



High Tech Marketing Plan
Adding a High Tech Solution for a Low Tech Business

High Tech Marketing for Entrepreneurs
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PROJECT DESCRIPTION

Brenton Safety is a distributor and servicer of safety equipment products. Brenton Safety is currently experiencing growth stagnation in their core product business and it is looking for ways to increase its profit margins. Already narrow product margins are being pressured, and overall revenue growth has been reduced to 1-2% per year. Brenton Safety is one of the few safety equipment distributors that have embraced technology. Over the past few years, Brenton Safety has developed an Internet site for customers to order safety products. Though this initial attempt at implementing technology as a means of expanding its business has proved successful, it could be considered only a marginal success.

Brenton Safety engaged our team to develop technology based marketing strategies for growing their business and increasing their profit margins. After our initial conversations with Brenton Safety, we concluded that the best approach to developing our recommendations was through the following process:

- * ***Identifying all potential technology options*** – Our team worked with Brenton Safety management to identify all existing technology based marketing proposals that had been developed internally. Additionally, our team analyzed the safety equipment market and offered recommendations for additional technology based marketing tools that provided some level of potential for satisfying Brenton Safety’s ultimate objectives; Higher Growth rates and Higher Profit margins.

- * ***Evaluating each option based on Brenton Safety Objectives*** – Once our team identified each of the available technology options, we evaluated each one based on a number of criteria including; Size of Market Opportunity, feasibility within a stagnant “old economy” safety equipment market, Potential reduction in processing costs, and costs to implement technology strategy. Our evaluation parameters were structured to determine the technology strategy that would be best suited for increasing Brenton

Safety's Sales Potential and reducing the costs associated with safety equipment distribution and services.

- * *Developing technology based marketing recommendations* – At the conclusion of our evaluation process, our team developed a technology based marketing strategy targeted specifically for Brenton Safety. Our recommendations are based on the market data for each of the technology options and the unique assets of Brenton Safety.

INDUSTRY OVERVIEW

The safety equipment industry accounts for 4% of the total industrial distribution market. According to this allocation, the worldwide safety equipment market is \$56 billion. This market includes products designed to provide a safer work environment, including respiratory protection products, gas detection and environmental monitoring devices, personal protective products, industrial safety products, medical/first aid products, ergonomic products and other associate products. The safety equipment market is a federally regulated industry. Many companies originated as family-owned entities. The market is comprised of various different products produced from numerous safety equipment manufacturers. Within the security market, safety equipment distribution firms serve as manufacturer aggregators and provide a one-stop source for most safety equipment.

Distribution Market Highlights

- The market is growing at a 5-year average annual rate of 4.0%.
- It is expected to grow at 3-5% over the next five years (before factoring the events of September 11).
- Industry profit margins are relatively low, estimated to be 1.0% (pre-tax).
- The market is relatively stagnant and it has seen little change over the past 30 years.
- The market is served by both large distributors (over \$100 million) and small distributors.

- Significant Barriers to entry exist in the form of longstanding customer relationships and name recognition within the industry.

Competitive Landscape

The safety equipment distribution function is served primarily by large players. Large distributors target primarily fortune 500 corporations and large government agencies. The top large players include:

W.W Grainger - Grainger is a \$5 billion global distributor of MRO and industrial equipment. It's Lab Safety Equipment division brought in \$330M in 2000.

Fisher Scientific - Fisher Safety is a major participant in the large market for occupational health and safety products. It distributes safety-related products, including respiratory protection systems, environmental monitoring and sampling equipment, critical care environments, production safety apparatus, and other health and safety supplies

Vallen - Vallen was recently acquired by Netherlands based Hagemeyer. Since the acquisition, it has experienced a decreasing market share, potentially due to mismanagement from Hagemeyer. It has closed many of its regional distribution facilities and fired a significant portion of its sales force and employees.

Small equipment distributors serve the remaining small to medium sized clients that are ignored by bigger equipment distributors. There exist numerous small distributors across the nation, with most operating within their specific region.

