

# State of the Industry 2020

## A LOOK AT 2020 TRENDS & A LOOK AHEAD IN THE WATER QUALITY INDUSTRY

Each fall, WQP surveys its audience on important issues ranging from market segments and projected growth to new technologies and industry-wide challenges for the annual State of the Industry Report. 2020, however, was a year unlike any before. This year's survey asked some of the same essential tried-and-true questions, as well as additional questions to better assess how COVID-19 and subsequent economy shifts continue to impact the water industry moving forward.

Overall, the survey received 203 respondents, and the results highlight several key trends, particularly when cross-examined with WQP's 2019 State of the Industry Report, as well as WQP's Spring 2020 Coronavirus Market Impact Report. In such a unique year with COVID-19, wildfires, election season and more, there is no doubt from the data that the water quality industry is entering a period of rapid growth and evolution. There is no time like the present to adapt and evolve.

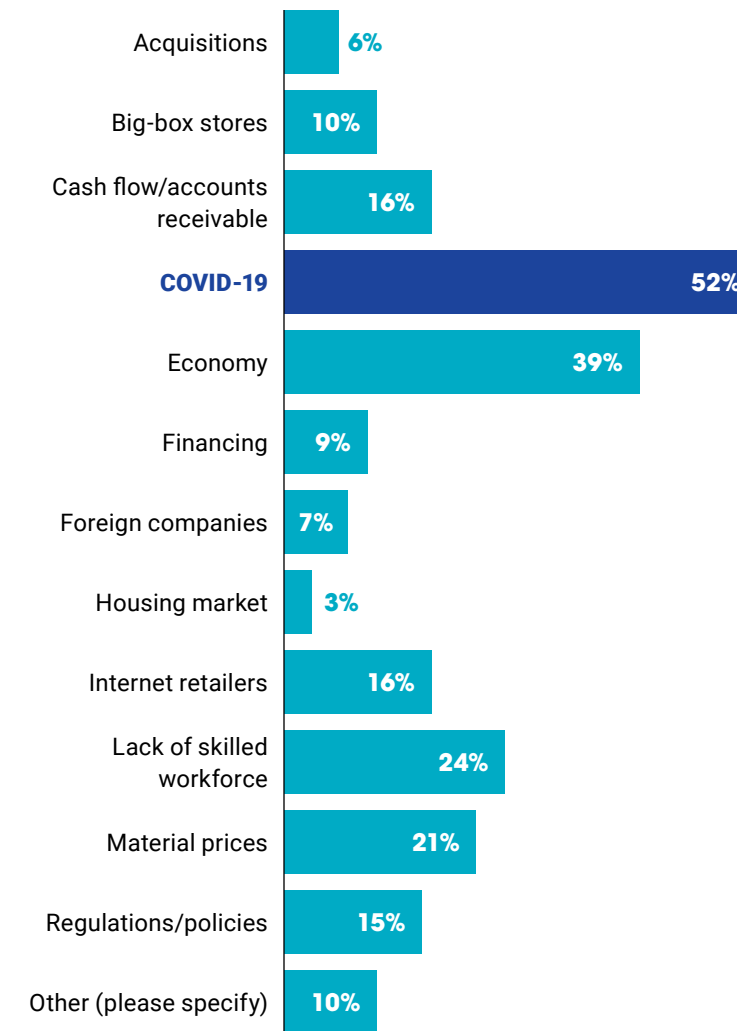
Below, some of the key trends of the report—including impacts of COVID-19, budget impacts and a shift to digital technologies—are explored, coupled with insight and expertise from industry experts on the state of the industry both in 2020 and looking forward to 2021.

### Impacts of COVID-19

"Things that are going to change this industry forever have happened this year," said Sam Karge, president, North America Water Treatment for AO Smith.

Without a doubt, the COVID-19 global pandemic was the single factor with the largest impact on the water industry this year, both positive and negative, as the survey data reflects. 52% of

