William Demant

Operational excellence in Retail

Niels Wagner
President, Retail

William Demant

Niels Wagner

President, Retail

Curriculum

- Born in 1971
- Cand. Oecon, Aarhus University
- President, Retail in William Demant Holding since 2007
- Vice President, Retail, GN ReSound, 2006-2007
- Sales Director, Synoptik, 2003-2006
- General Manager, Oticon Australia, 2000-2003

Retail – an integrated part of Group strategy

First major retail acquisition completed in 2000 (Hidden Hearing in the UK)

Gaining market share

Protecting existing distribution points and gaining new ones with a profitable and attractive business model

Getting closer to the end user

Better understanding of the end-user journey and challenges for end-users and dispensers

New technologies across retail and wholesale

Technology for optimising fitting flow and efficiency as well as ensuring right product development and innovation

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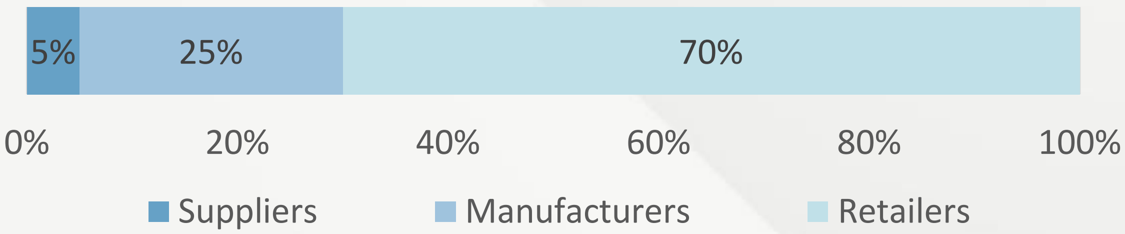
Tapping into a valuable part of the value chain

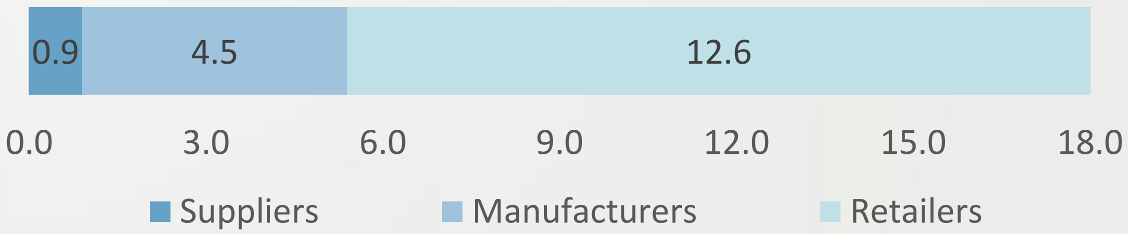
- Hearing aid retail represents the largest part of the value chain
- Significant distribution costs reflect the need for marketing, counselling and after-sales service

- Global hearing aid retail market characterised by continued consolidation for two decades but remains highly fragmented:
  - Independent retailers remain the single-largest distribution channel
  - Few global retail players

Value capture across value chain (%):

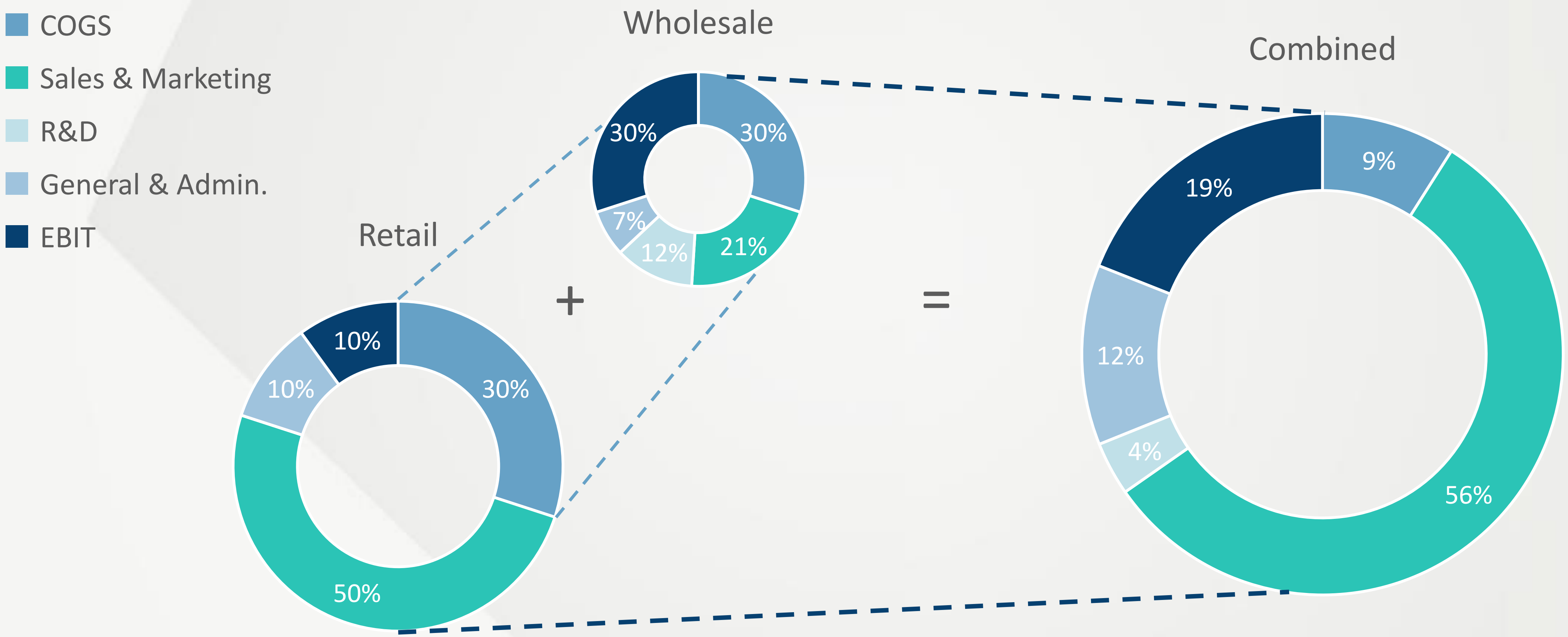


Value capture across value chain (USD billion):



Note: Company estimates

Retail adding scale to Group



Note: The illustration above is a mechanical example, showing percentage of revenue without possible synergies etc.

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Approach to managing retail has evolved

1. Consolidation of acquisitions in chains
2. Rebranding
3. Association of own retail with William Demant Group
4. Centralisation
5. One company approach – several names

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Audika movie

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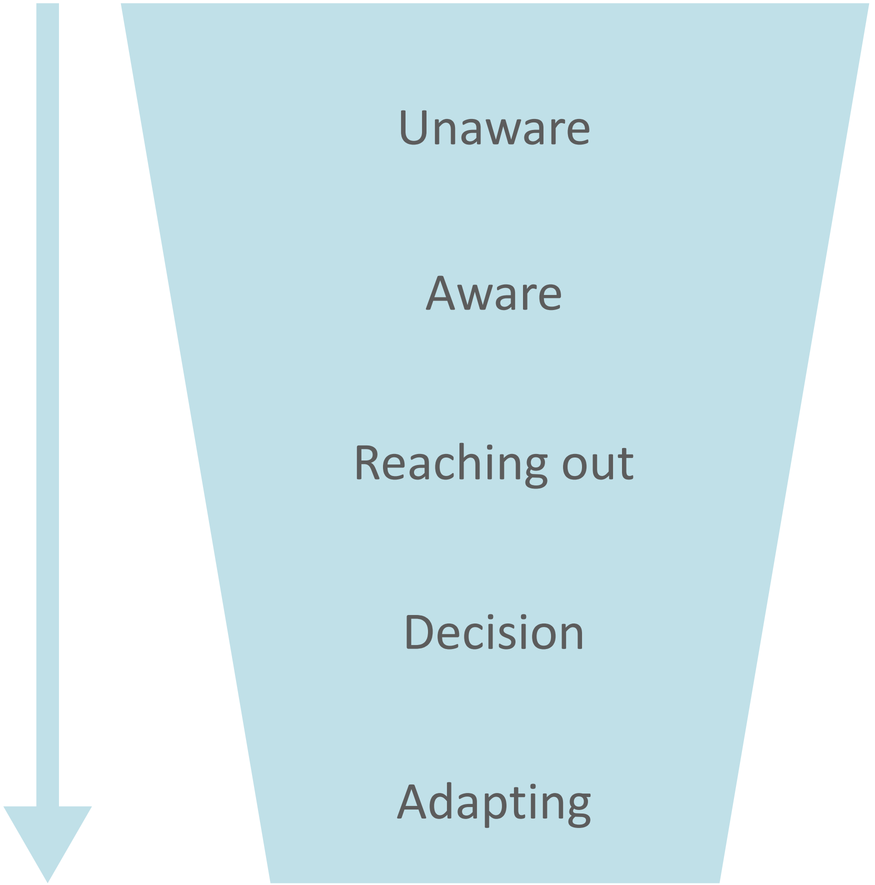
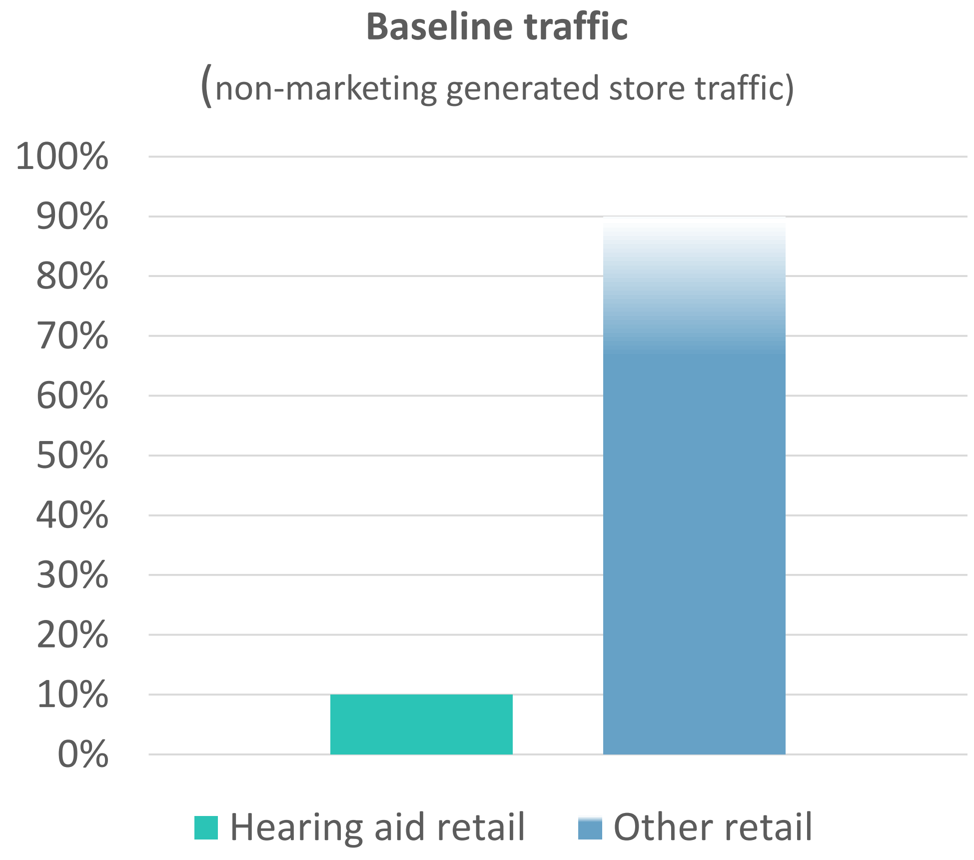
Moving customers through the sales funnel

