reluctant to discount the price.

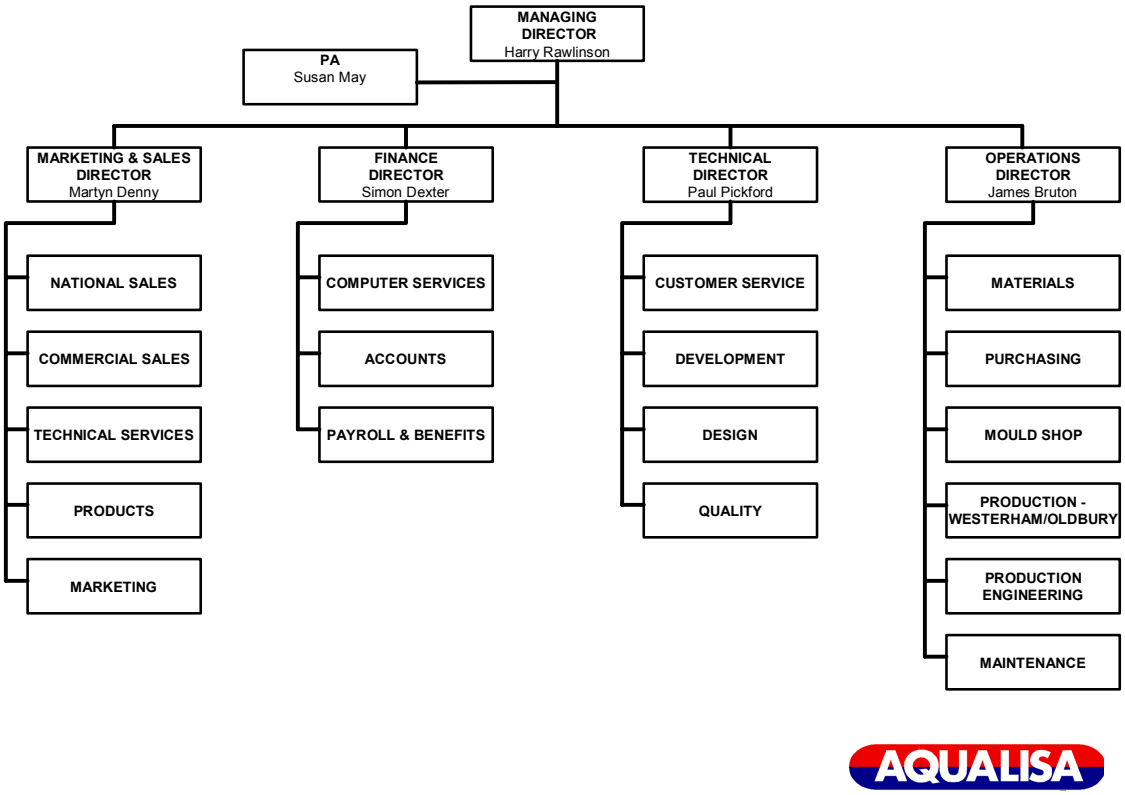
What to Do

If his managers were right and this was a niche product, Rawlinson wondered if maybe he should simply lower his expectations. Everything was basically well with the company—but at the same time, he could not help arguing:

> Business school taught me to think strategically, to be a visionary. Everything I learned at HBS tells me this is a breakthrough product. My worry is we'll miss the opportunity and in five years' time, someone else will have got the world market for this technology. We've had a nice, comfortable, contented life in the U.K., and it's hard to get a small company—particularly one that's been so profitable all these years—to be ambitious. But one of the things that a Harvard background gives you is the itch to think big. You see other companies that break out of the pack because they've got the right product and they've got the right vision. So why not this company?