BRENTON SAFETY

Brenton Safety began in 1942 as a Safety equipment distributor and has expanded its business to include services for safety equipment over the past ten years. Brenton Safety selects each of their environmental health and safety products for distribution based on

their quality, performance, and value. Brenton Safety is a longstanding player possessing relatively high name recognition, particularly on the West Coast. It has positioned itself among small safety equipment distributors as a high quality complete service offering, which offers the following advantages:

- A large selection of products from many manufacturers
- Just in time (JIT) service
- 24/7 service
- Vendor managed inventory
- Site managed inventory
- Client training
- Superior customer service
- Competitive pricing

As might be expected, competitive differentiation among equipment distributors is based primarily on price, however Brenton's high quality image and comprehensive service offering have positioned it as superior to many of the above competitors on the West Coast, particularly in the Bay area

Historically, Brenton has focused on small to medium size regional companies across various sectors including government, utilities, petrochemical, agriculture, construction and manufacturing. Brenton cuts off client prospecting at \$1 million in annual revenues – companies with less typically do not have significant safety budgets. Although, to date, Brenton Safety has not served many Fortune 500 sized corporations, it has begun to pursue these contracts with more aggression of late as it has developed the infrastructure and support staff required to serve large clients.

POTENTIAL TECHNOLOGIES EVALUATION & ANALYSIS

In this section, we analyze and assess three technology options available to Brenton Safety to meet its strategic objectives of increased growth rates and profit margins. Specifically the three technology options discussed are e-commerce B2B marketplace distribution, an ASP model to manage internal safety equipment portals sites for its customers, and web technology utilization in the development of a safety management site targeted to the currently ignored small business niche of the safety equipment customer market. We will focus the greatest attention on the final aforementioned option, evaluating not only the technology and market opportunity, but also assessing a detailed marketing and implementation strategy.

B2B Marketplace Distribution

Industry dynamics

B2B e-marketplaces are a technology that could be used as a means of distribution for Brenton Safety. B2B e-marketplace transactions account for a large amount of business-to-business commerce, though, they have never performed according to forecasts. In fact, a study conducted by the Gartner Group indicates that the prognosis of B2B commerce has dwindled significantly. According to the study, earlier forecasts of e-commerce transactions reaching \$7.3 trillion in 2004 were over estimated, and as a result, the Gartner Group now predicts that B2B transactions will account for \$4.95 trillion worth of transactions.

B2B e-market trends suggest that e-commerce will be successful in very specific vertical industries including; chemical, steel and process manufacturing industries¹ Vertical e-marketplaces cater to specific industries. Horizontal marketplaces are not forecasted to see significant growth. Horizontal e-marketplaces offer similar product categories to multiple industries. E-commerce marketplaces are systemically difficult to compete in.

¹ Global Sources, Oct 26, 2001

Prices are often squeezed and products and services commoditized as competition is strictly based on price and delivery.

Competitive landscape

Safety equipment is sold through many different e-commerce marketplaces. Though many vertical e-marketplaces exist, the amount of safety equipment sold through these e-market places is difficult to determine. There are relatively few horizontal e-marketplaces focused on selling safety equipment. We have identified five primary horizontal e-marketplaces that offer safety equipment.

- Blue292 (www.blue292.com)
- Environ (www.environ.com)
- Pollution Online (www.pollutiononline.com)
- Water Online (www.wateronline.com)
- Global Sources (www.globalsources.com)

Of these horizontal safety equipment e-marketplaces, Blue292 and Pollution Online are the largest in terms of their value of transactions. Blue292 has offered a safety equipment marketplace since 1997 and has a very advanced catalog service. Blue292 is the only e-marketplace that offers a large selection of safety related equipment. The remaining safety e-marketplaces are focused on a particular subset of the safety equipment market. For example, Pollution Online, launched in 1996, is geared towards providing environmental safety products with 2 million registered website users. Global Sources is focused more towards vertical products for the computer industry than safety products. This company is also well established, being in the trading business for 30 years and providing e-commerce solutions for 5 years. It is publicly traded and is also profitable.

Analysis

After thorough evaluation, we recommend that Brenton Safety should not focus on e-marketplaces as a means to achieve its growth and margin strategies. In order for Brenton Safety to gain significantly from adding itself to an e-marketplace, order sizes must be large. It can be assumed that large safety equipment orders are most likely to be placed

within a horizontal e-market place that caters toward safety equipment. Based on these assumptions, Brenton Safety would need to enter a horizontal e-marketplace.