- Moving customers through the sales funnel is expensive in hearing aid retail
  - Stigma
  - Denial
  - Reluctance
- Overall market potential is significant and the ability to generate and convert leads is key
- Retailers often create their own market rather than steal customers from competitors



Very low baseline traffic compared to other retail

- Hearing impaired are in denial and not actively looking to purchase – and very few drop-by customers
- Marketing is needed to drive traffic and the cost of generating a lead is typically material



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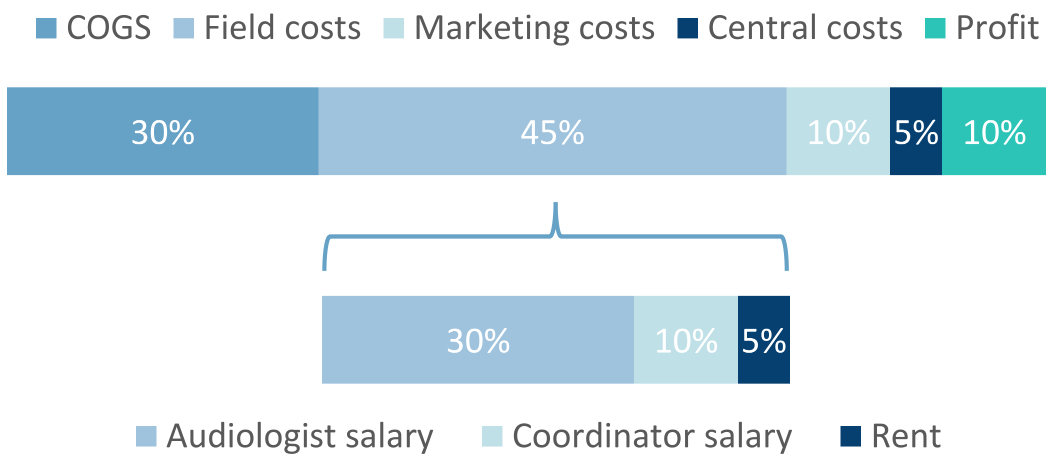
Salary of an audiologist is main cost driver in retail

- Time of audiologist is in limited supply
- Step-wise expansion
- Characteristic of fixed capacity in terms of an audiologist's time in any given geography is similar to airline, hotel and restaurant businesses
- Schedule management is crucial in order to increase efficiency

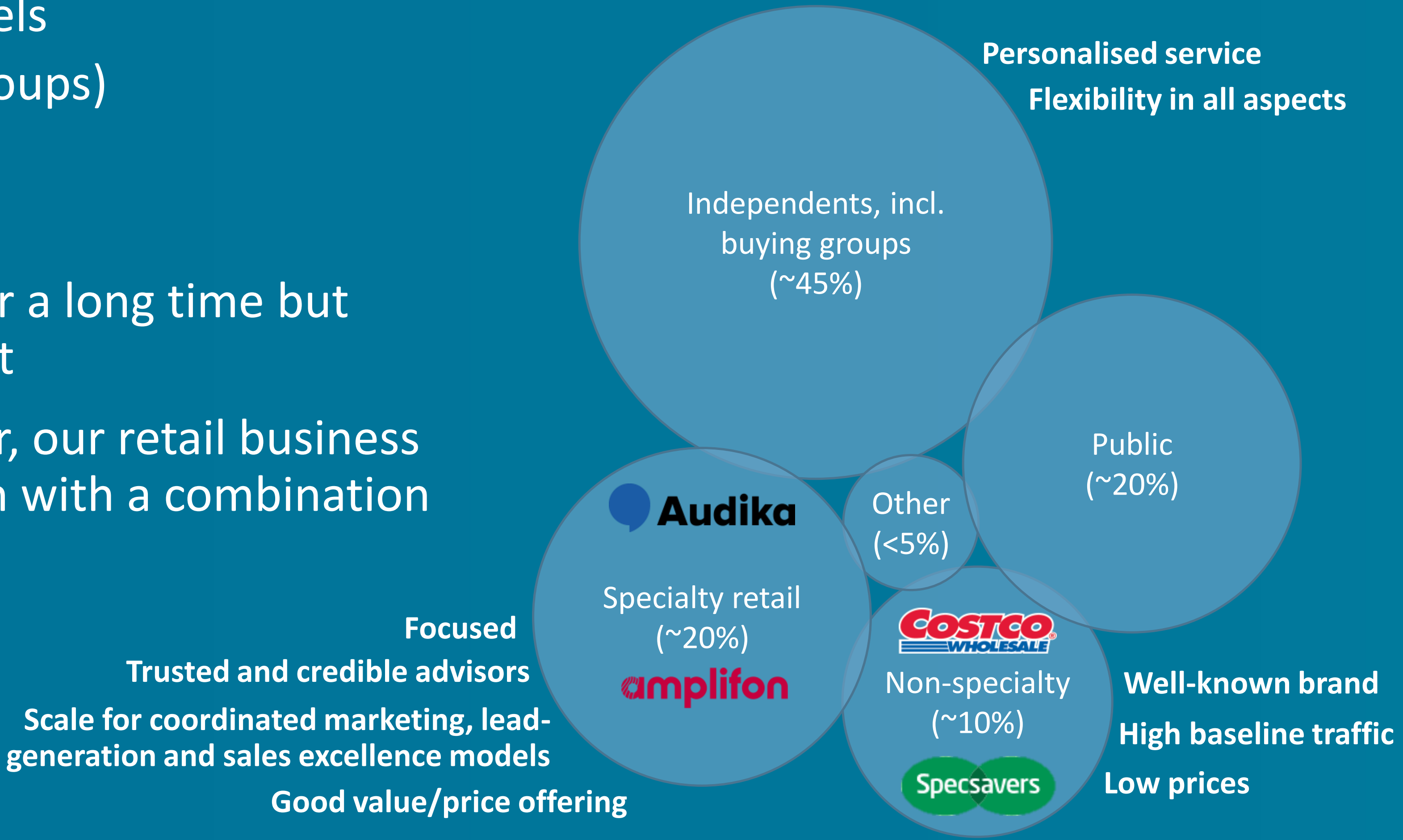
Example of audiologist salary in total cost structure (for indicative purposes):



Note: Round numbers for illustrative purposes (standalone retailer)

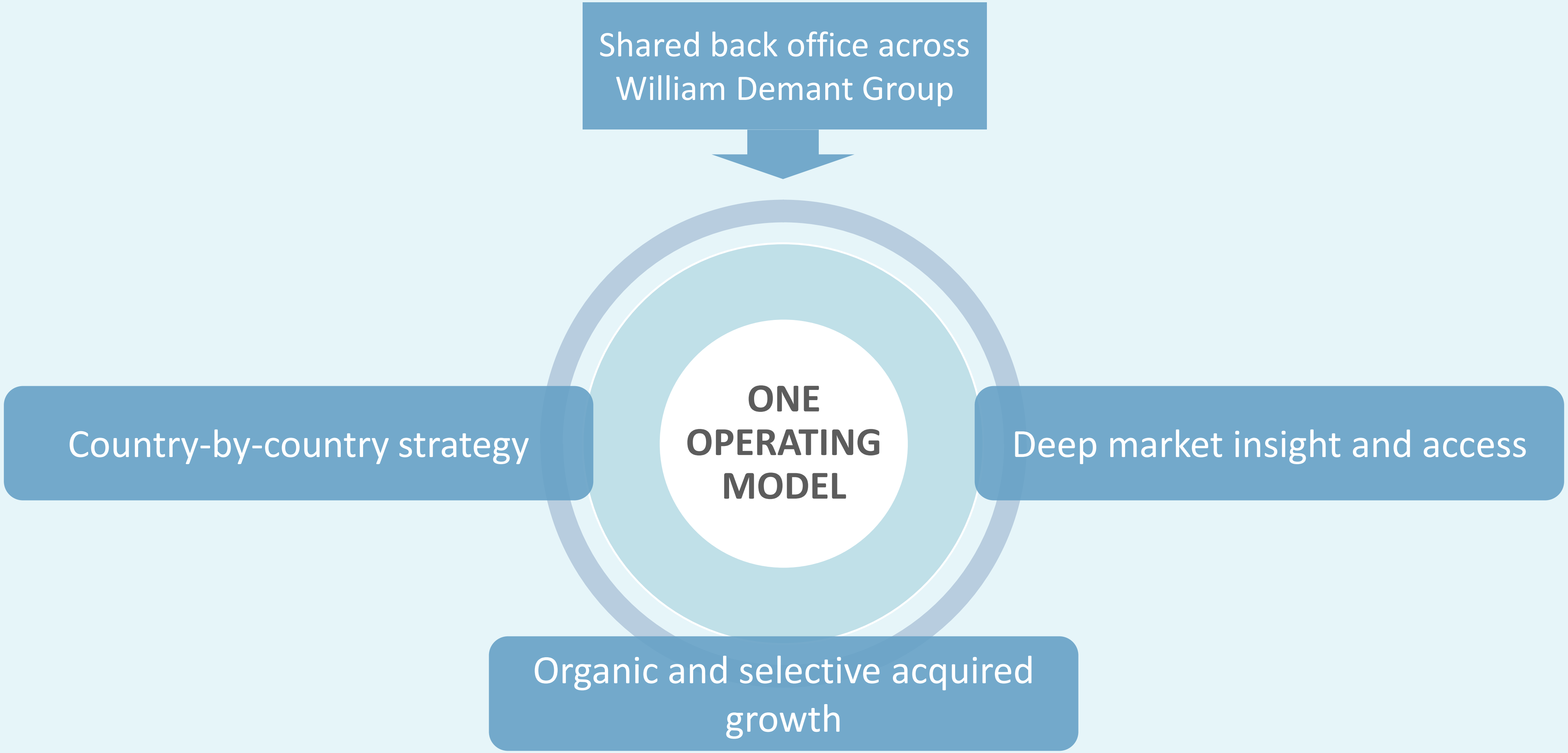
Different sales channels with different positioning