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

Exhibit 1 The Aqualisa Organizational Chart



Source: Aqualisa.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

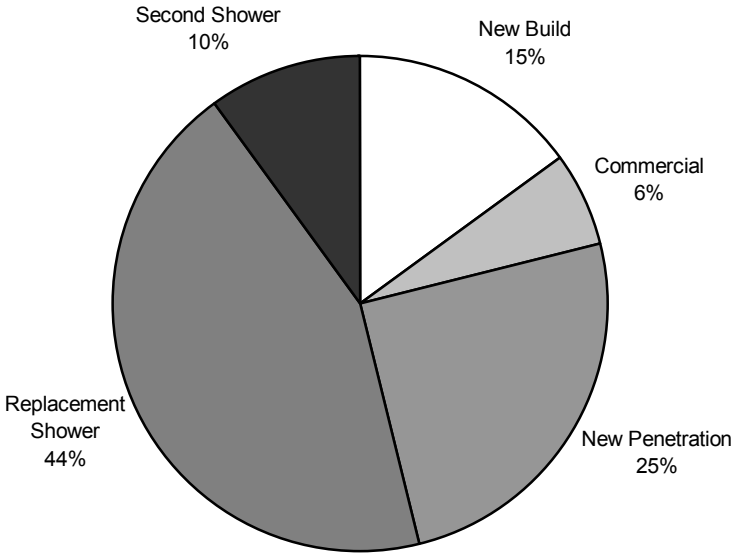
Exhibit 2 U.K. Market Share Data: Units Sold (2000)

Brand	Electric Showers	Mixer Showers	Power Showers	Total Units Sold
Triton	479,000	41,000	25,500	545,500
Mira	155,000	200,000	35,000	390,000
Gainsborough	180,000	20,500	3,000	203,500
Aqualisa	6,000	94,000	22,000	122,000
Masco	35,000	50,000	35,000	120,000
Ideal Standard	0	60,000	0	60,000
Heatrae Sadia	40,000	0	0	40,000
Bristan	0	20,000	0	20,000
Grohe	0	20,000	0	20,000
Hansgrohe	0	15,000	0	15,000
Others	205,000	29,500	29,500	264,000
Total Units Sold	**1,100,000**	**550,000**	**150,000**	**1,800,000**

Source: Aqualisa.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

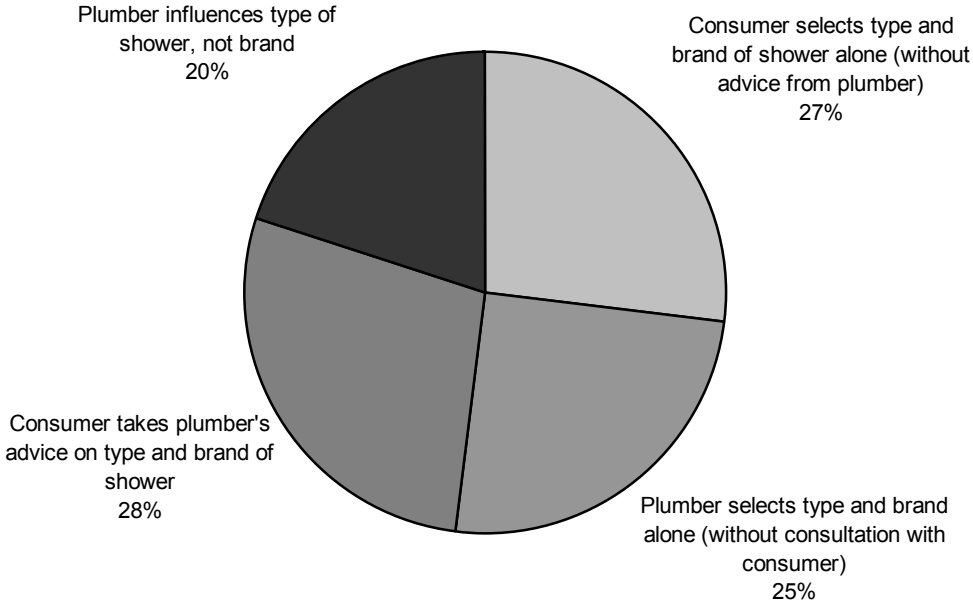
Exhibit 3 U.K. Shower Sales, by Reason for Installation



Source: Aqualisa.

Note: "New penetration" refers to new showers installed in existing bathrooms (where plumbing already exists—e.g., a shower added to a bathtub). "Second shower" refers to installation of a new shower in a location where no plumbing exists.