Unfortunately for Brenton Safety, the prospects for horizontal B2B e-market places do not appear to be bright for numerous reasons.

Foremost, vertical e-market places are providing companies with a one stop shop for all required equipment, without forcing organizations to join multiple e-marketplaces for their procurement needs. Joining an e-marketplace may also squeeze Brenton Safety's profits even further for the following two fundamental reasons: 1) The primary drivers behind e-market places are price and delivery, and 2) Prices are the primary determinant for which an order is placed with a supplier. Additionally, e-market places actually increase industry rivalry because equipment distributor competitors may join the same e-market places. With a large number of competitors in the same e-marketplace, even lower profit margins would predictably follow. In a time when Brenton Safety is struggling to improve profit margins, it would seem difficult to justify entering a trading market environment in which prices will be further pressured.

Because of the previously discussed disadvantages of horizontal B2B e-marketplaces, Brenton Safety, if it still wanted to enter an e-marketplace, could focus on key vertical e-market places in which safety equipment is a large percentage of total transactions. These industries include, petrochemical and utilities. There are many e-marketplaces that exist for each of these vertical industries. Each of the vertical B2B e-marketplaces maintains a relatively small market share of total transactions. The cost of joining any of the B2B e-marketplaces makes it cost prohibitive to join multiples. Without a concentrated basis of transaction volume within any of the vertical marketplaces, this option becomes cost prohibitive. Consequently, although more advantageous than horizontal e-marketplaces, vertical marketplaces are also unattractive means for increasing margin and growth rates.

ASP Model – Safety Equipment Portals

Industry Dynamics

An alternative to the B2B Marketplace model is an Application Service Provider (ASP) model where Brenton would setup and maintain Safety Equipment portals for large industrial customers. ASP's are suppliers that remotely host and manage software applications or web portals for their customers to use in return for a rental/license fee. There may be additional fees based on the size of membership, applications or services available and the transactions made.

Brenton has already tested this concept by setting up and administering PG&E's safety equipment MRO site. This model really gives Brenton an alternative means to interact with its existing customers. Brenton's traditional business model involves sending out yearly or semi-annual catalogs with descriptions, pictures and pricing information for all of the products that it distributes. Brenton's customers call into the company's sales representatives, ask questions, and order equipment. This is a very expensive and time-consuming process. Catalogs are costly to produce and distribute which prohibits frequent updates. By developing and maintaining web-portals Brenton can dramatically reduce the costs of doing business with its customers and potentially gain access to new customers and markets.

Brenton currently offers PG&E access to its catalog, product pricing information, item availability and order status through a Commerce One portal site accessed through the PG&E intranet site. This allows PG&E procurement people to search for items and prices and check on orders without picking up the phone to talk to a Brenton Sales Rep. Updates can easily be made to the site for new items or changes in prices. This site provides Brenton with various benefits including:

- Improved customer relations
- Improved demand forecasting
- Improved inventory management
- Reduced inventory costs

- Improved order accuracy
- Reduced administrative costs

The benefits translate to lower sales and administrative costs that result in higher profits. This site also provides PG&E the benefits of immediate access to updated catalog information, on-line invoicing and payment.

Competitive Landscape

Although, Brenton's proposed business model is not exactly the same as a traditional ASP model where they would be hosting a company's enterprise systems, such as ERP and MRP, it is similar in that Brenton would be hosting Safety Equipment catalog information, transactions, and providing inventory management and forecasting services. Industry pundits look upon the overall ASP market as a high growth sector. ASP revenues are predicted to grow from \$7million in 2000 to \$7 billion by 2004.² ASP users are predicted to grow from 20,000 to 30 million in the same period.³ However, this is a highly competitive market that does not seem to be growing as fast as expected. Many of the companies that have operated in this space have folded. Over 60% of ASP's doing business in the 3rd quarter of 2000 failed by the end of the year.⁴

Analysis

Although this model of providing web-based management for safety equipment purchasing represents improved communication and collaboration with customers and improved margins, it is not without its challenges. We believe that Brenton should explore this opportunity further with certain key account customers but should not change its entire business model significantly to pursue it. We believe that this strategy does not make sense because it requires an existing relationship with the customer and that many customers will be looking for a single vendor to provide portal access for all of their Maintenance, Repair & Operations (MRO) equipment not just safety equipment.