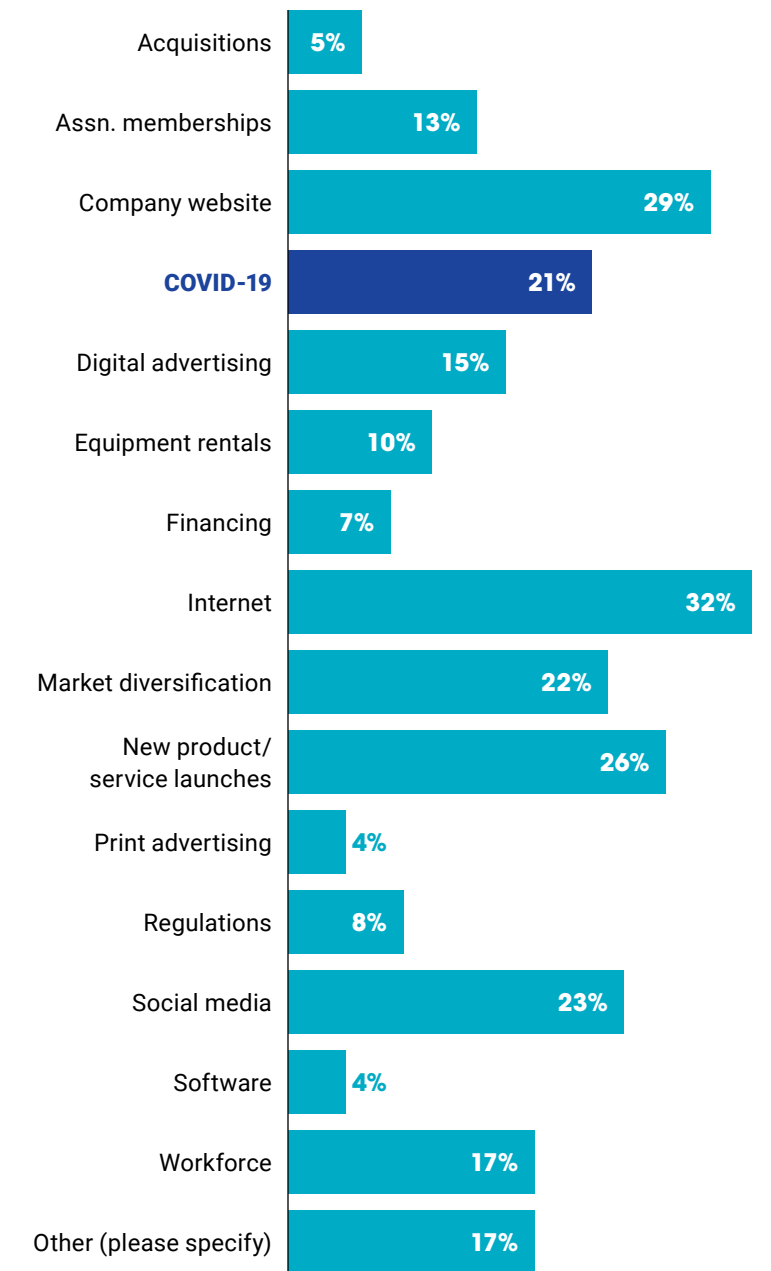
### Which of the following factors have had a negative impact on your sales in the past 12 months?



As expected, COVID-19 was the largest factor contributing to negative business impact in 2020, closely followed by the economy. Consequently, big box stores, regulations/policies and lack of a skilled workforce had less of an impact than past years.

respondents reported COVID-19 had a negative impact on their sales in the past 12 months, while 21% reported a positive impact (the question asked respondents to "check all that apply," so the total percentage equals more than 100).

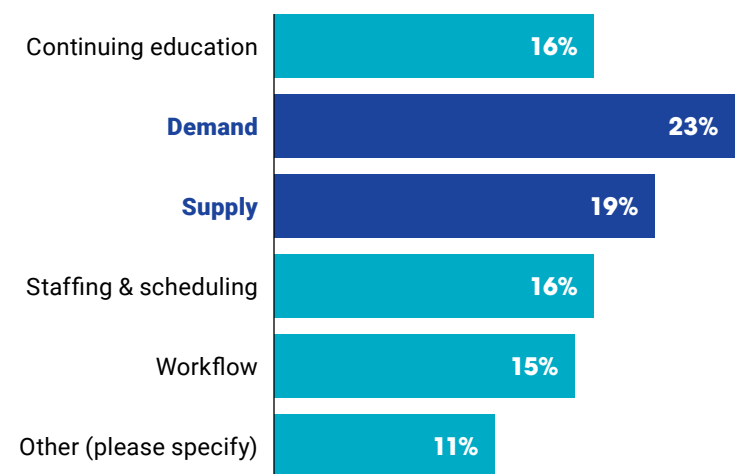
### Which of the following factors have had a positive impact on your sales in the past 12 months?



Internet, company website, new products and market diversification had the largest positive impact on sales. Additionally, many respondents reported COVID-19 had a positive impact on sales. This collectively reflects the increasing role of digital tools in sales.

According to the 2020 State of the Industry survey results, supply and demand were most impacted by the coronavirus, at 19% and 23% respectively. The results are interesting when compared to WQP's Spring 2020 Coronavirus Market Impact Report, where supply represented the lowest impact at 4.6%. At that time, workflow (27% in the WQP Coronavirus Report) and staffing & scheduling (28% in the WQP Coronavirus Report) were more pressing concerns. Stay-at-home orders across the U.S. coupled with an increased focus on health and wellness likely contributed to this increase in demand.

## What aspect of your organization has been most severely impacted by the coronavirus?



Supply and demand were most impacted by the coronavirus, at 19% and 23% respectively. The results are interesting when compared to WQP's April 2020 Coronavirus Impact Report where supply represented the lowest impact at 4.6%. At that time, workflow (27% in the WQP Coronavirus Report) and staffing & scheduling (28% in the WQP Coronavirus Report) were more pressing concerns.

"All of the little things of their home that annoyed them, whether it's how the furnace made noise, or how their water tasted, or how that light in the basement flickered the wrong way—people are addressing those concerns, because they are A) home a lot more and B) they've got theoretically some expendable income right now to improve their home," Karge said of increased customer demand for water treatment products in 2020. "And water's a great byproduct of that."

