

KONE CMD 2014

# Accelerating modernization growth through proactive demand creation

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# Agenda



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- The background image shows a modernization project in progress. A worker in a blue hard hat and high-visibility vest stands next to a stainless steel elevator shaft. A customer in a dark jacket and jeans stands to the right, looking at the worker. A yellow safety barrier is in the foreground. A sign on the wall reads "KONE Elevator Modernization Information".
- Creating customer value with modernization
  - Significant potential in the global modernization market
  - Capturing the potential with proactive demand creation

# Modernization adds value to customers and end-users in various ways



Safety



Reliability



Accessibility & capacity



Energy-efficiency

Modernization improves the life-cycle performance of equipment thus increasing the value of the building



# Modernization encompasses a variety of activities from component upgrades to full replacement of equipment

<b>Activity</b>	<b>Component upgrades</b> <ul style="list-style-type: none"><li>Upgrades of single components to ensure reliability and improve performance</li></ul>	<b>Modernization packages</b> <ul style="list-style-type: none"><li>Modernization of key systems such as electrification, control system and door operator unit</li></ul>	<b>Full replacement / major modernization</b> <ul style="list-style-type: none"><li>Full replacement or major modernization of the complete elevator system</li></ul>
<b>Frequency</b>	As needed	Multiple packages during the lifetime of equipment	One-time occurrence

# KONE ReGenerate modernization package clearly improved the lifecycle performance of a residential complex in Singapore

## Case



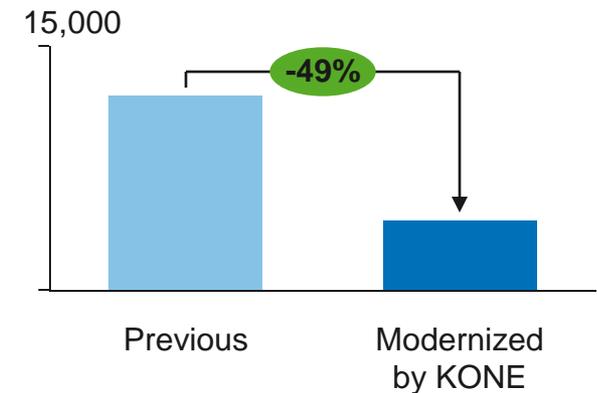
- The Waterside Condominium, Singapore
- Upmarket residential development, built in 1993
- Six 24 floor towers
- 24 third-party manufactured elevators

## KONE solutions

- KONE ReGenerate 800 modernization package
  - Hoisting and electrification upgrade
  - Regenerative drives
- KONE E-link monitoring system for peace of mind
- Project delivery designed to minimize downtime

## Customer benefits

Measured energy consumption, kWh



~25,000 EUR annual savings in energy costs

Improved ride comfort  
 Reduced noise  
 Better leveling accuracy

# KONE NanoSpace full elevator replacement provides the customer with all benefits of a new elevator



Improved end-user safety with better leveling accuracy and automatic doors with safety functions



Better reliability as simplified design minimizes the number of parts and built-in monitoring system is used for early detection of wear and tear