² Cahners In-Stat Group, 2001

³ Forrester Research, 2001

⁴ Gartner Group, Inc. – March, 2001

Brenton's initial investigations into further pursuing this model indicate that, at least initially, this Safety Portal service model requires a pre-existing relationship with the customer. Brenton was able to add these services as a result of an existing exclusive relationship with PG&E for safety equipment. It will be difficult for Brenton to aggressively seek to offer this service to new customers that have already established relationships with other safety equipment distributors. Buyers of these products and services are relatively conservative and do not often switch suppliers. Additionally, we suspect that some of Brenton's competitors, such as Grainger, may already be offering this service to their existing customers.

Secondly, there is a trend for businesses to use a single vendor or "one-stop-shopping" place to purchase all of their MRO goods. Although, Brenton has deep Safety equipment knowledge they do not have the more generalized expertise in other areas of MRO products. We believe that the company should focus on its core competencies in the Safety Equipment and Service area. Although, we recommend that Brenton continue to pursue these types of value added services with existing customers to improve customer loyalty and increase switching costs, our group does not feel that this strategy poses a significant revenue growth opportunity unless Brenton is able to capture new customers by offering this service.

"Safety Manager" Website (Disruptive Technology)

Analysis

Out of the expansion technology opportunities evaluated, we recommend that Brenton Safety pursue a safety management website catering to the small business segment. As already alluded to earlier in this paper, safety management and equipment procurement within large corporations is a burden and maintenance of proper safety equipment inventories, compliance with various safety regulations, and management of general safety issues is typically outsourced to external safety equipment distributors and consultants. Within the Safety Equipment Distribution industry, additional value added support services to address these pains are making up an increasingly large portion of total revenues and, more importantly, providing double digit margins in an otherwise low

margin industry. While large corporations typically outsource this safety management function, paying sizable consulting and administration fees, the small business, as defined by a company with under 100 employees, is forced to internally manage this function. Moreover, for safety distributors and consultants to serve the small businesses market with existing labor-intensive consulting and service arms, it is uneconomical and inefficient.

Consistent with “disruptive technology” theory, we recommend that Brenton Safety address this ignored customer niche by utilizing existing web technologies to create a website that allows small sized organizations the ability to manage their safety programs remotely and inexpensively. The products we envision will provide most of the services offered by safety distributors and consultants including a comprehensive source for safety related assistance, regulation compliance assistance, implementation assistance, information management, training material tailored to the customers’ specific needs and the ability to directly purchase safety equipment.

The concept can be applied to virtually any industry with safety needs. And, although small companies will be initially targeted, the product will be scaled over time to accommodate the needs of medium to large sized enterprises. This solution will encompass all of the known benefits the web has to offer including mass reach, scalability and the ability to offer enough customization to add significant value.

Whether this opportunity can be viewed as a disruptive technology may depend on personal perspective, however, consistent with Christensen’s definition of a disruptive technology, the safety management site does the following:

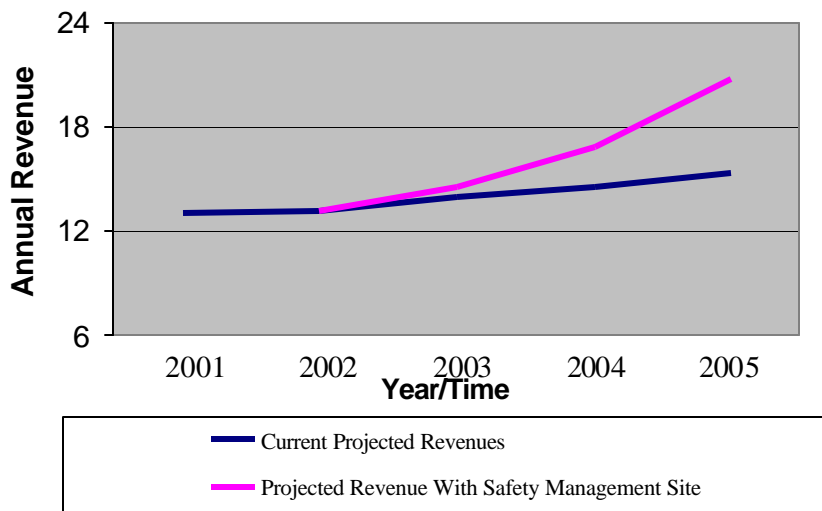
- Utilizes existing technologies
- Serves an ignored customer niche
- Scales as demand increases
- Provides a lower performing option than existing personal consultants and equipment manufacturers
- Offers a drastically lower price than existing options