From the dealer perspective, similarly, Tom Kinnane, COO of Rocky Mountain Water Conditioning, found that after an initial lull in the early days of the pandemic, customers under stay-at-home orders showed an increased interest in addressing home and health issues through water treatment. This trend resulted in an overall positive year for Kinnane.

"I think the fact that people are home, and they could leave for the day and go to work, and so the water wasn't constantly present on their mind," Kinnane said. "Now, they're home all day, and they go get a drink of water and they're like, 'Wow, I really don't like this. I never really have liked it.'"

Karge anticipates this increased consumer focus on looking at water and health holistically will have long-standing impacts on how the water treatment industry considers both softening and drinking water.

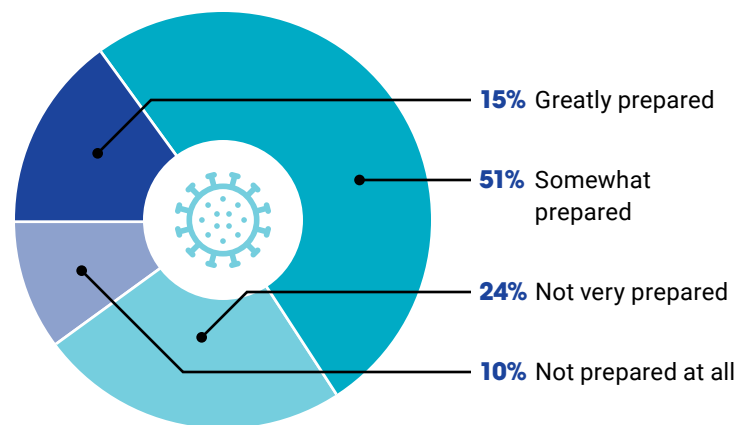
"It's brought drinking water and contaminants and things like that to the forefront and been a good addition, not instead of water softening, but an additional part of our industry," Karge said.

In addition to supply and demand, staffing and workflow were the other two areas of business operations on which COVID-19 had the largest impact, though respondents were more concerned with these two issues in the spring than the fall.

Both Karge and Kinnane cited increased safety standards and precautions as integral to continue to run business smoothly and effectively while protecting both employees and customers alike. Karge pointed to an increase in remote communication and social distancing barriers, as well as new ways for salespeople to execute remote/distanced sales. Likewise, Kinnane stressed the importance of increased sanitation practices and the evolution of lead generation strategies.

This evolution in consumer health awareness, coupled with new workflow practices focused on increased safety standards and precautions may continue to impact business for years to come. In the State of the Industry survey, 51% of respondents were somewhat prepared for COVID-19, while 24% of respondents reported they were not very prepared, raising the question of whether industry-wide emergency preparedness standards and other precautions may be here to stay.

## How prepared was your organization for the coronavirus?



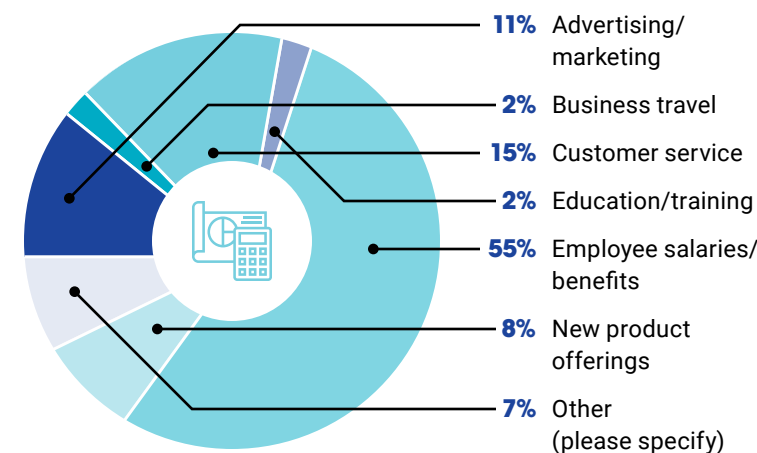
51% of respondents were somewhat prepared, while 24% of respondents reported they were not very prepared.

"As we as an industry rise from the ashes, I am certain that there will be people who want to go back to the old way, but I think if people keep an open mind, we can do much better as an industry by taking what we've learned in the past and combining what we've learned these last nine months and providing consumers again with a better way to get water rather than the old way that we've been doing it for 50 years," Karge said. "So I'm excited about that."

## Budget Impacts

Significant changes in supply, demand, workflow and staffing inevitably have led many businesses to re-evaluate their budgets and projected growth plans. In this year's State of the Industry survey, 55% said employee salaries/benefits account for the largest portion of their budget, a decrease from 62% in last year's survey. Instead, respondents are budgeting more for customer service (15% this year, compared to 4% in 2019) and less for business travel.