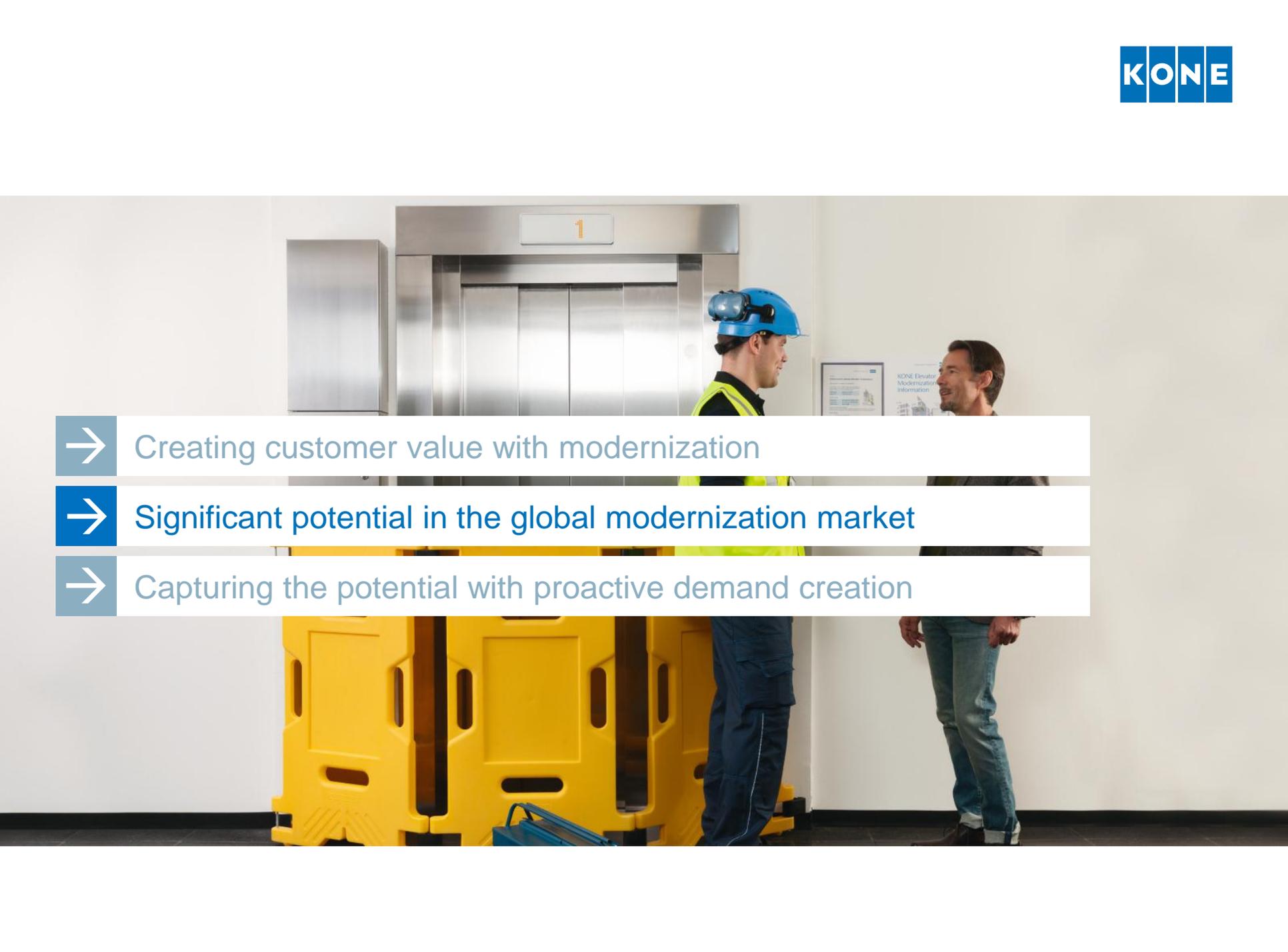


Maximized space with up to 50% larger car with no changes to the shaft

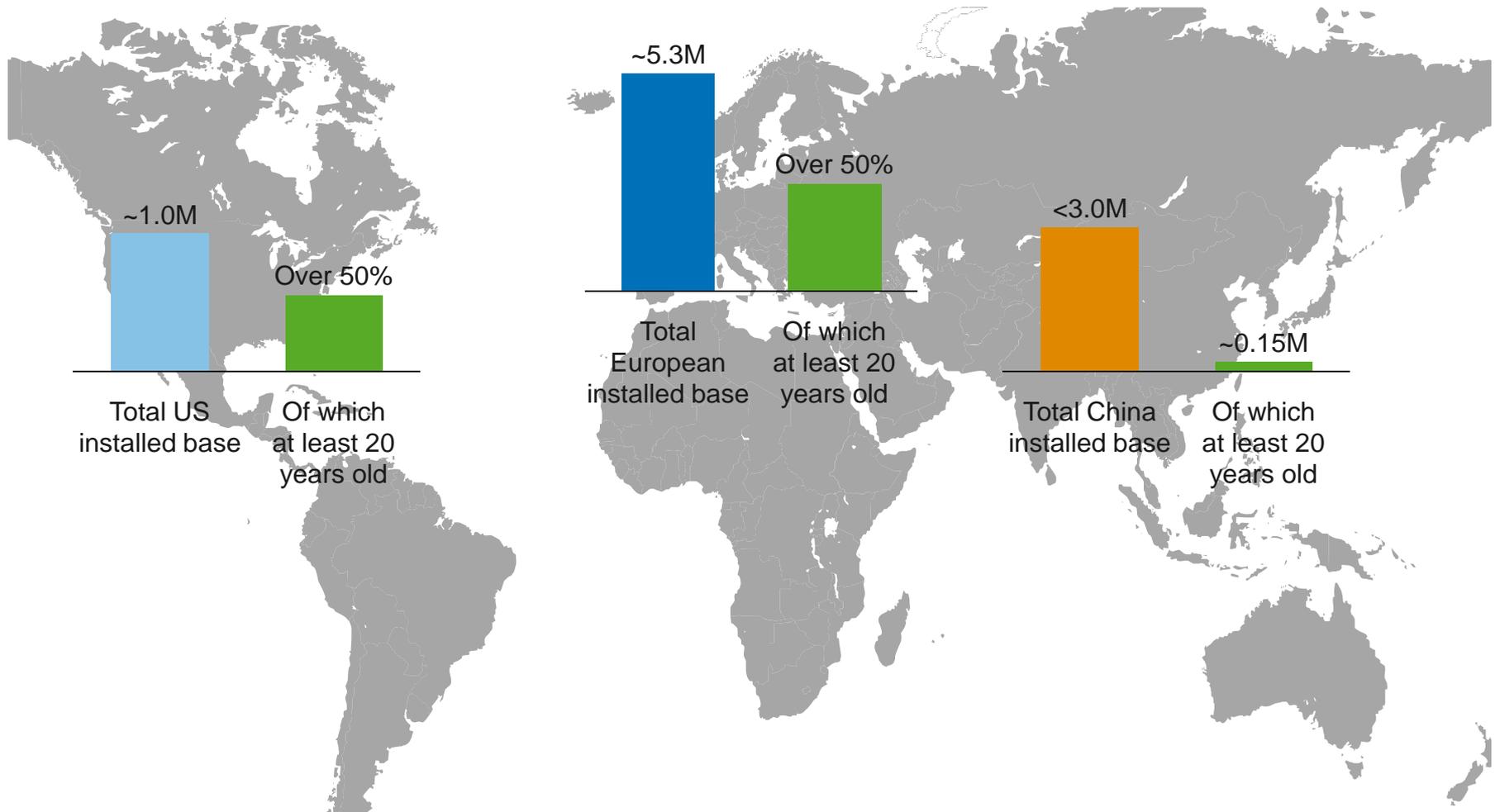


Up to 70% lower energy consumption achieved

In addition, minimized elevator downtime as replacement time is cut from six to two weeks

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- A photograph showing a technician in a blue hard hat and safety vest standing in a modern elevator lobby, talking to a customer. The technician is wearing a blue hard hat with a headlamp and a yellow safety vest over a dark shirt. The customer is wearing a dark jacket and blue jeans. They are standing in front of a stainless steel elevator with a '1' sign above it. There are yellow safety barriers in the foreground. A sign on the wall reads 'KONE Elevator Modernization Information'.
- Creating customer value with modernization
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# A large part of the E&E equipment in operation in the developed service markets are over 20 years old