- Operates beneath large company radars

Achieving Strategic Objectives: Increased Margins & Revenue Growth

Revenue will be generated for the safety management site from fees similar to an application services provider model (pricing is elaborated on in the Marketing piece of

Brenton Safety Projected Revenue Growth With & Without Site



this section) and by revenue from safety equipment sales made through the site. The following chart illustrates the increased revenue that will be realized through launching a safety management website:

From conservative annual membership estimates, revenues from the site are projected at \$550,000 in year one, increasing to \$2.2 million and \$4 million in years two and three respectively

Perhaps of greater significance, profit margins are estimated at 10% in year one, but jump to %60 in years two and three after initial marketing and development expenditures are recouped, limited viral effects transpire and network externalities increase. For detailed graphs illustrating added revenue and profit projections, see Appendix A.

The Market

The demand for safety management services in small companies has grown rapidly over the past decade, driven by the explosion in technology, heightened environmental awareness and increased regulatory requirements. There are over 21.2 million small businesses in the United States, as defined as businesses with less than 100 employees.⁵ Small businesses spend over \$1.1 billion on safety equipment and related services annually.⁶ Due to the event of 9/11, recent demand has increased further, specifically as it pertains to relevant safety equipment such as gas masks and fire hazard equipment. Unlike large corporations, small businesses typically do not have dedicated personnel for safety.

Competitive Landscape

There are currently no Internet websites or other mediums providing safety management related services to the small business owner. Small businesses have been forced to address safety management issues through ineffective or costly mechanisms. The specific methods currently utilized by small business owners are discussed below:

Personal Consultation – Independent safety management consultants are often highly trained in the general field of safety management and credentialed. Independent consultants charge \$100 to \$150 per hour. Each user's consultation requires 30 minutes to several hours depending on the complexity of the consultation and amount of documentation desired by the client.

Training Classes -Training classes can be less expensive than personal consultation since one trainer can instruct an entire team in one or two hours. Unfortunately, several factors limit the effectiveness of training classes. One, instructors may only possess generalized safety management knowledge that may not be directly applicable to a specific company. Two, the individual students

⁵ US Census Bureau, Statistics of US Business, 2000

⁶ SEDA (Safety Equipment Distributors Association) Industry Report, 2000

must then assimilate this information and apply the principles they learned themselves. Training in conjunction with applying learned concepts can pull senior level managers from high value tasks that might better utilize their time.

Internal Safety Management - In- house safety managers are appropriate only in specific industries with high safety compliance demands such as construction. Even in such industries, the safety management function may be too minimal to justify a salaried position, particularly in small companies.

Safety Documentation Library – Texts, binders and pamphlets are often used to supplement personal consultations and classes. They provide the advantage of making the information available when and where a person needs it.

Unfortunately, it requires many pages to contain all of the computer ergonomics information a person might need finding the right information for a specific need is time consuming and difficult. Moreover, such job aids are relatively useless by themselves and require the guidance of a consultant for effective usage.

The above-discussed products currently used to satisfy small business safety management needs are ranked against the Proposed Safety Manager site in the ensuing table:

PRODUCT/SERVICE OPTION	PRICE	BREADTH OF SOLUTION	EFFECTIVENESS
Safety Consultants	<i>High</i>	<i>Medium</i>	✗ High
Formal Training	<i>Medium</i>	<i>Medium</i>	<i>Medium</i>
In-House Mngr.	<i>High</i>	✗ High	✗ High
Safety Library	✗ Low	<i>Low</i>	<i>Low</i>
Web Safety Manager	✗ Low	✗ High	✗ High

Marketing Strategy

The underlying marketing objective for Brenton's safety management site is to build awareness among small business owners/executives with safety management needs. In this section we provide recommendations for effectively marketing Brenton Safety's safety management site on a limited budget. We will also address pricing and budget concerns.

