

Who is demanding our supply?

The current changes in the air conditioning supply chain turn previous thinking on its head, suggests **Bob Cowlard** in our monthly opinion column

It must be summer. Not only is it raining, but Big Brother has returned to our television screens and we are witnessing a fresh shake-up in the air conditioning supply chain.

Some will question whether the recent changes in the trade are really what contracting customers want. Could they be driven by forces unrelated to customers' needs?

At a time when the economy is at its weakest for many years and the normal downturn strategy is consolidation and overhead control, we are seeing an explosion in new approaches and routes to market in the supply chain. I can't remember anything quite like it.

One major manufacturer, having spent millions of pounds acquiring four out of five of its UK distributors and preaching the virtues of direct supply, has just appointed the largest wholesaler in the country as a distributor. Is this a reaction to market requirements, we wonder, or factory needs?

Another of the big boys, having spent years building up its direct sales force for VRF systems (while using wholesalers for splits), has just announced the appointment of two companies to sell VRF systems. It isn't just a short-term toe-in-the-water either – it has signed three- and five-year agreements. It appears to turn the existing strategy on its head.

It's not only the well-established big guns making changes. One Japanese manufacturer, having enjoyed meteoric growth over the past two years via a single sales company, has appointed a new smaller – although successful – distributor.

Alongside manufacturers bolstering their re-seller channels, there are some straining nerve and sinew to launch or expand direct sales.

With so many counter currents, the model for air conditioning distribution is in the melting pot. The emerging model appears to be – direct is good, dual is good. The complexity comes from factoring in the product mix in each case (VRF or splits), the strength of the brand – in terms of whether it's a market leader or new entrant – and whether the pitch is to arrest decline or accelerate growth.

The truth is, all of these factors have to be taken into account when assessing the best route (or routes) to market for a company. The one-size-fits-all approach is dead, if indeed it was ever really alive.

The air conditioning industry has enjoyed an exceptional period of growth over the past decade. But it is

questionable whether we have given sufficient thought and investment to ensuring that growth is sustainable. There has been a reluctance to expand into other areas and properly educate the user. As a result, air conditioning remains a mechanical cooling solution rather than an integral part of daily life.

I'm not suggesting, by the way, that the previous strategies of these companies were wrong. But it is hard not to view the volte-face as a concerned response to the past-growth trajectory not being maintained.

Factories need feeding. It's a basic fact of manufacturing life. It would be surprising then, perhaps, if the approach that characterises the consumer electronics sector (more outlets = more sales) did not diffuse into the previously specialist area of air conditioning.

I have always believed a supply chain should add value. But will the changes we are seeing really achieve this? How long before we see VRF via the internet?

There's possibly a couple of other factors at work here: finance and people. Are large manufacturers struggling to manage credit facilities for smaller contractors? And are they losing business to the 'people buy from people' ethos rather than faceless corporations?

I am an advocate of the role of the distributor, but I recognise the changing market and the fact that major end users might want to talk directly to the manufacturer about supply agreements. The key

issue is, how far does that go? Will manufacturers be installing next, or servicing and maintaining equipment?

The cradle-to-grave dream is alive in Japan. There, Daikin is one of the largest installation companies in the country. Could this approach one day arrive here?

With the economy on the back foot, some of the current changes are making life harder for distributors. It would be nice if just half the manufacturers' energy was spent on supporting and investing in the supply chain – and expanding the market by promoting our virtues, rather than just trying to get a bigger slice of a smaller, and decreasing, pie.

● **Do you agree or disagree with Bob? Tell the editor**
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