# Economic weakness has been burdening the development of the largest modernization markets



	2006–2009	2010–2011	2012–2013
Europe	Market development positively impacted by the SNEL regulation.	Market in Central and North Europe continued to grow, but declined in South Europe.	Market declined both in Central and North Europe and South Europe.
North America	Market grew until 2008 when growth leveled off. Federal monetary stimulus balanced market in 2009.	The market grew slightly.	Market growth accelerated.
Asia-Pacific	Good development overall, however modernization markets in Asia-Pacific region are still relatively young.		

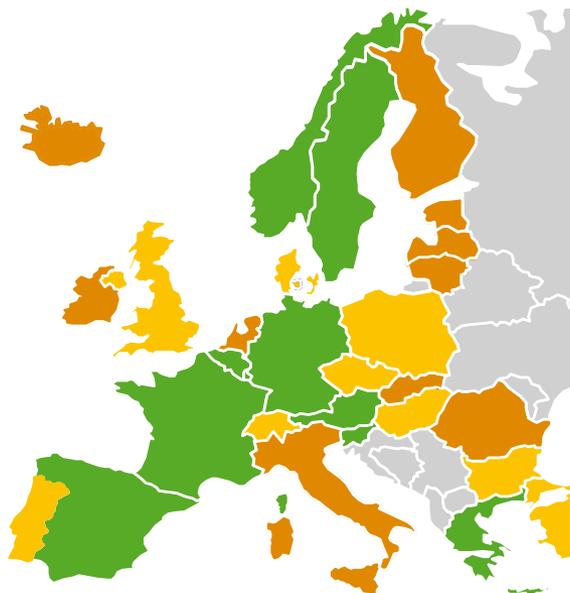
# Europe: The majority of the modernization market consists of a large amount of relatively small residential customers



- High variety of equipment from different decades and manufacturers based on different building standards
- Cost competitive solutions with minimized disruption to tenants valued