## Which of the following will account for the largest portion of your budget in the next 24 months?

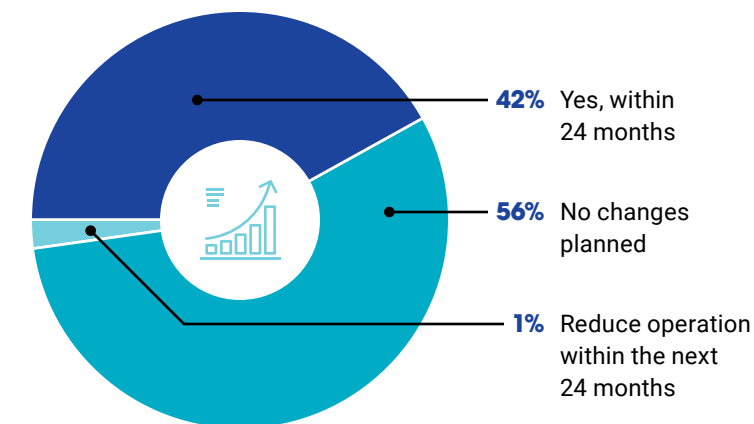


\*OTHER RESPONSES INCLUDED OPERATIONS, CAPITAL PROJECTS, COST OF MATERIALS, DOES NOT APPLY & MORE.

55% said employee salaries/benefits account for the largest portion of their budget, a decrease from 62% in last year's survey.

The other facet of budget to consider is growth. While in WQP's 2019 State of the Industry survey, 55% of respondents planned to expand their operation, only 42% of respondents in this year's survey planned to expand their operation. Though, it is important to note that only 1% of respondents this year planned to reduce their operation, pointing to a "wait and see" attitude as the water industry looks to see the subsequent economic fallout of the COVID-19 pandemic, as well as changes following the election season.

## Do you plan to expand your operation?



42% of respondents plan to expand their operation compared to 55% in 2019, though only 1% of respondents plan to reduce their operation.

"Once the market starts to open up again, once a vaccine and people start to return to whatever the new normal is, does that healthy living and invest in your home trend continue, or do people go back to spend the money on vacations, dinners and all that type of stuff?" Karge speculated about the future. "That's the question I have, and that's the one that I think that everybody's going to be watching, and I'm going to be watching closely."

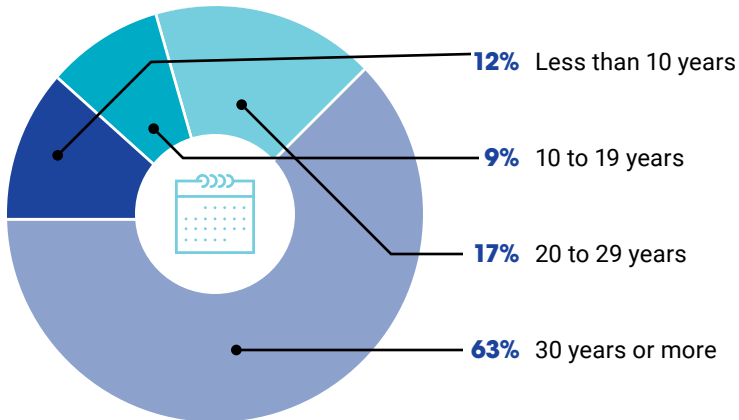
Despite a potentially uncertain market in 2021, Karge and Kinnane both remained optimistic about continued opportunities for growth in the new year. Additionally, Mike Heatwole, Virginia territory sales manager for Water-Right, had positive insight to offer regarding opportunities for growth in the water industry and what the future may hold.

"We're being very proactive, and I think that's the key," Heatwole said. "I think that's always the key, no matter what period of time we live in. As the saying goes, 'If you're staying the same, you're falling behind the day.'"

## Shift to Digital Technologies

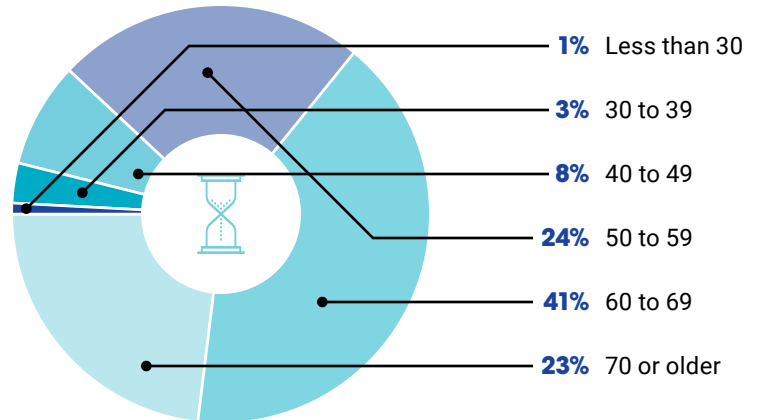
As the COVID-19 pandemic has forced many businesses to re-evaluate how they do business, network and increase lead generation, digital tools have increasingly played a role in business communications. WQP's 2020 State of the Industry survey shows that more audience members over the age of 50 are moving online, as 50% of respondents have been in the water quality industry for more than 30 years with only 12% in the industry for less than 10 years. This marks a significant difference from last year's respondents, which showed only 32% of respondents in the industry for more than 30 years. In fact, 88% of this year's respondents were over the age of 50 with only 1% of respondents less than the age of 30.