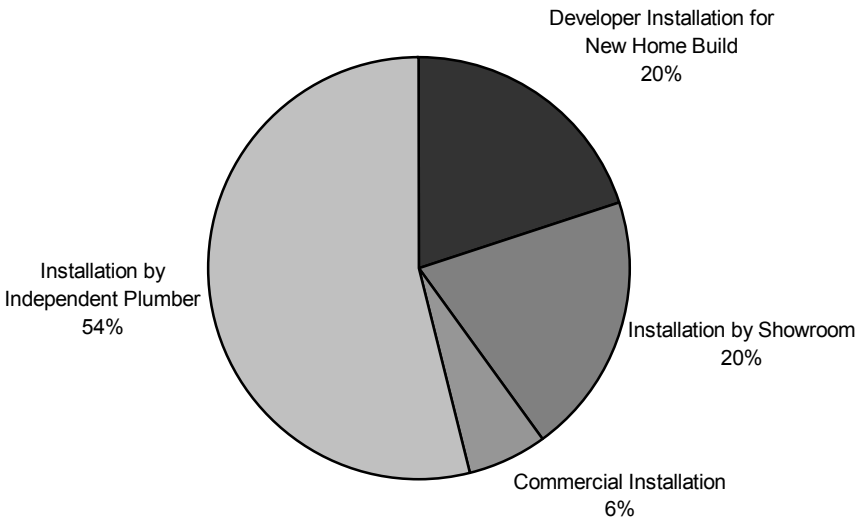
Exhibit 4 Shower Selection for Mixer Showers



Source: Aqualisa.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

Exhibit 5 U.K. Shower Market, by Installation Method (Mixer Showers Only)



Source: Aqualisa.

Exhibit 6 U.K. Shower Market, by Product Type and Channel (Total Units Sold, 2000)

	Electric Showers	Mixer Showers	Power Showers
Do-It-Yourself Sheds	550,000	80,000	20,000
Showrooms	55,000	70,000	20,000
Trade Shops	330,000	400,000	110,000
Other (Electrical wholesalers)	165,000		
Total Units Sold	**1,100,000**	**550,000**	**150,000**

Source: Aqualisa.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

Exhibit 7 Aqualisa Select Financials 2000 (€ in thousands)

Shower Sales (Electric, Mixer, Power, and Pumps)[a]	€46,212
Other[b]	21,744
Total Sales	**€67,956**
Gross Margins	**€31,824**
Sales	€4,080
Marketing	2,724
Customer Service	1,322
Research and Development	1,764
Finance, Administration & Depreciation	4,579
Total Overhead Spend	**€14,469**
Base Profit	**€17,355**

Source: Aqualisa.

[a] Includes all Aqualisa shower lines, including Aquastyle, Aquavalve, and Aquastream. Also includes Aqualisa pumps, as well as a variety of other specialty shower models sold by Aqualisa; these were primarily differentiated by style (e.g., contemporary, antique, brass, etc.). Does not include other brands such as ShowerMax and Gainsborough.

[b] Aqualisa sold a variety of other products, including shower accessories and commercial products.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

Exhibit 8 Aqualisa: Selected Products and Price Points

Model	Segment	Retail Price	MSP	Cost	Margin
Aquastyle	Premium	€230	€155	€95	€60
Aquavalve 609	Standard	€715	€380	€155	€225
Aquavalve Value	Value	€390	€205	€75	€130
Aquastream Thermostatic	Standard	€670	€350	€175	€175
Aquastream Manual	Value	€480	€250	€140	€110
Quartz Standard	Premium	€850	€450	€175	€275
Quartz Pumped	Premium	€1,080	€575	€230	€345
Aquaforce 1.0/1.5 Bar	Standard	€445	€230	€125	€105
Aquaforce 2.0/3.0 Bar	Premium	€595	€310	€175	€135

Source: Aqualisa.

Note: "Retail price" refers to the price charged by the retailer (trade shop, showroom, or DIY outlet) to the customer. "MSP" refers to manufacturer selling price (Aqualisa's price to the channel).

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011

Exhibit 9 Advertisement for the Quartz Shower

Source: Aqualisa.

Purchased by Arden Grady (grady_arden@gsb,stanford.edu) on December 07, 2011