## Market development defined less by legislation in the future



- Safety Norm for Existing Lifts (SNEL) is an EU level safety standard
- Implemented in many of the largest markets in Europe, some markets still preparing implementation
- However, SNEL is expected to be a less significant driver for demand in the future

### SNEL implementation status 6/2014

- SNEL has been implemented through a national law
- National legislation or guidelines in preparation
- Slow progress/no measures taken to implement legislation, or no information available

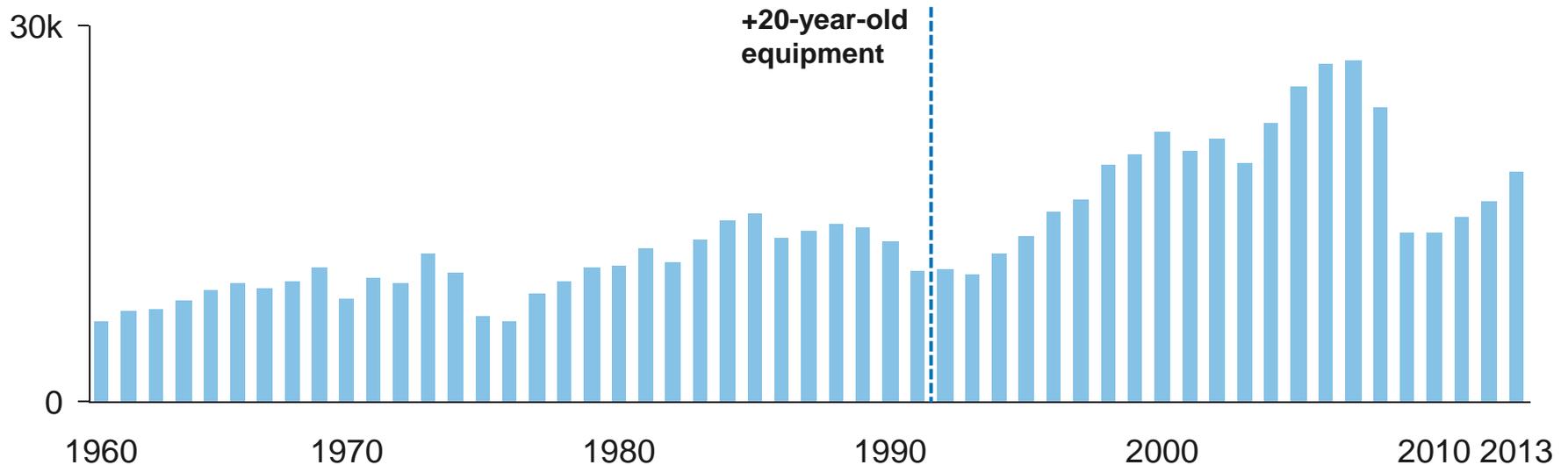
# North America: a large number of high-rise office towers would benefit from modern technology

- Large base of hydraulic, high-energy consumption elevators
- Large base of high-rise office buildings built in 1980s with outdated solutions – often with more users than originally intended



## Aging base of elevators is growing with an accelerating pace in the US

New E&E orders in the US 1960–2013 (in units)



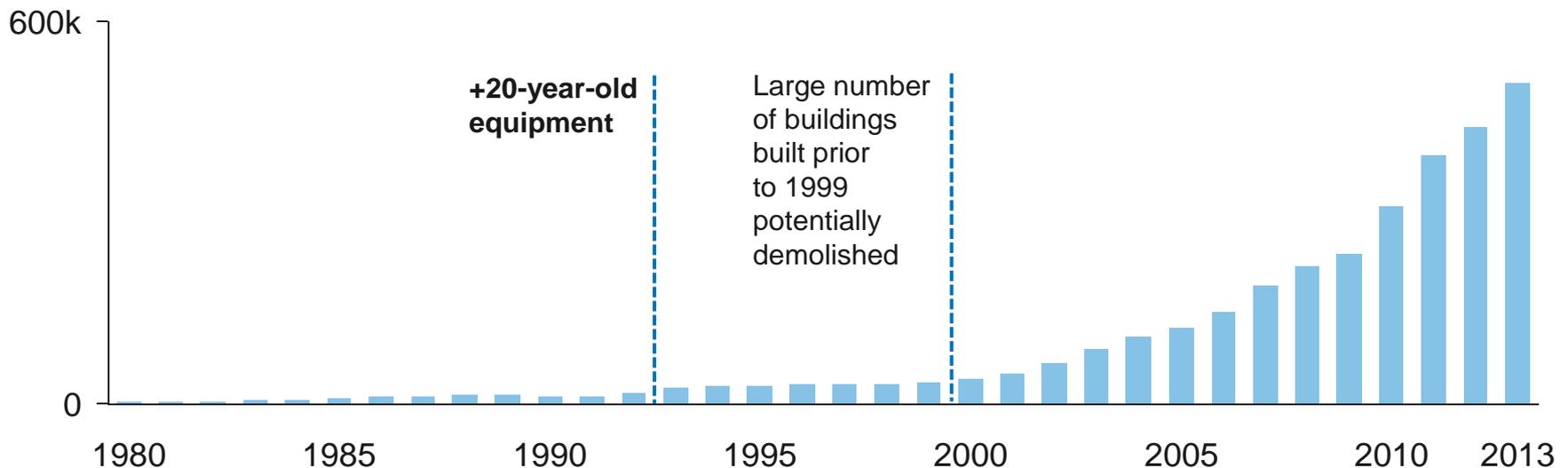
# Asia-Pacific: installed base comparatively young today, but future opportunity attractive