Specific Target Market

Within the broad and diverse small business segment, Brenton Safety should target small businesses (under 100 employees) within industries possessing high safety equipment needs and/or safety regulatory pressures. Specifically, small businesses should be targeted within the following industries:

- Construction
- Energy
- Resource refinement
- Parts manufacturing
- Maintenance and repair

In addition to possessing high annual expenditures on safety equipment and safety management, these aforementioned industries also rely heavily on small businesses to serve industry niches. Of the 21.2 million small businesses operating in the US, Brenton's initial target market accounts for just under 10% of these, or approximately 2 million businesses.

Promotion & Advertising

Brenton Safety will rely primarily on word-of-mouth buzz and resulting viral effects, however limited marketing expenditures are necessary for a successful product launch. Brenton should market in the following mediums initially:

- Safety industry journals
- Industry specific business journals in aforementioned industries

- Online advertising, but limited to keyword searched for “safety equipment” or “safety management.”
- Trade shows and conferences already attended by Brenton Safety
- Existing Brenton Safety promotional materials
- Site specific promotional materials for mass distribution at targeted industry events

Pricing

Pricing the site is an important consideration significantly affecting site adoption levels. The site will combine ASP and membership fee pricing models. Specifically, annual membership fees will be augmented by an additional fee per employee. This fee structure was derived because of the high correlation that exists between the size of the employee base and site/service usage. Moreover, it is an effective means by which to price discriminate based on company size and expected site usage.

Annual membership fees will start at \$189 per year. Additional per user fees will be priced based on company size as follows:

- Companies with under 10 employees: \$5 per employee
- Companies with 10 to 50 employees: \$4 per employee
- Companies with over 50 employees: \$3 per employee

Pricing will also incorporate two service levels; Standard and Premium. The specific program differences are detail below:

Standard service: this service provides access to all site content and safety management functions including, a corporate account for equipment purchases, equipment comparisons and reviews, access to information postings and use of all other site specific functionality.

Premium service: In addition to the benefits provided in the basic service offering, the premium service offers email consultation on all safety management issues including safety compliance and equipment selection.

The premium service will command a \$1 per user premium and have an annual membership fee of \$399.00 per year. The premium service is geared to companies that require greater personal attention and specialization than the standard service can offer. The Standard membership fee is priced at just under 30% of estimated annual safety management expenditures for small businesses not including equipment purchases.⁷

Safety equipment sold on the site will be priced in conjunction with already listed Brenton Safety prices.

CONCLUSION

Brenton Safety has taken a unique position compared its competitors in the Safety Equipment industry. Its embracement of technology and acknowledgement of a changing industry will push Brenton into a leadership position. After evaluating three distinct technology based distribution strategies, our team developed a marketing strategy for the technology that proved to have the most potential in relation to Brenton Safety specifically.

B2B e-marketplaces have been unable to live up to analyst's projections in terms of transaction dollars. Though vertical e-marketplaces provided a large market for distributing Brenton Safety products, the low margins that result from transacting in an e-marketplace do not compliment Brenton's strategy to improve profit margins. Though Brenton safety has been successful utilizing its internally developed website to sell its products, expanding this business will require significantly more resources to handle the physical procurement of the orders. According to Brenton Safety, this method of

⁷ November 2001, Interview: Nate Russel, CEO, Brenton Safety

distribution has been successful in lowering the costs to existing customer, not to acquiring new customers.

Brenton Safety's best opportunity for meeting its desired stated goals of growing revenues and increasing profit margins is through a disruptive technology, Website for Ignored Small Business Segments. Developed correctly, this disruptive technology could provide additional revenues in the millions over the next three years. Additionally, the scalability of the website will provide Brenton Safety with the increasing profit margins it seeks. According to our research, there are few existing competitors that can compete with this proposed technology solution that addresses the needs of the small business market.

APPENDIX A: REVENUE PROJECTIONS

Revenue Growth

Distribution	3%
Safety Manager	25%

Net Profit Margins

Distribution	2%
Safety Manager	20%

Revenues	2000	2001	2002	2003	2004	2005
Distribution	13.00	13.39	13.79	14.21	14.63	15.07
Safety Manager		0.00	0.55	2.20	4.00	5.00
Profits						
Distribution	0.26	0.27	0.28	0.28	0.29	0.30
Safety Manager	-	-	0.10	0.60	0.60	0.70