## Approximately how many years has your company been in business?



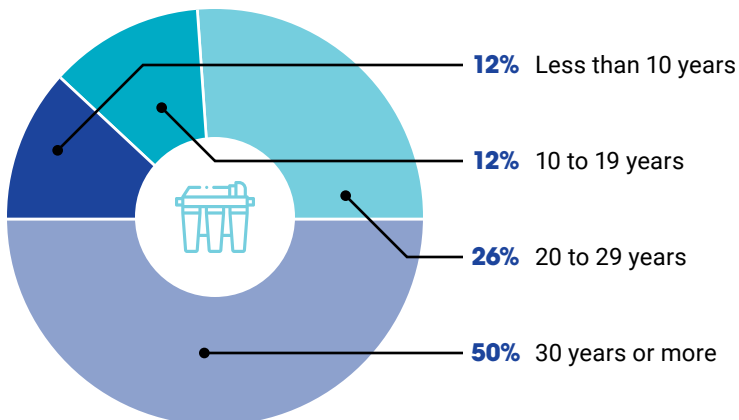
The majority of respondents (63%) have been in business for more than 30 years. This marks a 9% increase over last year's respondents, with those respondents in business less than 10 years reduced by 6% over last year's respondents.

## Which of the following ranges does your age fall in?



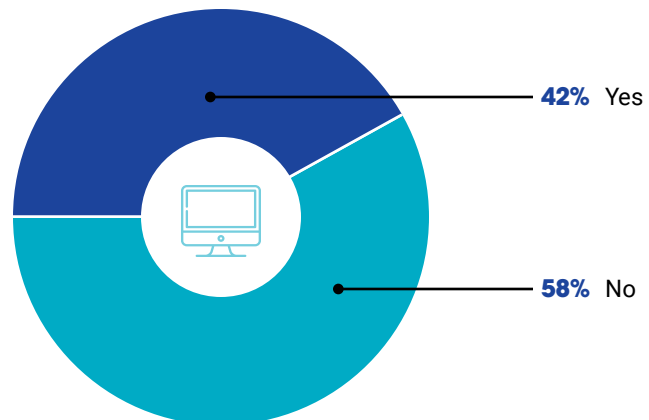
88% of respondents are over the age of 50, with only 1% of respondents less than the age of 30.

## Approximately how many years have you been in the water quality industry?



Half of respondents (50%) have been in the water quality industry for 30 years or more, with only 12% in the industry for less than 10 years. This marks a significant difference from last year's respondents which showed only 32% of respondents in the industry for 30 years or more.

## Have you attended a virtual industry trade show, conference, or educational opportunity in the past 12 months?



More than half of respondents (58%) have not attended a virtual trade show in the past 12 months.

Digital tools have played an increasing role in business practices this year, ranging from digital sales tools to virtual educational opportunities. Though surprisingly, considering the lack of in-person events the coronavirus has made necessary, more than half of respondents (58%) have not attended a virtual trade show in the past 12 months. Despite this fact, digital education, networking and lead generation tools remain on the rise.

As earlier mentioned, Kinnane cited a lack of in-person home shows and networking conferences as a challenge for both lead generation and professional development.

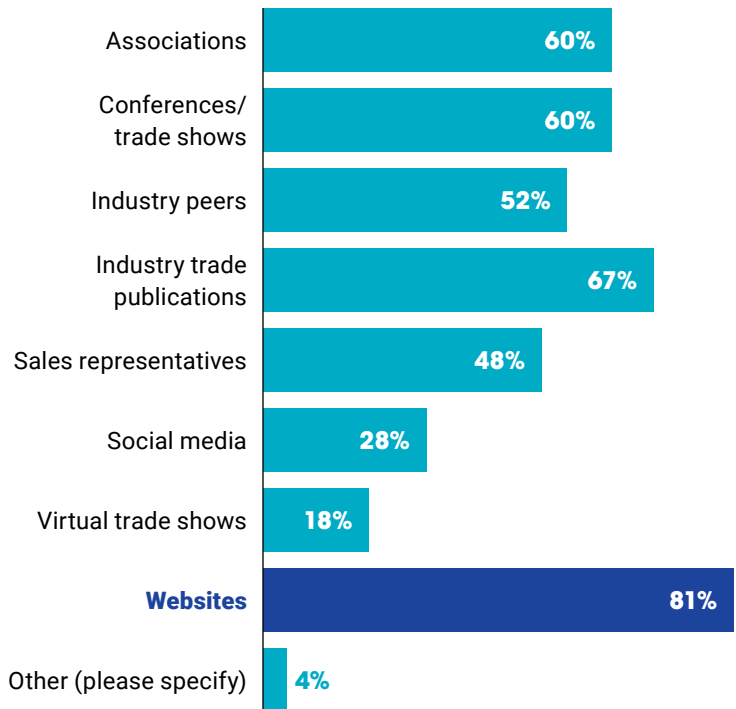
"The most negative [impact on business growth is] probably just losing the opportunity to go to the shows and the conferences where you meet people in extra lead generation," Kinnane said on lead generation.

Though despite the lack of opportunities for in-person networking and lead generation, Kinnane and other water treatment dealers have found new ways to supplement those opportunities, including

referral programs, digital marketing strategies, virtual educational opportunities and more.

WQP's 2020 State of the Industry survey results further supports the increase in digital tools for lead generation and professional growth, as websites were the top source of information used by businesses (81%), closely followed by trade publications (67%), conferences/trade shows (60%) and associations (60%). This demonstrates that virtual trade shows are slowly gaining traction, but digital tools, such as websites and social media, are more important than ever before.