- More mature markets like Australia and Singapore already presenting good opportunities; China and India longer-term ones
- Office buildings a large segment, projects typically large  
➔ High-rise solutions, access control integration and eco-efficiency important



## China: a very attractive long-term opportunity for modernization

New E&E orders in China 1980–2013 (in units)

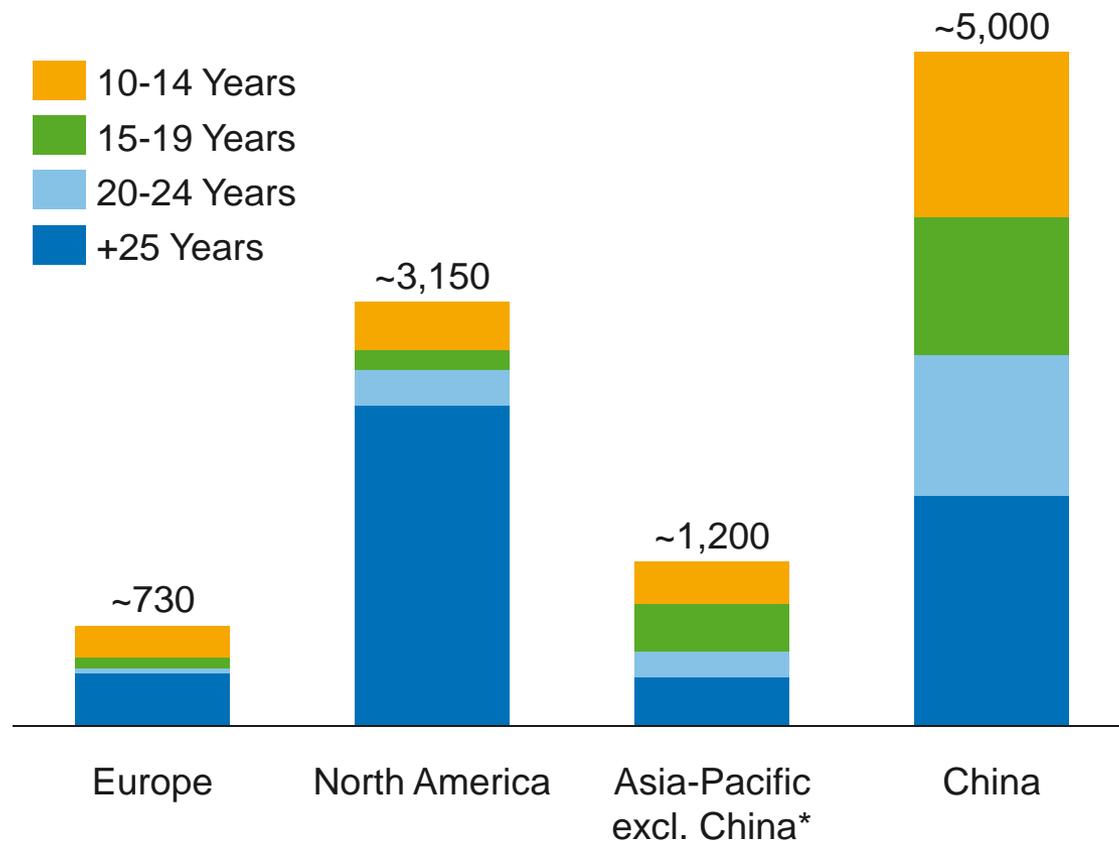


# High-rise modernization is a growing opportunity



## Aging high-rise buildings

Number of buildings with 25 or more floors by age and region



# There is a significant opportunity in the market and it is growing



1

## Large base of aging equipment in operation

Over 50% of equipment in Europe and in the US is over 20 years old. Older technologies start to become non-maintainable due to lack of spare parts.