- Three major private sales channels
  - Independents (incl. buying groups)
  - Specialty retail
  - Non-specialty retail
- Consolidation has taken place for a long time but channels will continue to co-exist
- As a specialty hearing aid retailer, our retail business has an attractive market position with a combination of focus, credibility and scale



Note: Percentages are company estimates of respective channel's share of overall market (volume)

Retail strategy



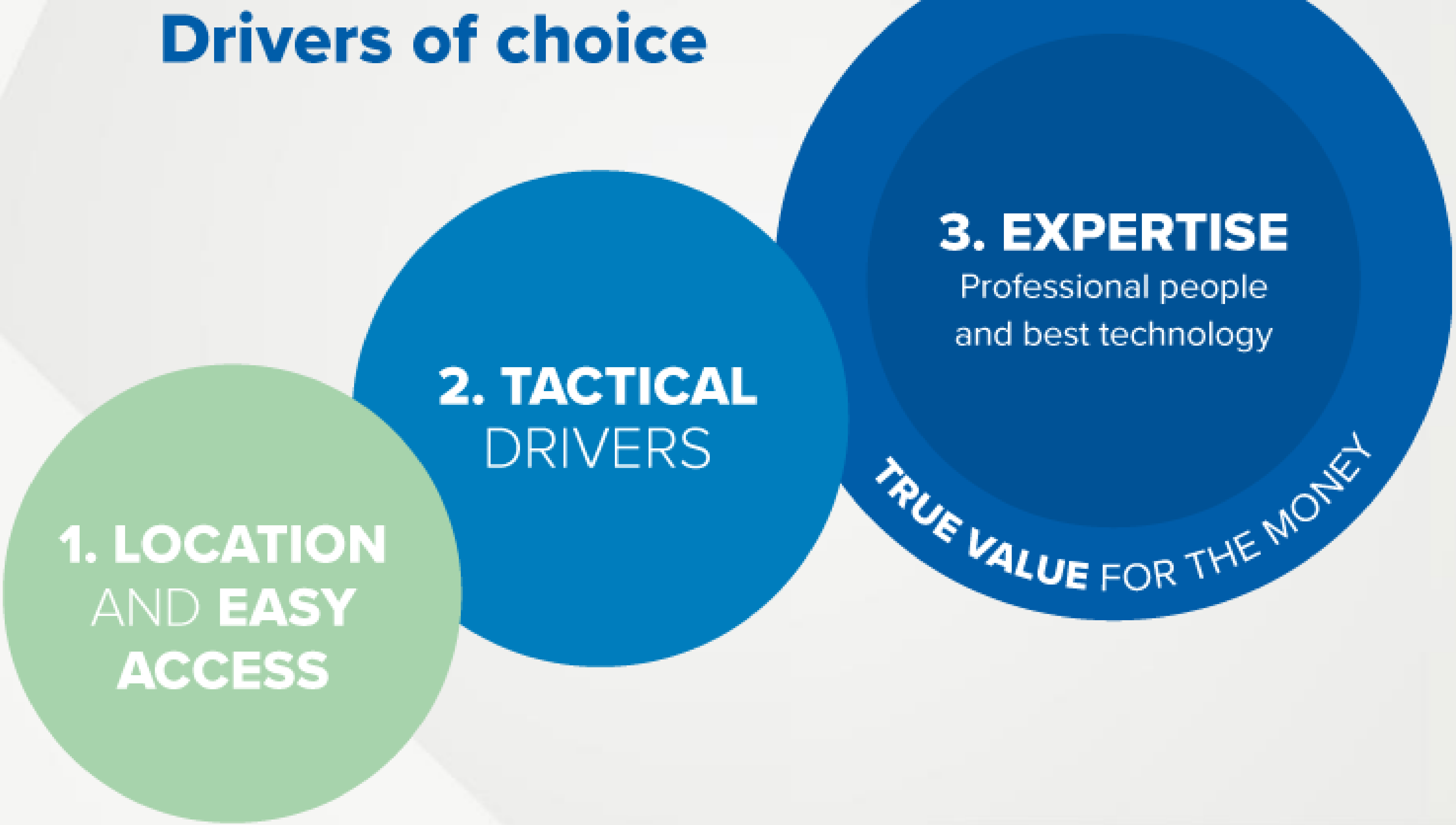
One operating model: Core capabilities

Focus on establishing one operating model across our retail organisation to support effective marketing, lead conversion, training, relationship with end-users etc.

Three core capabilities:

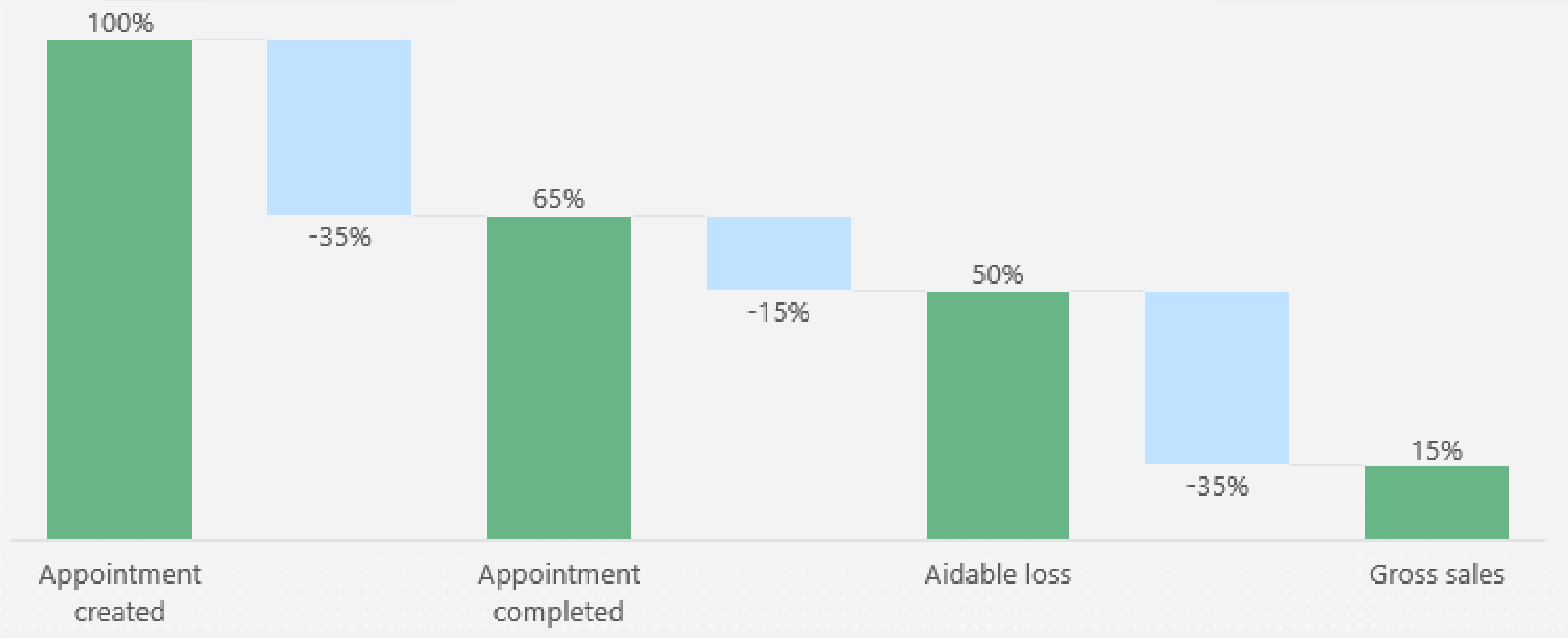
- People: Brand, leadership and culture
- Marketing: Digitalisation of consumer journey
- Systems: IT business systems and new digital technology

