

Business analysis of the bottled water industry in the uk



**ASSIGN
BUSTER**

It falls down from the sky, flows under the ground, constitutes rivers, seas and oceans. We find it in the food we eat, in the shower we take, in all living beings. We may want to go to the furthest place on earth, live the most dangerous adventure, learn many foreign languages. Needless to deny, though, that in actual fact, water is all we need.

It has been defined, though, " the oil of the 21st century" 1. The challenges it needs to face do, in fact, become always more hard to solve. And more worrisome for the world population.

This paper focuses on the bottled water industry in the UK by analysing its remote and operating environment. A PESTEL analysis and Porter's five forces framework are the tools used to achieve such objective.

The bottled water market experienced a significant growth in the UK over the past few years, reaching a market volume of 2. 3 million litres in 2007 and a value of approximately £2 billion. According to the market researcher Mintel, during the period 2002-2007 the sector knew a 34% growth in million litres, estimated to rise by a further 18% by 2012 (see Figure 1).

Figure 1: UK sales of bottled water per volume and value 2002-2012

Such high growth has been characterized by a high level of Research & Development. PET1 and handier bottles, sports caps, flavoured water, NPD, increased advertising are only some of the changes that have characterized the market so far.

However, volume fell by 8% in 2008³, contradicting Mintel forecasts. And this year does not either look promising for bottled water. Figure 2 shows the revised size and forecast.

Figure 2: UK retail value sales of bottled water, 2002-12

The Natural hydration council, the bottled water industry body, is hoping to boost growth with the launch of its first advertising campaign focussed on the benefits of hydration and drinking water⁴.

From the very young to the oldest and from the most otious to the sportiest people, no one is excluded from being targeted in this market. Sporty formats for the youngest, bigger packages for the families, small and trendy bottles to be carried everywhere for the ones for whom the look counts.

However, when talking about bottled water, there are different types one could refer to. The British Bottled Water Producers⁵ recognizes three types: natural mineral water, spring water and table water. Water is classified as "natural mineral water" if it comes from an identified and protected source, is not treated, stable in mineral content and bottled at source. Spring waters also come from an underground and safe source and are bottled at source, but they are not regulated about the mineral content, although this is generally low, which leaves a neutral taste and makes it particularly suitable for children.

Finally, table water is a blend of water not coming from underground sources and sourced as mains water. The principal differences lie therefore in the provenance, the mineral content and the source. Other variants are

<https://assignbuster.com/business-analysis-of-the-bottled-water-industry-in-the-uk/>

represented by flavoured water, characterized by an addition to the water of 2% per litre of fruit juice or other substances; fortified water, which generally contains more sugar and calories, functional water, where fruit or herbal concentrates are added for nutritional value and enriched water, with added vitamins and minerals⁶. There is debate, however on classifying these kinds of waters as such rather than soft drinks, due to the presence of some substances that alter the perception of what should be called 'water'⁷.

The PESTEL framework is an analytical tool used to scan the remote environment. It considers political, economic, social, technological, environmental and legal factors and helps in assessing their impact on organisations and identifying the key drivers of change⁸. The factors identified are shown in Figure 3.

Figure 3: PESTEL analysis

Political

The British Government is committed in controlling water pollution levels, carbon emissions into the environment and willing to improve waste management practice. A significant responsibility lies in the hands of the Environmental Health Department for matters such as inspecting, sampling, analyzing and approving sources of water. The Bank of England has also cut interest rates from 4.5% points to a never seen 0.5%⁹, which could facilitate investments, particularly from abroad, into the UK.

The Climate Change Levy reform in 2001 came into force with the aim of reducing energy waste and carbon emissions for non-domestic households

by offering an 80% discount on the levy to those industries that meet the Government's limits¹⁰. By 2010, the Government expects a 20% reduction of carbon dioxide emissions¹¹. The Kyoto protocol was also signed to reduce the carbon footprint on the environment.

Economical

The current recession is hitting strongly the UK. People are now much more careful about choosing where to go on holiday, having their hair cut, buying fresh food, and also, buying bottled water¹². The 8, 6% factory gate inflation¹³ and the 3, 8% inflation on consumer prices¹⁴ experienced in the UK highly affected the sales of bottled water, together with increasing operating costs for the industry.

Besides, the underperformance of the British pound over the major currencies favored international brands over the local ones, as the British pound was down 1, 4% against the euro in 2008¹⁵. A 27, 9% inflation on oil price¹⁶ highly hit distribution and energy costs as well as plastic bottles costs.

Additionally, the UK GDP went from a 3% level in 2007 to a negative 1, 5% in 2008¹⁷ and the GDP per capita, while it showed a significant improvement from 2000 to 2006 (+4, 2%)¹⁸, remained stable over the last years, an explanation to the decrease in sales in bottled water, as customers ability to buy decreased.

Social

The trend towards a healthier lifestyle does not seem to slow down. Growing overweight and health problems are leading people to select more carefully what they eat and drink. The increase in bottled water sales is also due to the beneficial properties bottled water is claimed to have. Indeed, according to Mintel, 60% of the respondents think that bottled water is healthier than other soft drinks and 21% believe that it has proven health benefits¹⁹. The tradition of water as a cure for many human illnesses dates back to the late Middle Ages. By that time, water was believed to have healing benefits and was drunk to treat urinary disorders, rheumatisms or respiratory problems. 'Spa' towns developed in continental Europe and reached the UK. However, the development of medicine saw many spas declining, especially in England, while in countries such as Italy and France the tradition was so deep-rooted that people thought to start bottling water²⁰.