2

## Pent-up demand from prolonged weakness

The economic environment in Western countries has caused customers to postpone modernization activities.

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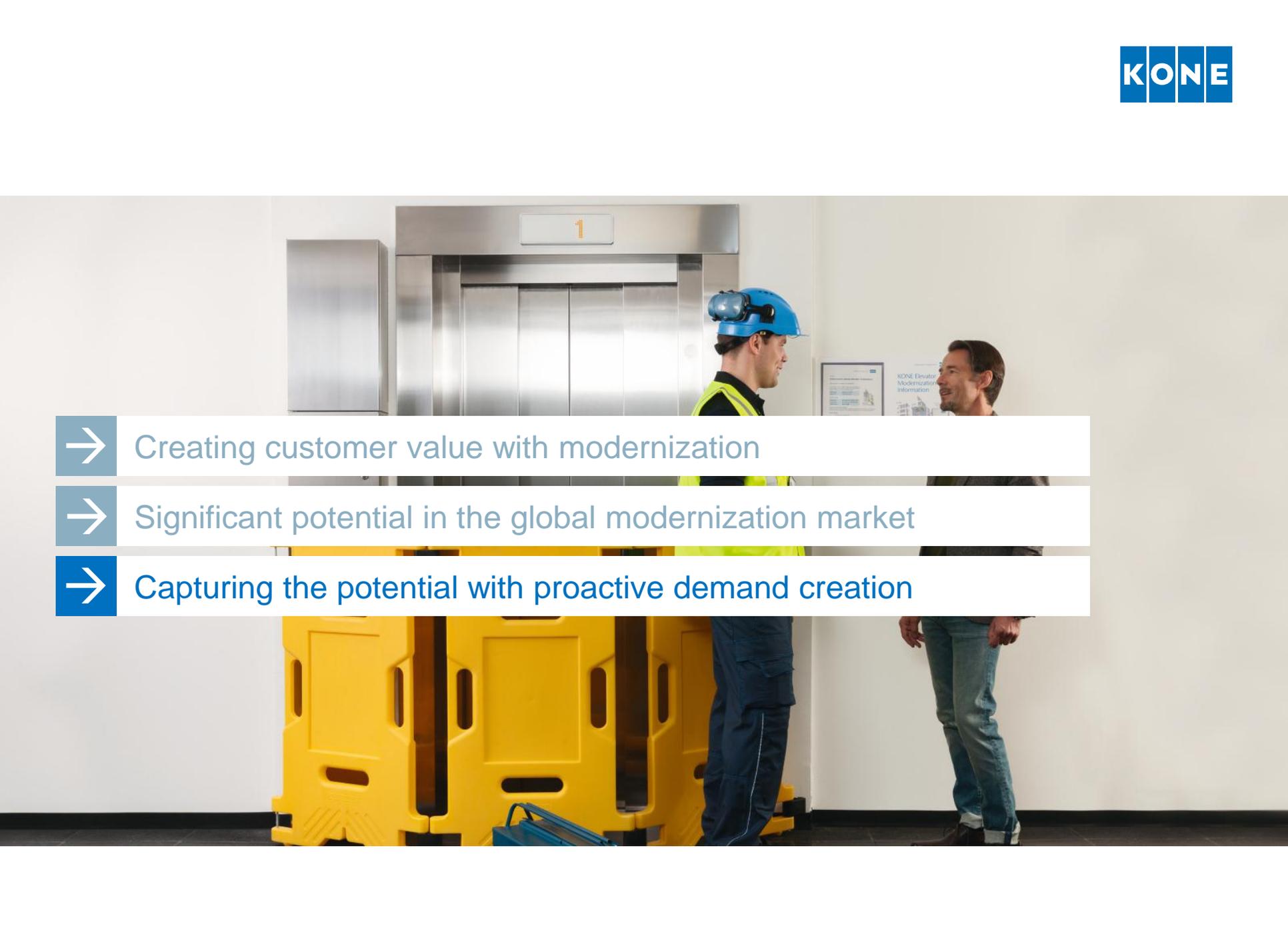
## Aging population demanding accessibility

Share of aging population is growing globally. Accessibility of buildings is becoming increasingly important.