Brand positioning

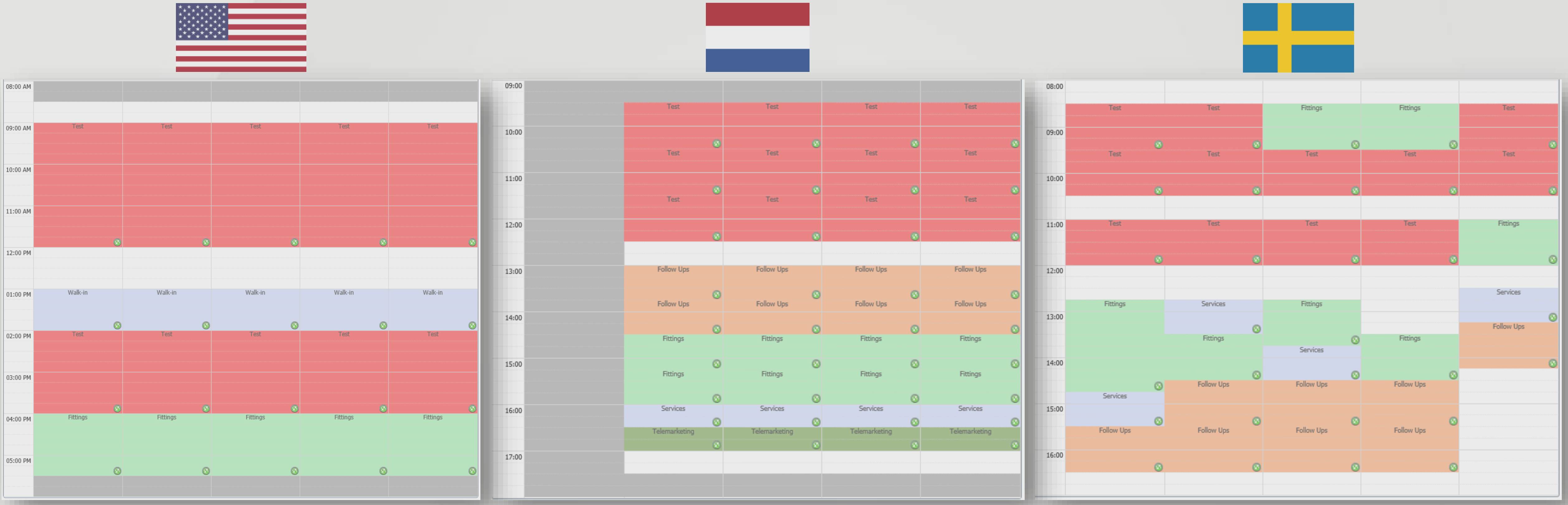


Focus on conversion rates through the sales funnel

For illustrative purposes – sales funnels vary between markets



Efficient schedule management



Schedule management is important due to audiologists' time being a scarce ressource

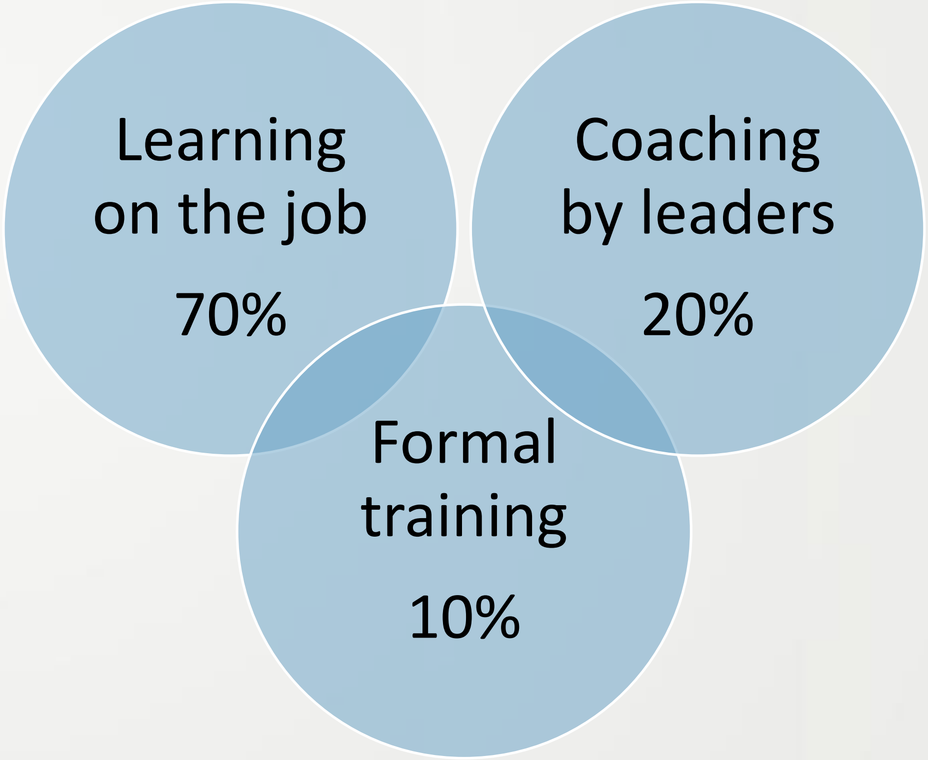
Scheduling varies between countries due to differences in sales funnel drop-outs

Training academy and leadership development

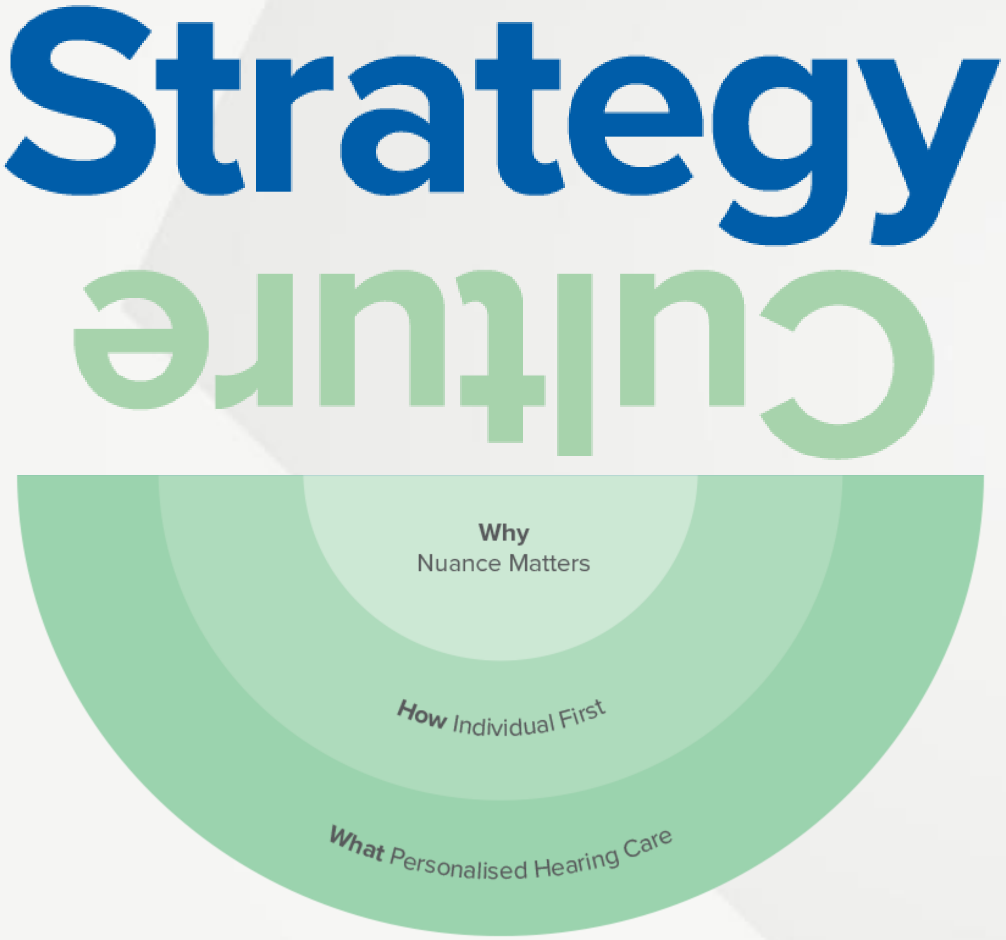
Content

Model

Most training is done in the field



A strong culture is critical for success



“Culture eats strategy for breakfast

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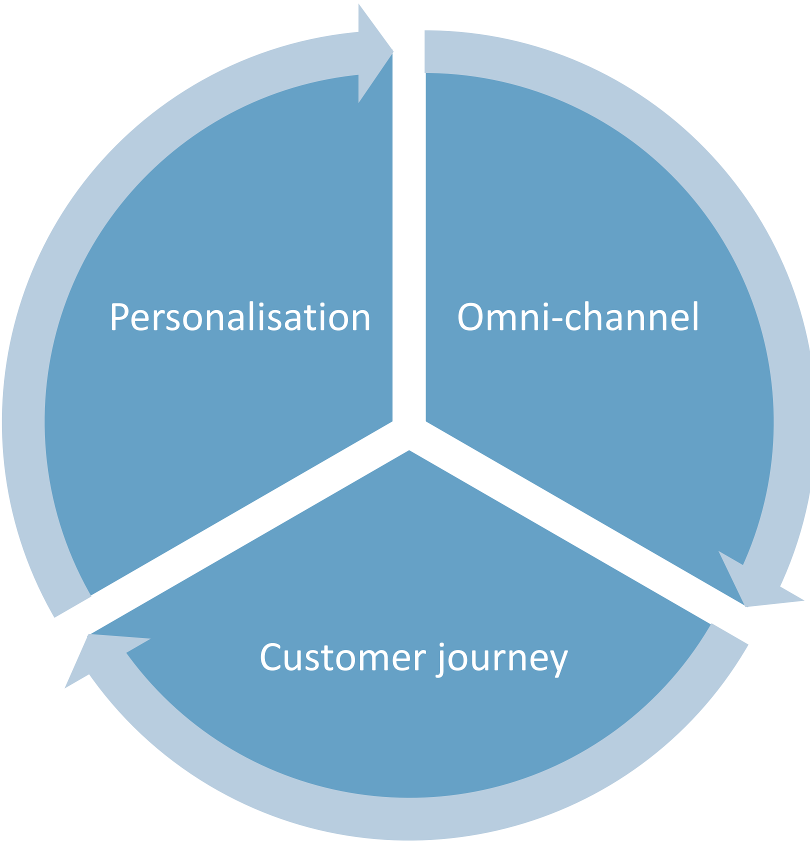
Our consumers are changing: The modern senior

Hyper-connected	Expect immediate response
Data aware	Expect brands to leverage their data
Well-connected	Expect brands in their social dialogue
Distracted	Expect concise content and effortless experiences

The marketing model is changing

New digital opportunities and changing consumer expectations are driving a change in the marketing model

Then	Now
Long lead time	Fast and adaptive
Mass-market approach	Personalised approach
Broad campaigns	Targeted campaigns
Low frequency	High frequency
Imprecise timing	Precise timing