In recent years, English people showed to appreciate more bottled water for the benefits it brings. Also, taste, purity and convenience -in terms of portability-, seem to be strong reasons for preferring bottled water over the tap. The on the go lifestyle of these days probably supported it. Part of them has probably been influenced by the power of advertising and the claims made on the label. Thus, we find terms such as " glacier water", " mountain water", " pristine nature" that do not however necessarily come from a pristine area²¹. The emphasis on helping the third world is also becoming more popular (eg. Thirsty Planet²²), due to the awareness of the big benefits people's sensitivity can bring. Evian, with its ad " Volvic: get your fill of unspoilt nature" is among the companies that makes most use of such expedients.

Figure 4: Evian advertising

The old people, however, still prefer to drink tap water, claiming that it is not different compared to bottled water, and cheaper²³. Considering the increasing ageing of the population, such claim it is not beneficial to the industry in question, which should find other ways to attract such segment of the population, not very much influenced by ads, statements on the label or the look of the bottle, but particularly health-conscious. The presence of children, especially from 0 to 4 years old, has also been found to influence the choice of bottled water over tap water for 64% of the respondents in Mintel report²⁴. Finally, the buying of bottled water was also associated with adjectives such as fashionable, prestigious and exclusive²⁵, highlighting the importance of image for the sector.

Technological

In order to comply with regulation's given standards about ensuring the quality of bottled water, new technology has been developed over the years to cover microbiological condition, trace elements and indicators of pollution. Several processes for treating water have also been developed, like filtration, membrane, absorption, oxidation²⁶.

Thus, water bottling facilities require a plant system that can go through all the steps involved in manufacturing bottled water, from its treatment, to its storage, disinfection, filling, testing and label printing²⁷. Improved transport capacity also benefitted the sector, especially in enabling bottled water companies in providing water in areas where its availability was scarce or when public supplies had been disrupted, as in the case of natural disasters.

<https://assignbuster.com/business-analysis-of-the-bottled-water-industry-in-the-uk/>

Innovation in the industry is critical in different areas, from processing to packaging, product safety to brand building and new product development²⁸. Natural aromas and essences, vitamins or health enhancements as ginseng are only few ideas that have entered the market²⁹. The growing use and power of the Internet has also contributed to expand the industry, by educating customers and providing them with most of the information they may need.

Environmental

Sea levels rise up to a third of an inch every year, with estimations of 1 to 2 feet over a century³⁰. Temperature is expected to rise by 3.6°C by 2100³¹. Concerns about global warming and climate change are constantly increasing and the bottled water industry has to take this into consideration. The impact that the production of bottled water have on the environment does not help the industry in this regard. For one million bottled water consumed each year, 1.5 million barrels of oil are required to produce the plastic bottles³², 100,000 megajoules is the energy required for manufacturing, and £187,000 is the cost of CO₂e₂ to manufacture plastic bottles³³.

Needless to say that bottled water companies need to do something to reduce their impact on the environment. Some of the measures taken so far include: making lighter bottles³⁴, using PLA³ bottles -also said to do not pose recycling problems-, minimizing the carbon footprint of the packaging and reducing carbon emissions when producing the resin needed for the bottle. Also, using commercial composting to reduce organic waste³⁵ and

informing customers about the amount of greenhouse gases produced during the lifetime of the product³⁶ are becoming more common. The switch from PVC⁴ to PET bottles already marked a step further for the industry for the protection of the environment³⁷, but other measures are now needed. Recycling is indeed still a major issue, as of the 13 billion plastic bottles bought in England in 2007, not even 3 billion were recycled³⁸.

Legal

Until the 1970s, no specific regulation³⁶ applied to the bottled water market. The general population started then to raise doubts about the health benefits of bottled water, the safety of the source and the labelling procedure used by bottled water companies. This led the European Union to launch the EC Mineral Waters Directive (80/777/EEC), which only applied to natural mineral water, still nowadays the most regulated water of the market as well as the most drunk (78% of the respondents drink bottled water according to Mintel report³⁹).

Such regulation is very strict in terms of labelling procedures, safety and protection of the source and limits for potentially toxic elements. Indeed, water must be bottled only at source to avoid contamination, only filtration and carbonation are permitted and must be reported on the labelling. No restrictions exist however on mineral content for these waters, as personal taste has been found to be a criterion for buying water. The EC Drinking Water Directive (98/83/EEC) regulates instead all other types of bottled water which must conform to all standards prescribed by the Food Standards Agency as well as to restriction on mineral content. Nevertheless, it is in the

companies' responsibilities to ensure that their bottled water is free from microbiological contaminants (once a week) and from physical, chemical, radiological contaminants (at least once a year)⁴⁰. In the UK, water is classed as 'food' and is consequently subject to the Food Safety Act 1990.

The industry must however also comply with other regulation regarding the environment. The Control of Pollution Act 1974, the Environmental Protection Act 1990 and Environment Act 1995 which set up the Environmental Agency in charge of protecting the environment from flood and pollution have shown the commitment of the Government in protecting the environment for the own benefit of its citizens⁴¹.