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## Strong new equipment market growth in Asia

Current strong demand for new equipment creates a long-term opportunity for modernization.

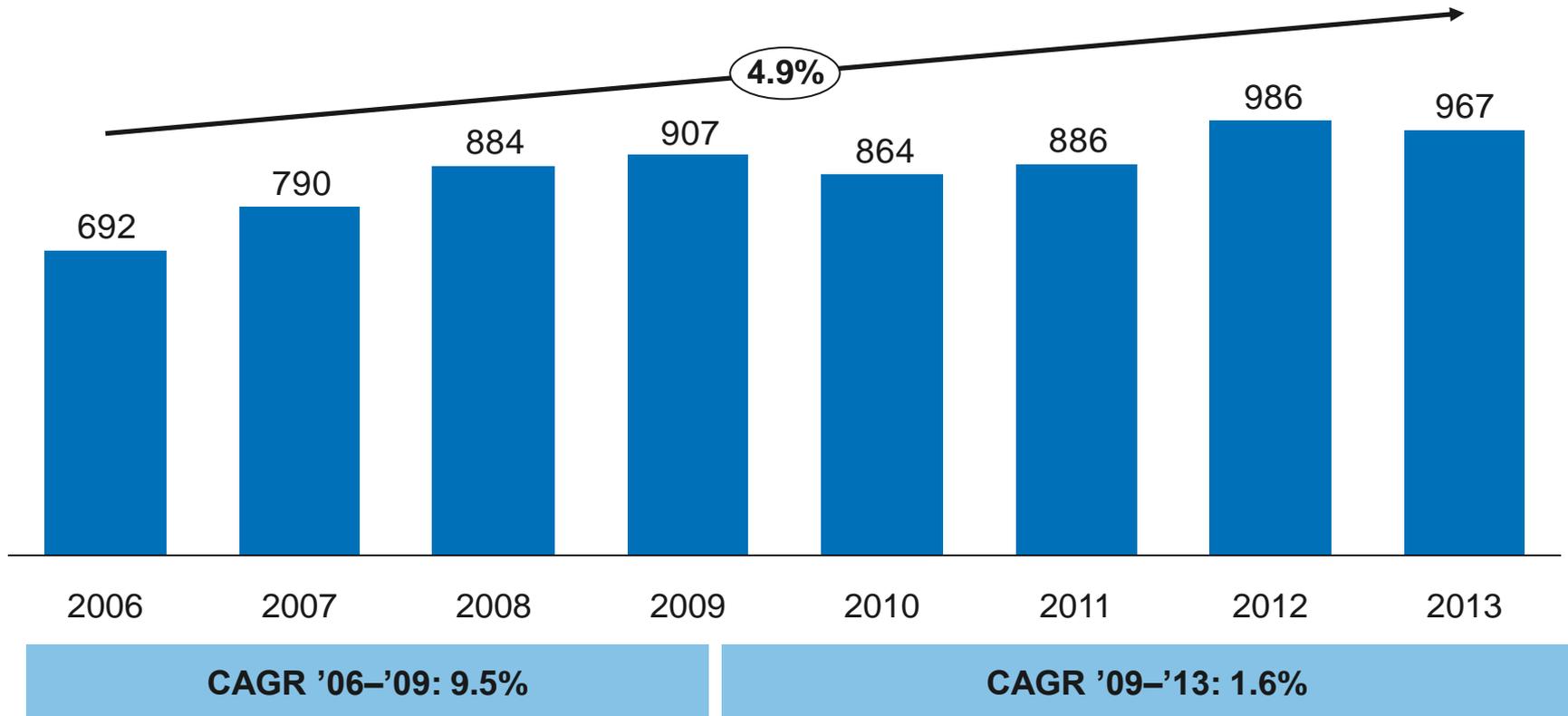
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- Creating customer value with modernization
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# The weakness on the main markets is reflected in our recent development in modernization