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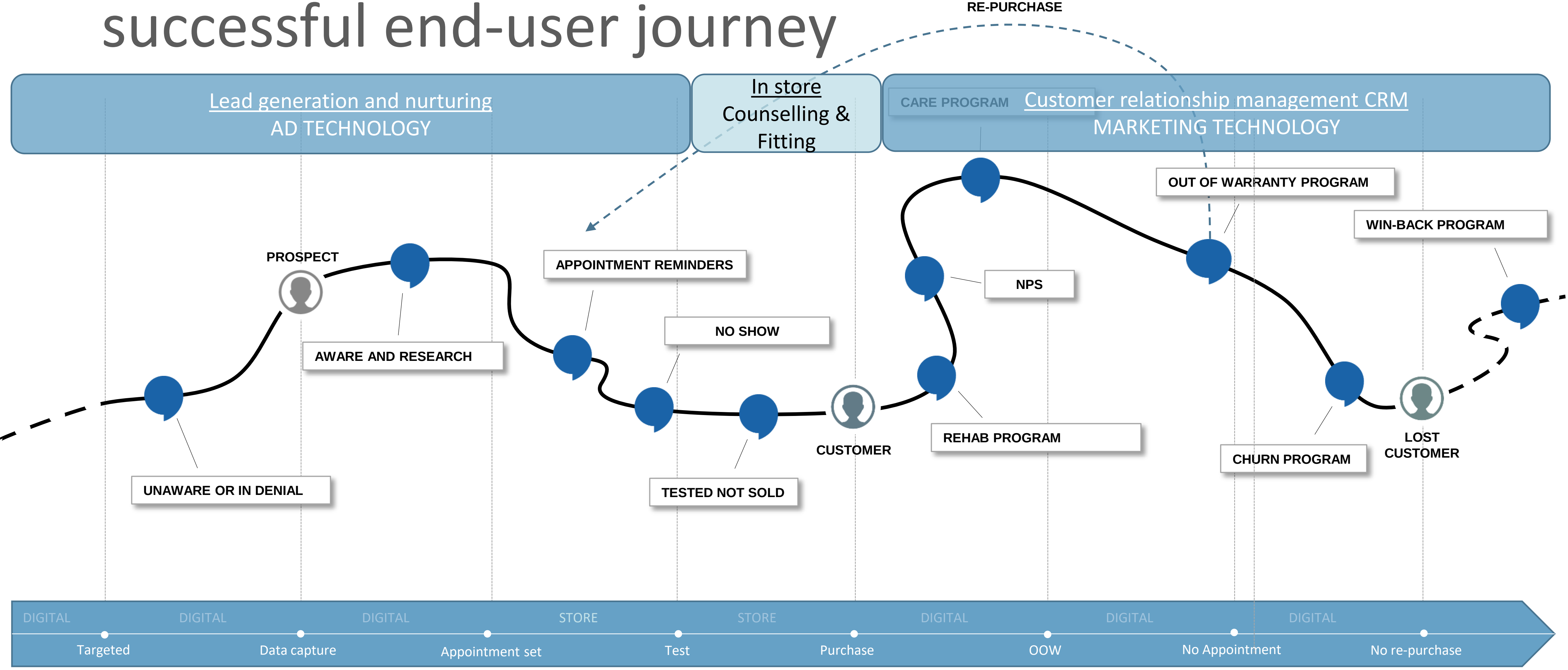
Leveraging digital technology to support successful end-user journey



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How: ”A Good Start” welcome programme

WHAT

Fully automated, personalised cross-channel program

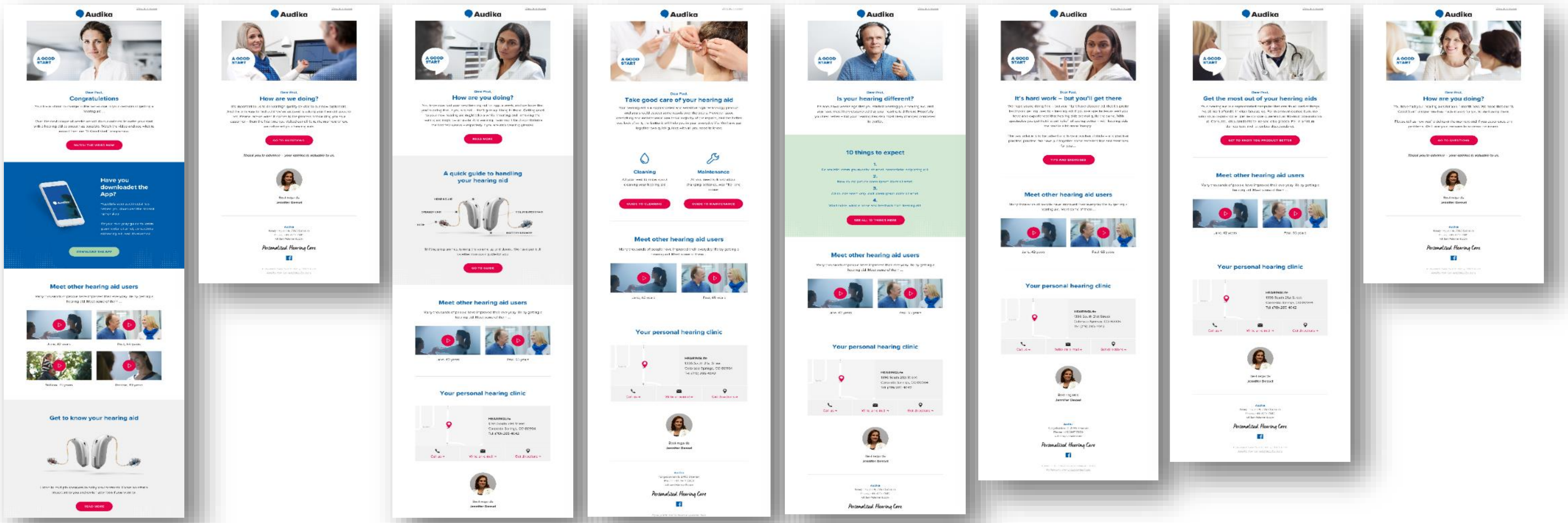
WHY

Helping the new user adapt – and getting the most out of the hearing aid

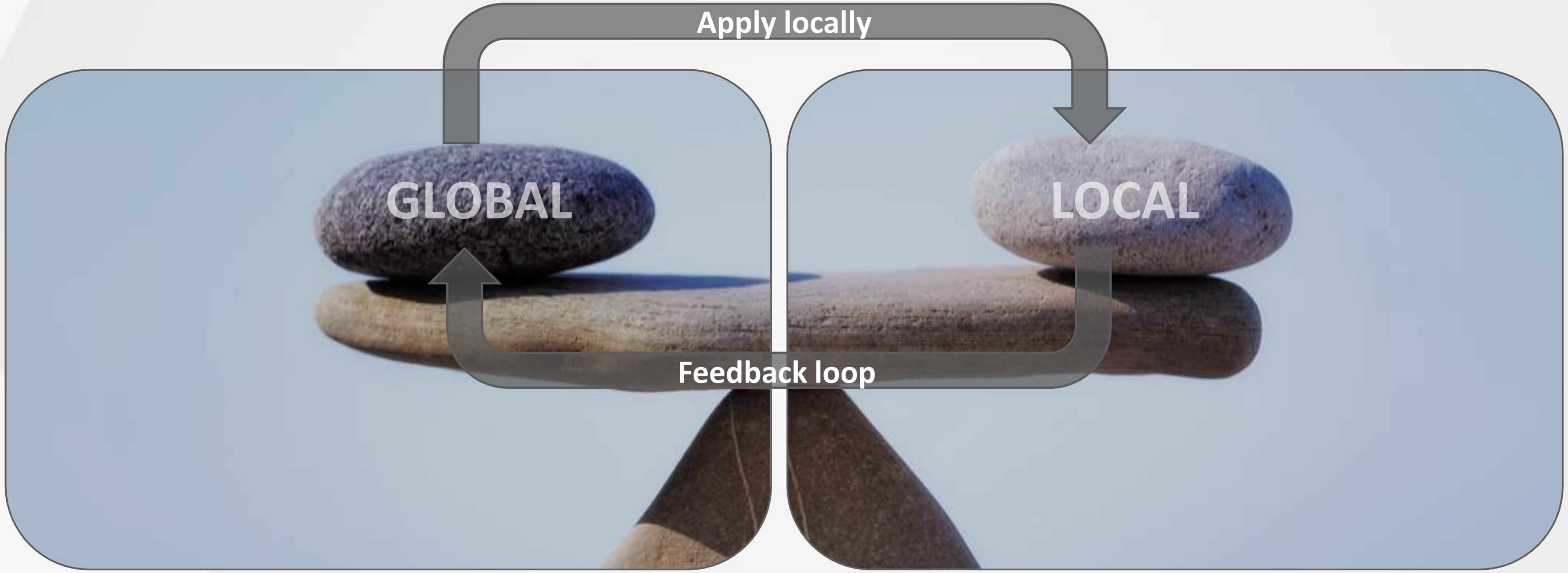
HOW

Guides the customer through the crucial first five weeks with a hearing aid

Welcome | NPS | Comfort 1 | Comfort 2 | Audiological 1 | Audiological 2 | Tech & pairing | NPS + Survey



Global marketing excellence with local execution



Single platform and technology	Cultural relevance
Scale and knowledge	Customer connection
Programmatic buying	Market differences