## What sources of information do you use for your business?



\*OTHER RESPONSES INCLUDED LINKEDIN, NEWSLETTERS, RESEARCH, PERSONAL CONTACTS AND NONE.

Websites were the top source of information used by businesses (81%), closely followed by trade publications (67%), conferences/trade shows (60%) and associations (60%).

## Looking to 2021

So what does 2021 have in store?

As of press time, COVID-19 cases and shelter-in-place orders are on this rise throughout the U.S., which would suggest a continued interest in home improvement, health and wellness by consumers, based off of trends reported in the latter half of 2020 by survey

respondents. Digital communication, networking and sales tools may remain prominent into 2021 and even beyond, as well as increased safety standards and precautions. Furthermore, as the election season concludes, legislators and regulatory advocates may be able to push the needle on hot regulatory topics that have increasingly dominated industry conversations and objectives in the past few years.

It is difficult to pinpoint how COVID-19 and the events of 2020 will continue to impact the residential and commercial water treatment industry moving forward, but suffice it to say, the industry will be forever altered. Current events have forced a rapid acceleration in the adaptation of digital tools, as well as increased technological developments to meet new contaminants and consumer needs head-on.

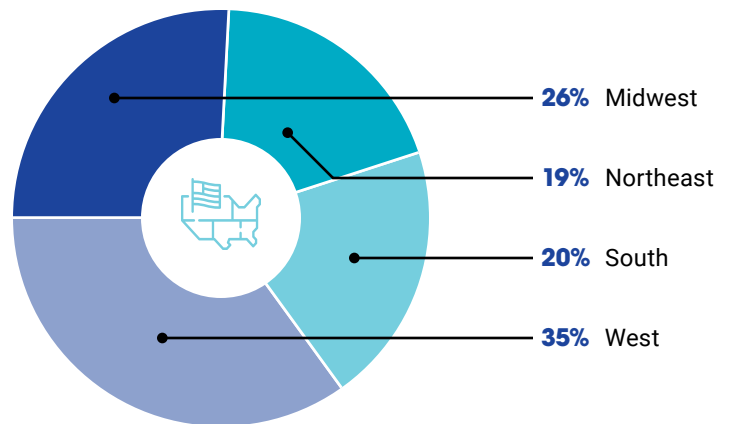
Despite the unknowns and challenges that lie ahead, Heatwole remains optimistic and enthusiastic for the obstacles and joys the future may hold for the industry.

"I'm positive. We're in exciting times," Heatwole said. "I think it's a Chinese quote that says, 'May you live in interesting times,' and I don't know how we can live in any more interesting times than what we have right now." **WQP**

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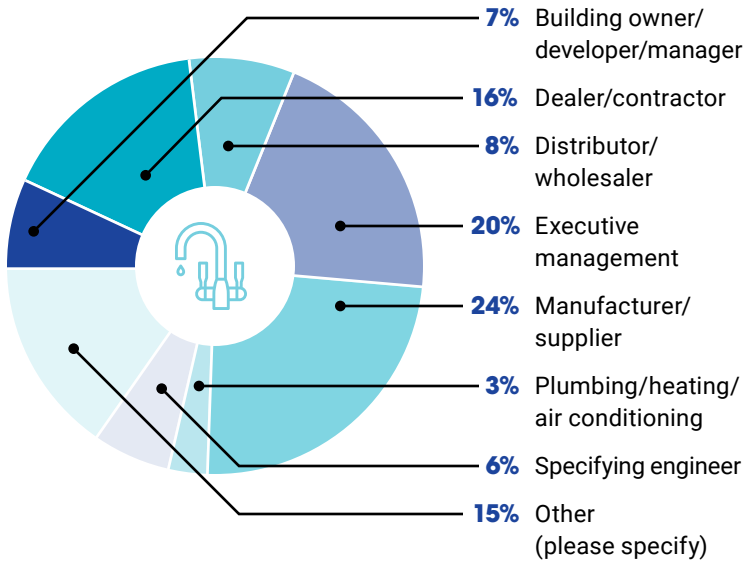
## Additional WQP 2020 State of the Industry Survey Results:

### In which region is your company located?



The U.S. west had the largest representation of respondents, at 35%, closely followed by the U.S. midwest at 26% of respondents.

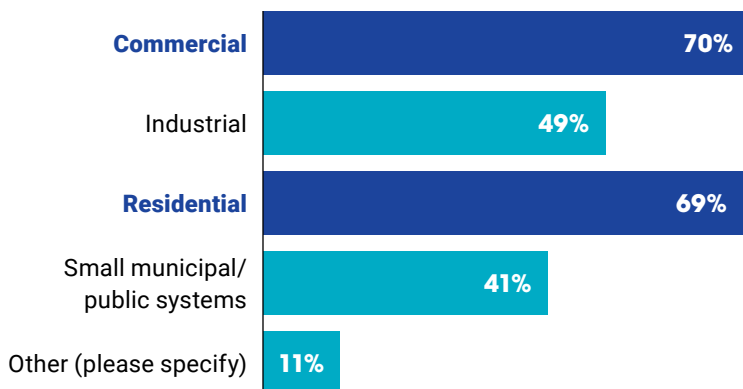
## Which of the following best describes your principal activity?



