

### Ebac – dipping their toes further into the water

When entrepreneur John Elliott, launched Ebac over 30 years ago he had to create the market for dehumidifiers in the UK. Dehumidifiers are used in the home to suck moisture out of the air, condense it over refrigerator coils and collect it for disposal. During cold wet weather, when walls become damp and windows drip with water, the compact units help to prevent mould and mildew growth and damage to decorations and woodwork.

Initially in the early 1980s Elliot had to use direct marketing and door-to door selling because stores refused to sell the product. However, he managed to prove that there was a demand and sales soon grew to 100 000 units per year. Now Elliot's daughter Pamela, who has taken over as managing director, faces new challenges. The highly specified Ebac dehumidifiers are being undercut in price by Asian imports, which are sold for as little as £50, a quarter of the price of the best selling Ebac product. In the big electrical retailers in the UK, such as Currys, Comet and Argos, there is pressure to



force down prices and many customers are unwilling to pay such a premium, even for a higher specified product. Ebac claim that their product uses technology that enables it to be designed to be particularly effective in the UK. They claim that it is much more energy efficient than imported products when used in the UK situation.

Despite this competitive challenge Ebac has resisted the temptation to move its manufacturing to lower cost Asian markets, preferring to maintain its manufacturing base in the north east of England, where the Elliott family has always lived.

By 2004 Ebac's UK market share had fallen to 25 per cent (40 000 units) and the dehumidifier division was making a small loss on £6 million sales. In response Ebac decided to return to its direct marketing roots and sell online, investing in a range of product designs, a call centre, television and magazine advertising and promising next day delivery. Following this change of direction sales have grown 60 per cent in 12 months in 2006. Ebac has offices in the US, Germany, France, Belgium, Greece, Singapore, Israel and Saudi Arabia.

As the company has grown it has also diversified. For example, since 1994 it has made water coolers for commercial customers, such as Nestlé PowWow, which rents them out, delivers water and services the equipment. Ebac have developed a patented technology which prevents bacteria entering the pipes when water bottles are changed. Following a major investment in research and development the company has now developed a 'bottom loading' water cooler that avoids customers having to lift heavy water bottles into position in the 'top-loaded' coolers. Making both water coolers and dehumidifiers makes sense because sales of water coolers increase in the summer, a slow time for sales of dehumidifiers.

The company is now looking to exploit its core capabilities in refrigeration technology, innovation and customer service and apply them to new markets. They have recently launched a rental and delivery venture in Germany and Spain. In markets such as India and Russia there are further opportunities for water coolers.

The company has further diversified, launching Waterfall Spa in 2005, a boutique ladies only one-day spa in the centre of the city of Leeds. The start-up cost for this venture was the

main reason for the £2.3m loss against total group sales of £30 million in 2006, but the company is confident that this venture will succeed and is planning ten more outlets.

When asked to comment on Ebac's current situation and suggest a way forward three experts came up with different views:

*Expert 1:* Ebac is endangering its opportunities in bottled water coolers and spas, which will require further financial investment to exploit their potential internationally, by insisting on manufacturing in the UK. Humidifier prices would always have to be much higher and so would require considerable investment in advertising, brand development and innovation.

*Expert 2:* Given the intense competition in dehumidifiers, the diversification is sensible, providing the opportunity to develop a new customer base. Moreover online marketing should reduce the risk. However, there are the additional operational risks of entering new country markets, with currency, insurance, recruitment and defending the patented technology adding new problems. Ebac must also decide whether to internationalise using distributors or set up their own offices.

They should therefore not expand too far or too fast in new country markets.

*Expert 3:* Ebac must now develop its brand to justify higher prices to image conscious customers with higher incomes and explain to them the benefits of the well-made, higher specification product, which on the face of it appears to be the same product. The US and Australia are new country markets where this appeal would work. Diversification of the business works when selling existing core skills and products into new markets, or developing new products for existing markets. The Waterfall Spa is a completely new business, is highly risky and should essentially be regarded as a start-up.

## QUESTIONS

- 1 Carry out a full analysis of Ebac's current environment, market and company situation.
- 2 Identify three strategic options for Ebac's further international development and explain, with justification, which strategy you would recommend.