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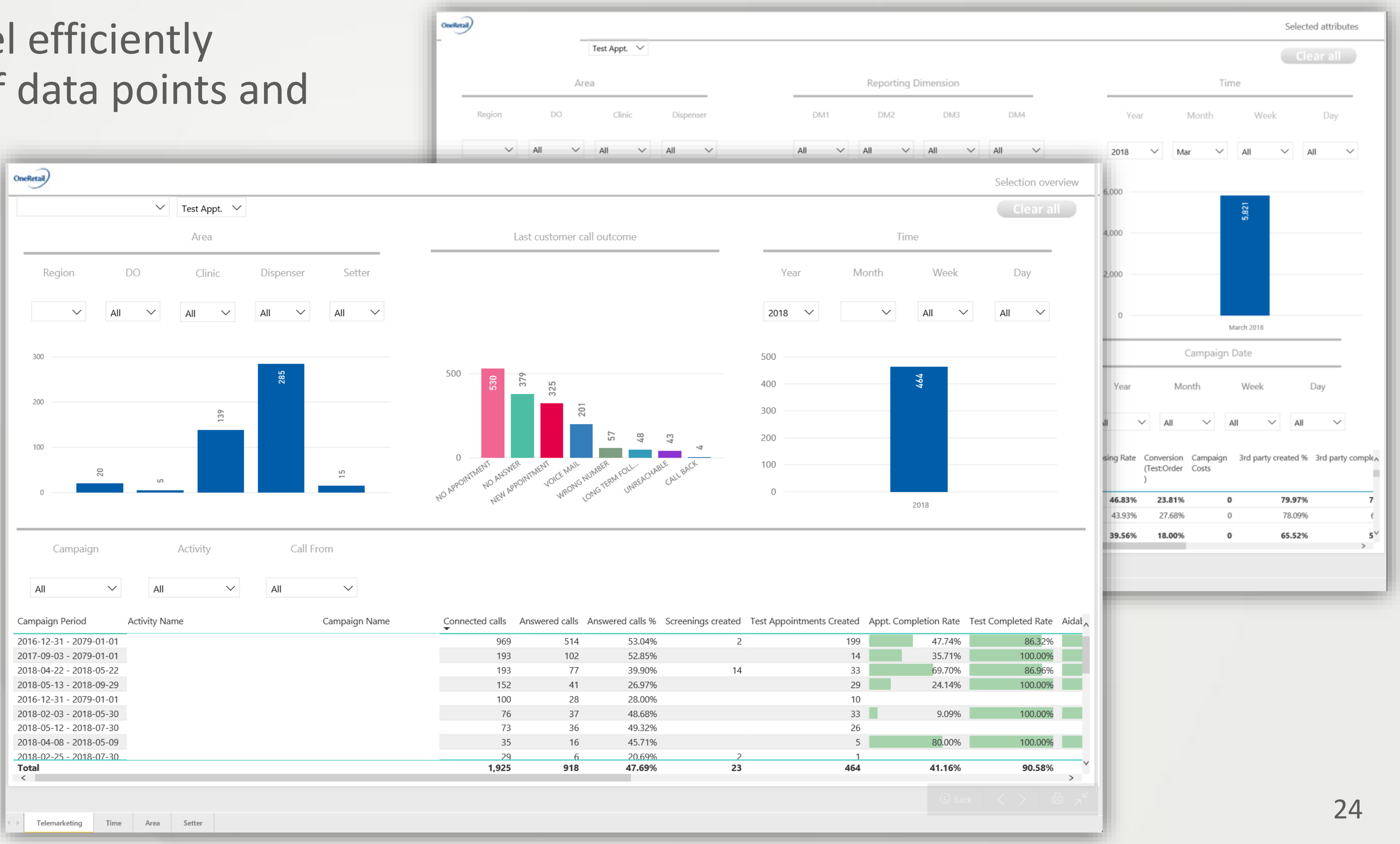
Business systems and technology

Managing the sales funnel efficiently requires large amounts of data points and the right IT systems

- Performance data
- Behaviour data
- Consumer data



How to build a strong brand and business

Audika Switzerland

Elmar B. Götz

Personal

Elmar B. Götz (56)

- Diplom-Kaufmann (MBA), German
- Experience in wholesale, retail, venture capital, start-ups
- Industries: FMCG, Optical, Hearing Aids, Elderly Care
- CEO, Synoptik AB, Sweden
- Group VP Channel Solutions, Sonova Holding AG, Switzerland
- CEO, Casa Reha Holding GmbH, Germany
- GM, Audika AG, Switzerland

Hearing aid retail market in Switzerland

Size, regulatory, competitive landscape

Market size

83,000 units

(estimate 2017)

Government reimbursement

Type	IV (workers)	AHV (retirees)
Monaural	CHF 840	CHF 630 (= 75% of IV)
Binaural	CHF 1,650	CHF 630 (1,237.50 as of July 2018)

Key players

Audika, amplifon, KIND, NEUROTH, Fielmann, audibene, Sonetik

Development of Audika Switzerland

A young company with legacy

1937

Foundation of HZ Hörmittelzentralen AG by Swiss hearing impaired association

2014

Take-over of 25 HZ clinics by William Demant (WDH)

2015

Take over of three single companies

2016

Sept. 2016

2017

June 2017

<u>New GM:</u>

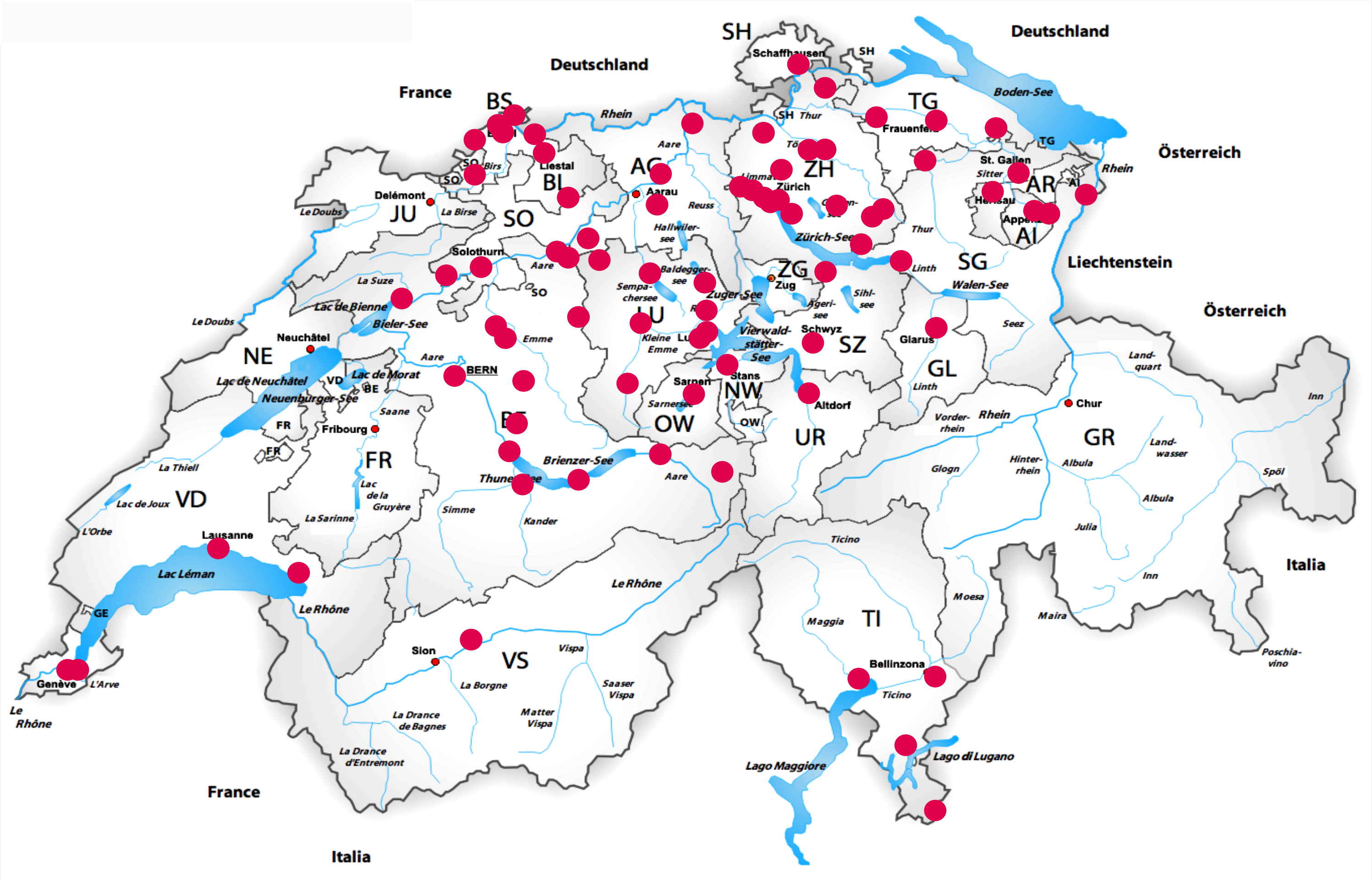
Elmar B. Götz

<u>Audika Switzerland</u>
= merger of several major/minor companies

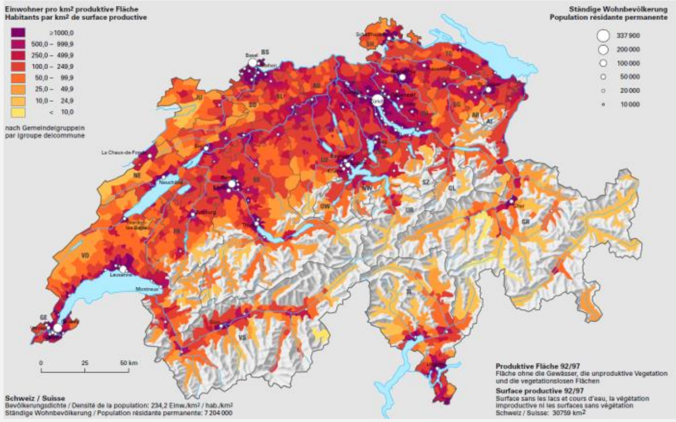
80 clinics in 3 language areas, approx. 200 employees

Audika coverage

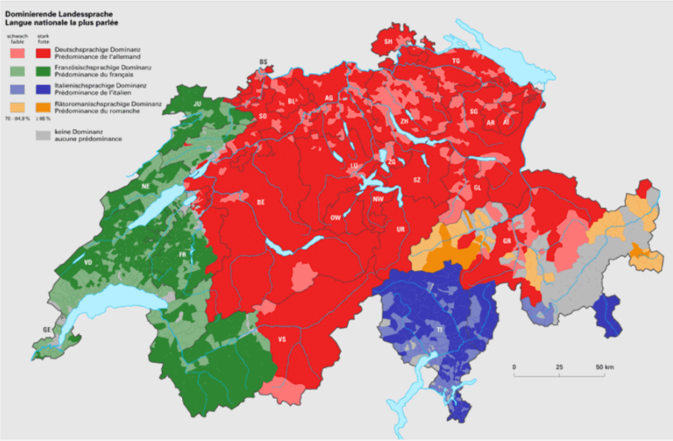
Current locations



Distribution of population



Language areas



How to get in POLE POSITION?