\*OTHER RESPONSES INCLUDED WATER TREATMENT, MARKETING, GOVERNMENT, PROJECT MANAGER, CONSULTANT, ARCHITECT AND MORE.

With the largest representation, manufacturers/suppliers marked 24% of respondents, closely followed by dealers/contractors at 16%. This differs from last year's survey where 33% of respondents were dealers/contractors and 21% manufacturers/suppliers.

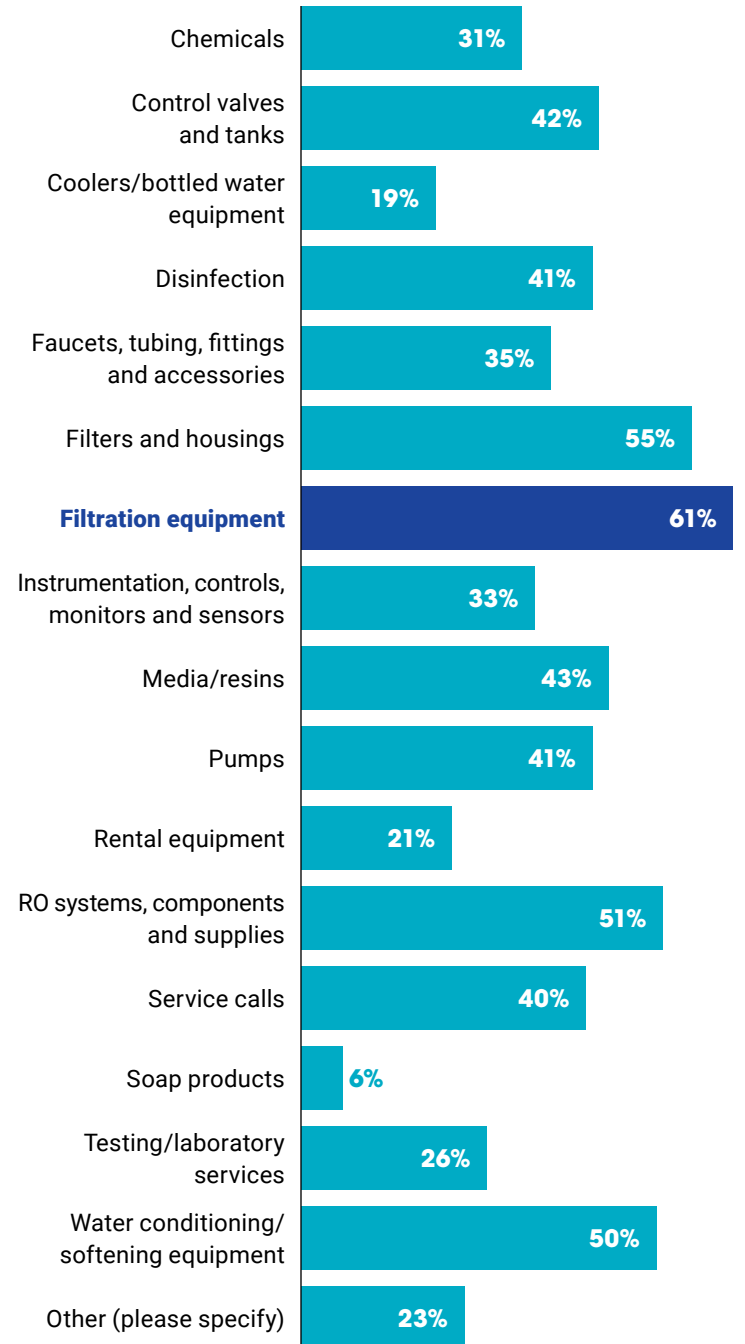
## In which of the following market segments does your company do business?



\*OTHER RESPONSES INCLUDED MUNICIPAL, IRRIGATION, GOVERNMENT, AGRICULTURE, LABORATORY, CONSULTANT AND DISTRIBUTOR.

Commercial and residential both were important market segments in 2020.