## KONE's modernization sales 2006–2013

MEUR



# We want to clearly speed up our development in modernization

KONE

## Top Modernization Provider development program

Accelerating the development of our modernization business

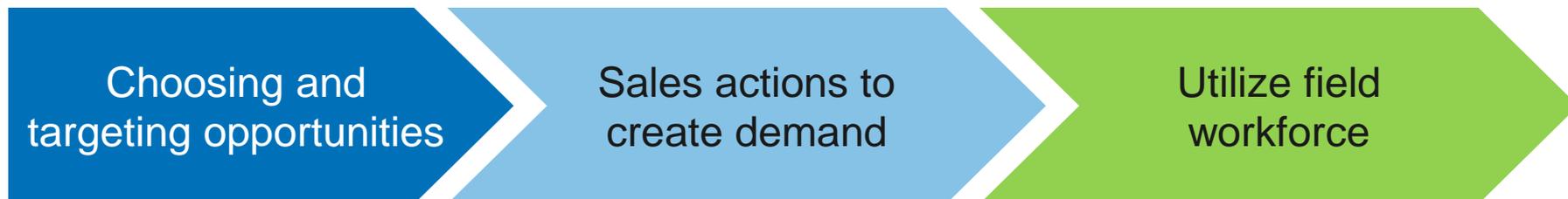
Developing a granular  
understanding of the  
markets

Improving our  
sales processes  
and competences

Increasing the  
competitiveness  
of our offering in  
different segments

Improving productivity  
by harmonizing and  
integrating processes

# Accelerating development in modernization requires focus on sales and proactive demand creation



### Focused sales efforts

- Leverage existing customer relationships
- Identify potential opportunities outside of current customers

### Educating the market on modernization

- Increase customer awareness of modernization
- Active value selling of the benefits of modernization

### Service technicians as customer advisors

- Technicians know the equipment best giving them credibility to advise the customer regarding the needs of their equipment

Utilizing accumulated CRM data to identify and target opportunities and steer sales force

We have introduced several important solutions for modernization and continue to develop our offering

### Current KONE solutions for modernization

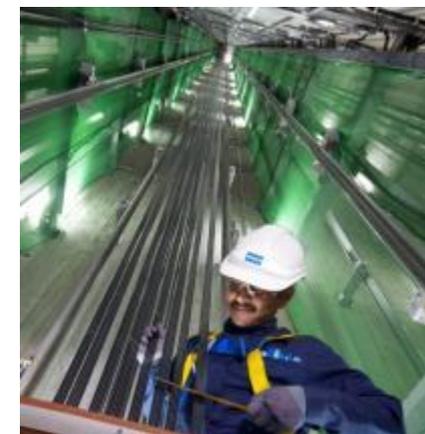
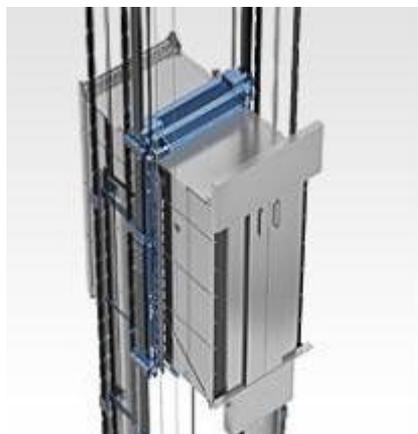
All segments

NanoSpace  
for residential

PFI for commercial

UltraRope for  
high-rise

- Flexible modernization packages
- Full replacement solutions



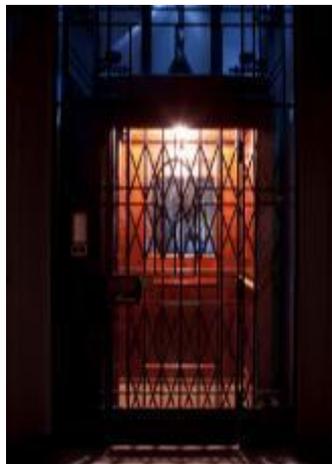
### Key factors in developing our modernization offering further

- In Europe and the US, solutions and process compatible with a very wide range of equipment
- Growing need of high-rise modernization solutions especially in North America and Asia-Pacific

We are focusing on increasing quality and productivity by streamlining processes in modernization

## Challenges

- Modernization is the most complex business area process-wise
- Providing tailored solutions and increasing productivity at the same time
- A variety of old and new components/systems are fitted together



## Solutions

- Increasing productivity by simplifying processes and integrating tools
- Focusing on sales and site survey processes
- Increasing compatibility testing of new products with existing technology

# We will become increasingly proactive and focused to capture the significant opportunity in modernization

## Growing market potential globally

- Aging equipment base in Europe and North America
- High-rise modernization
- Fast growing equipment base in the Asia-Pacific region

## We have clear actions going forward

- Becoming increasingly proactive and focused in creating demand and targeting the right opportunities
- Working to develop our offering to be more competitive and offer better value for the customer
- Simplifying our processes to provide faster customer response and improve cost efficiency



We will become our customers' Top Modernization Provider.

We will be their valuable partner in enhancing the lifecycle performance of their equipment.

*Dedicated to People Flow™*