Audika 2018

ONE Audika

How to get in POLE POSITION?

The journey

AMBITION	DEFINITION
POLE POSITION	• Better business results (compelling place to shop) • Employer of choice (compelling place to work) • Top company reputation (compelling place to invest)
DNA	• New vision • New mission • New company values
ONE AUDIKA	• Standardised labour agreements • Standardised work processes (QM) • Standardised systems infrastructure (IT/audiology) • Digitisation of company • New market appearance/shop design • Scalable high-performance organisation

Core capabilities:

- People
- Marketing
- Systems

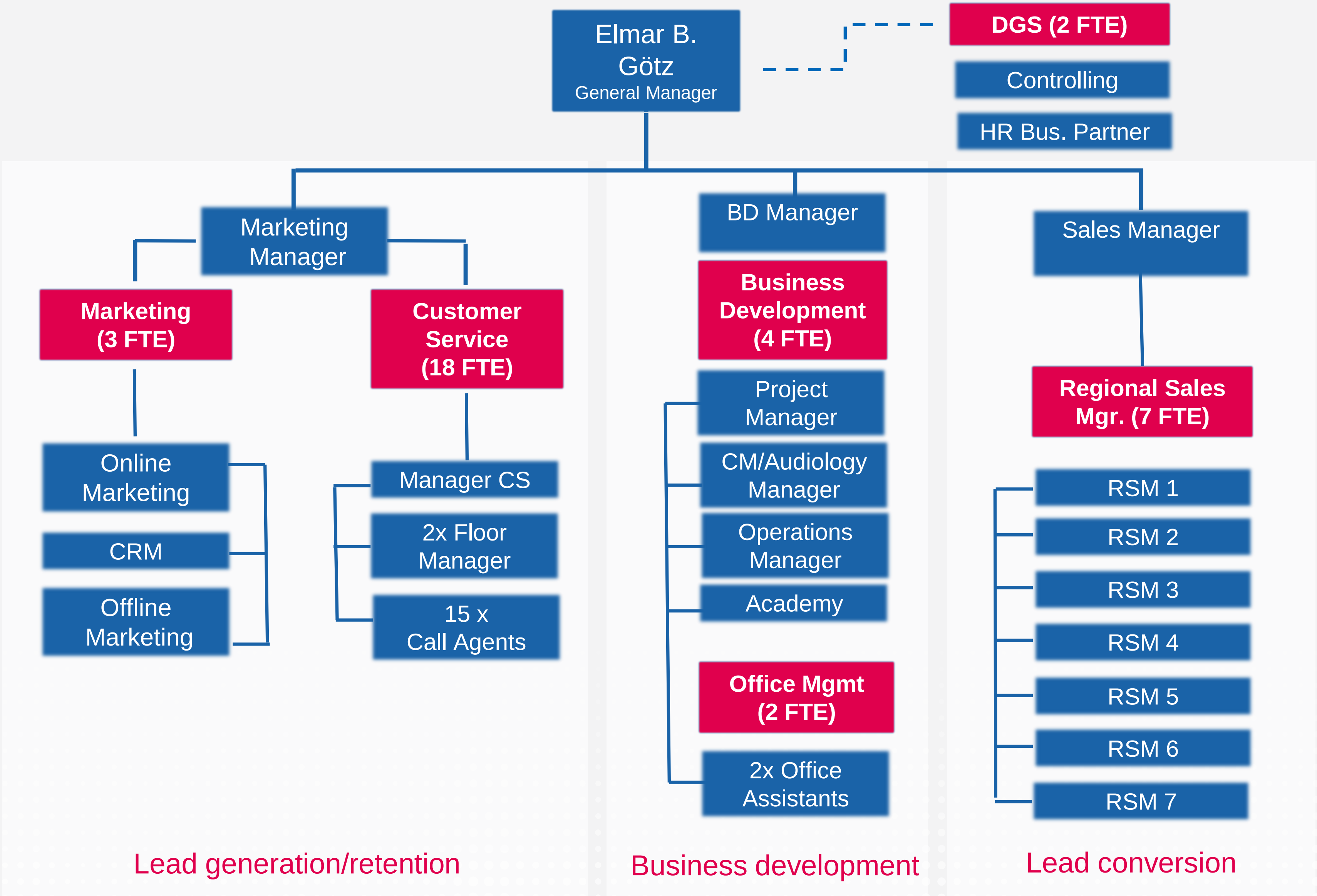
People

Building block 1: A strong Audika organisation

High-performing team

Organisation Audika Switzerland

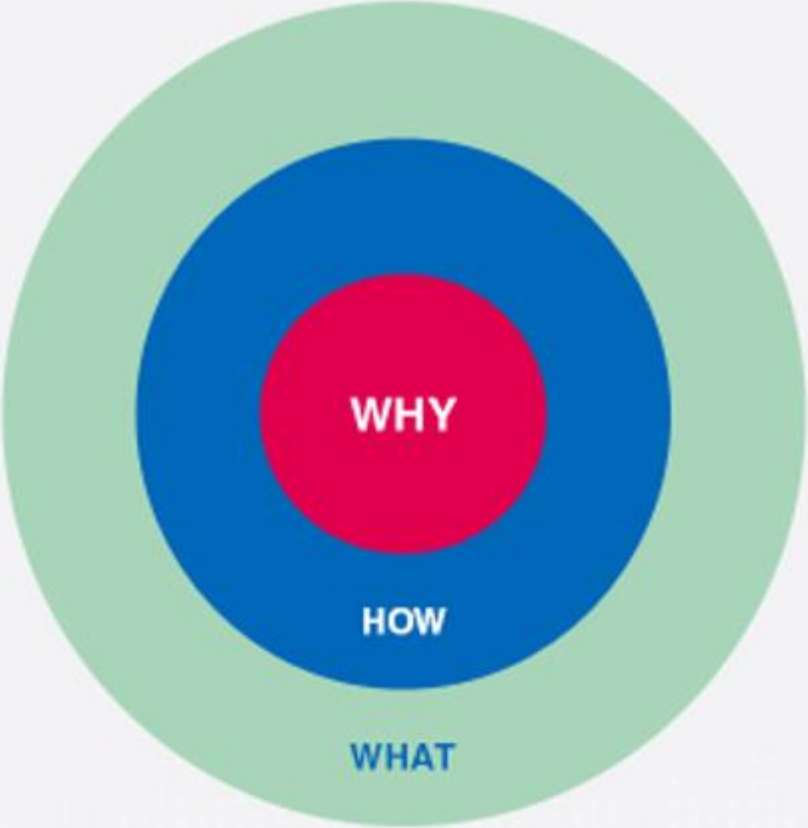
HQ Urdorf



Building block 2: Vision, mission, values

How to have motivated and highly engaged employees

Our Vision:
«Help more people hear better»