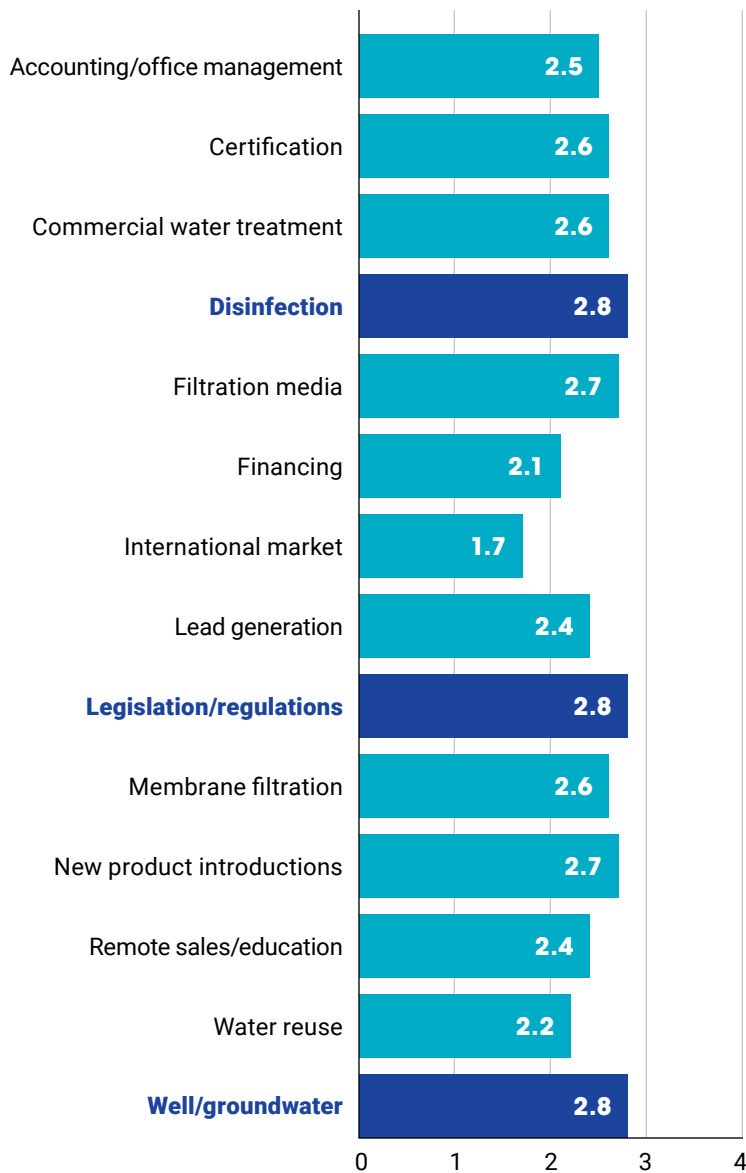
## Which of the following product/service categories does your business offer?



\*OTHER RESPONSES INCLUDED MARKETING, WATER SUPPLY, ENGINEERING SERVICES, ASSESSMENTS AND MORE.

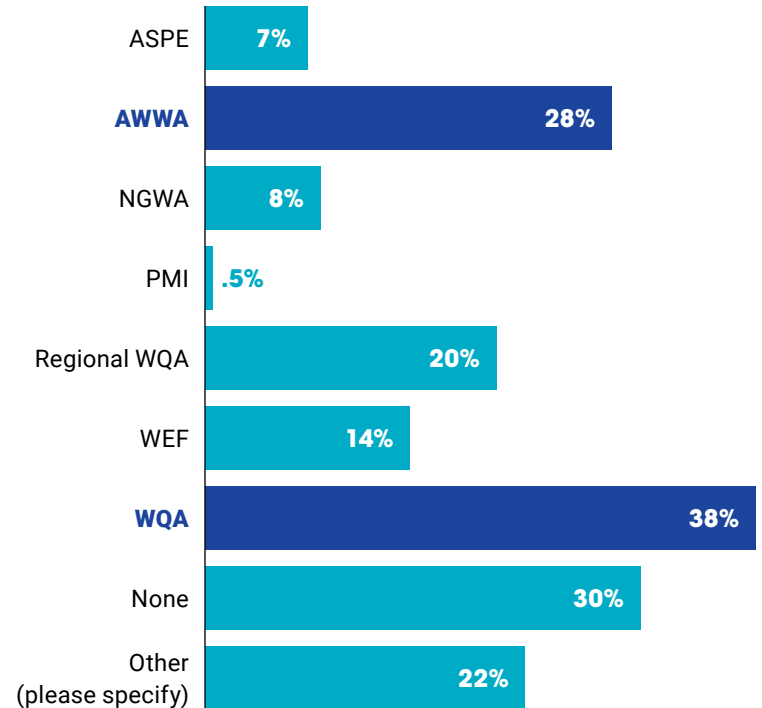
Filtration and reverse osmosis equipment were the most common product offerings.

On a scale of 1 to 4, please rate how important each of the following topics will be in the coming year (4 being the most important, 1 being the least important).



Disinfection, well/groundwater and legislation/regulations were ranked as the most important topics in the coming year, whereas last year's respondents ranked certification and new product introductions as the highest priority.

Which of the following industry associations do you belong to?



\*OTHER RESPONSES INCLUDED IBWA, BBB, SWAN, IAPMO, WWEMA, RCAP, IECA, MRWA AND MORE.

WQA and AWWA were the most common associations, though 30% of respondents belong to none.

What is the greatest challenge your business will face in the next 24 months?

- COVID-19 shutdowns & restrictions / staying healthy
- Finding quality manpower in the trades / finding quality staff
- Rebounding and regrowth after COVID-19
- Replacing aging industry workers / succession planning
- Unknown national economic conditions
- National uncertainty / presidential election
- Federal and local government regulations
- Quality affordable supply vs. cheap imported products
- Sales generation / finding new leads / getting noticed
- Restrictions on travel / in-person customer visits
- Customer unemployment / finances / cash flow
- Water loss and an aging infrastructure

\*RESPONDENTS WERE ASKED TO ANSWER IN THEIR OWN WORDS. ABOVE IS A SUM OF THEIR KEY RESPONSES.