Building block 3: Academy

How to develop core competencies

Project work

Trainings

- Product training
- Sales training
- Technical training

Leadership

- Training
- Coaching – on the job
- ✓ How to give feedback

Audika academy

- Exam preparation
- Audika Trainee Programme 2019/20

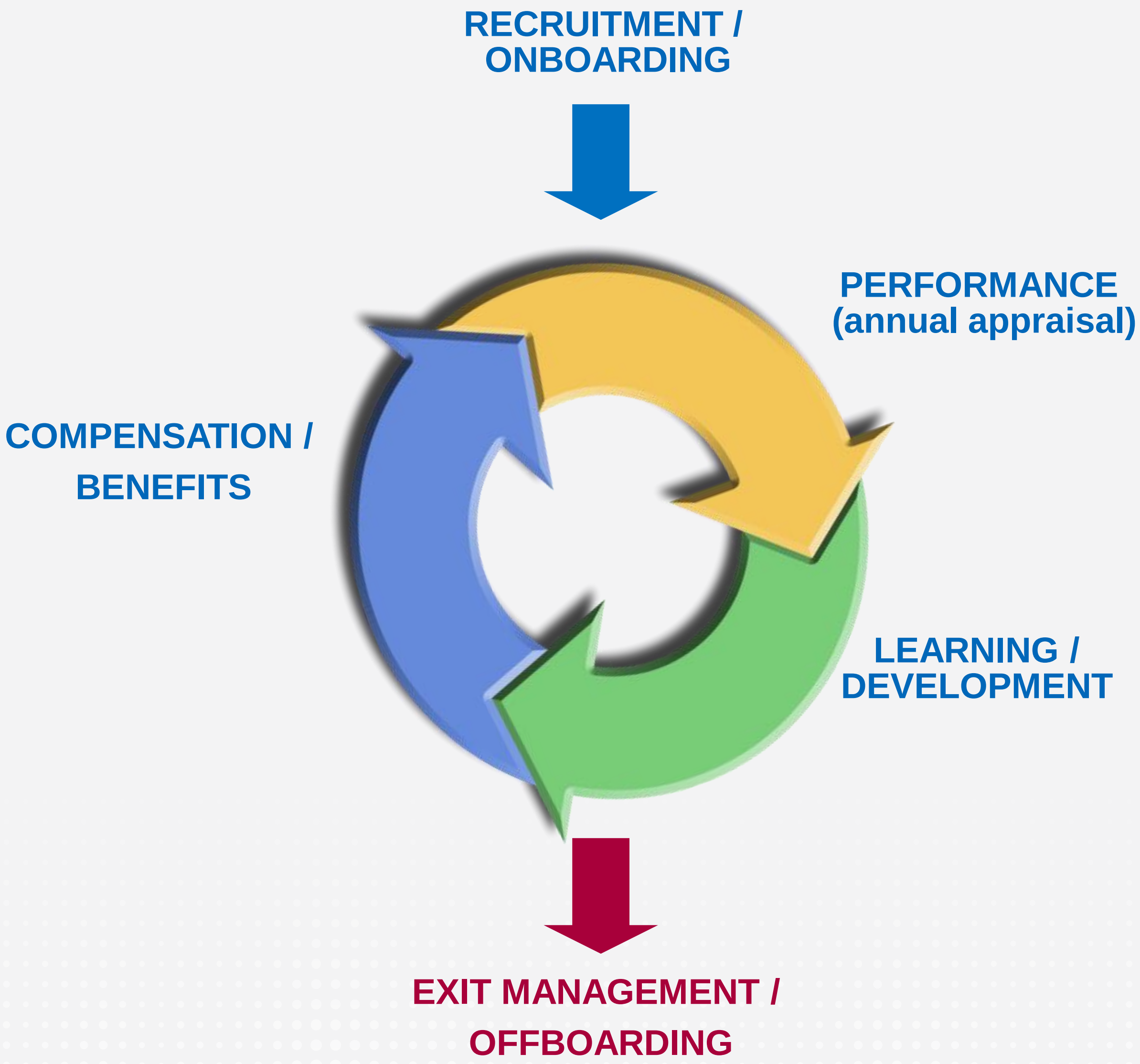
Trainees

- Welcome days
- Introduction programme

Onboarding

Building block 4: HR cycle

How to build organisational capacity and HR systems



Building block 5: Culture and leadership style

Communication by the General Manager

Dispersed organization (80 clinics + HQ + DGS)	Regular roadshows in all regions	Monthly store visits
Three operating languages	Monthly update letters/ feedback systems	DemantPulse William Demant engagement programme
Personal appreciation	Personal handwritten birthday card	Thank you/kudo cards

Marketing

Building block 6: Lead generation

Holistic campaigns/multi-channel approach

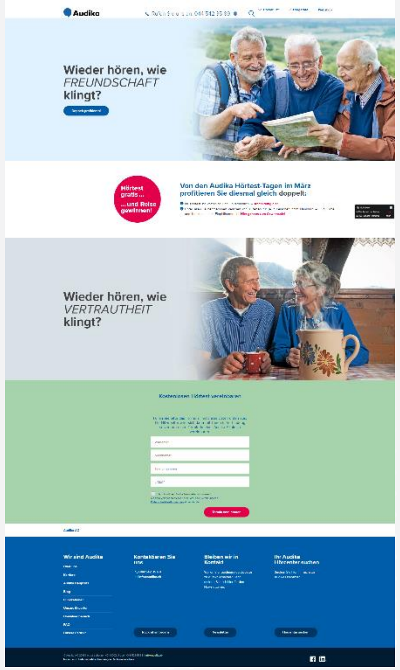
Holistic Campaign: ‘Hear again how …. Sounds… ‘

Print

Store sticker

Facebook ad

Website



Building block 7: In-store excellence

How to win in-store

Shop design

Visual merchandising (shop window / interior)

Quality & content of brochures / collaterals

In-store TV

Local promo tool-kit (outreach programme)

Merchandising & accessories

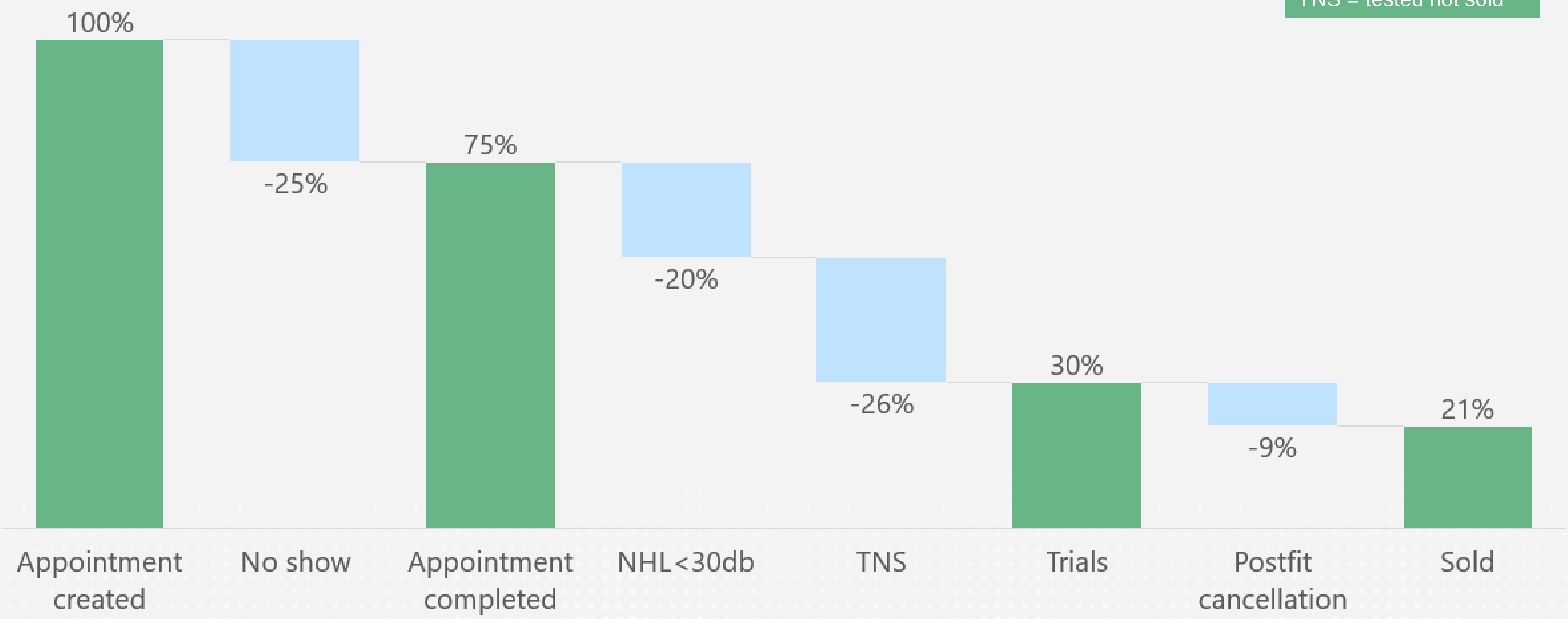
Give-aways

Referrals (medical, WOM)

Building block 8: Lead conversion

Sales funnel

NHL = no hearing loss
TNS = tested not sold



Building block 9: Innovative assortment

Private label «Audika»

Building Block 10: Outreach programmes, regional activities

Local tool-box

- ✓ 9 different tools which can be leveraged by local teams
- ✓ Central support by marketing team
- ✓ Focus on generating leads locally and bond with the local community

In-store promotions/regional activities

Intense and intimate relationship with customers

Building block 11: Customer journey for hearing aid users

Customer retention/renewal

Year 1	Year 2	Year 3	Year 4	Year 5+
Purchase Online questionnaire (one month) Check-up (three months)	One-year anniversary (12 months) Mailing with battery offer (24 months)	Invitation to hearing test (36 months)	Invitation to presentation of new technology (48 months)	Follow-up by call centre (58/70 months) Invitation to “360° check” or exchange “Old to New” (64 months +)

Systems

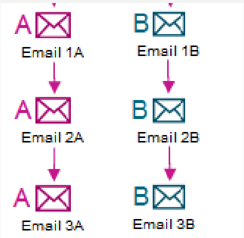
Building block 12: IT systems

Digitisation of operations

ERP/CRM	OPACC (ERP)	MS Dynamics CRM (Marketing)
Back-office	BasWare (Finance)	PeopleCentral (HR)
Audiology	Affinity (audiometer)	Noah

Building block 13: Cloud retail CRM

Automated lead generation, prospect nurturing, customer retention



Lead generation:
- SoMe
- Organic search
- Paid web
- Paid leads

Counselling:
- App
- E-mail/on-line
- Off-line

Prospect Nurturing:
- Leads
- Prospects

Customer retention

Operational excellence: A continuous journey

Wrap-up

Significant progress in operations…

- People
- Sales & Marketing
- Systems

…and work on key focus areas:

- Drive employee engagement further
- Roll-out of key sales excellence initiatives
- Implement new and improved ERP-system

Win with the brand and the business behind continuous operational improvements.

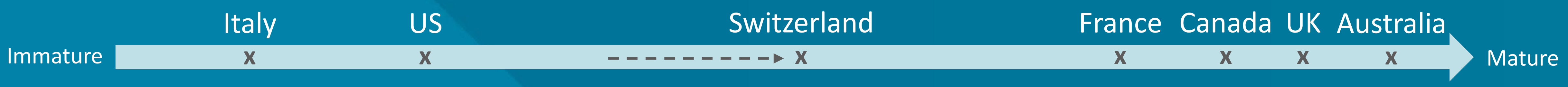
Questions at the end of retail presentation

William Demant

Maturity of our retail varies across markets

- The performances of our retail businesses in various markets are closely correlated with their level of maturity, e.g. in terms of
  - Quality of IT systems and processes
  - Number of operating brands
  - Organisational structure and stability
- The process of establishing and implementing new initiatives takes time but we have the necessary tools in our One Operating Model
- Pace of change also dependent on level of ongoing bolt-on acquisitions

Indicative relative maturity of our retail markets:



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US retail: Building a business in our largest market

In our largest retail market, the US, we are on a journey to build a coherent business based on a large number of acquisitions completed in recent years

People

• Improved regional sales management structure	*Completed*
• Started brand harmonisation from approx. 80 brands	*Started*

Marketing

• Building central organisation and capabilities 1.0	*Completed*
• Launching digital marketing automation	*Started*

Systems

• New POS, schedule management and CRM system now across all shops	*Completed*
• New call center technologies and marketing technologies	*Started*

Continued bolt-on acquisitions in retail

- Overall, we continue our strategy of making bolt-on acquisitions on a selective basis
- Our acquisitions are mostly re-active by nature with the seller often initiating the transaction
- We focus on acquisitions in specific geographies, primarily the US and France

- Acquisition prices differ significantly between markets and are driven by
  - Value as a stand-alone company including sales uplift (in mature markets) from leveraging brand and marketing activities
  - Synergies from additional supply of wholesale products


William Demant
Q&A