Business Consulting and Writing Services

SAMPLE INDUSTRY ANALYSIS REPORT

Bottled Water Industry

Table of Contents

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1.0 Executive Summary

The Country AA economy continues to grow at a steady pace reaching a gross domestic product (GDP) of approximately $50 billion in 2010 (8% YoY). With per capita income of $2,375 in 2010 Country AA is categorized as a middle income country.

We believe the economy to grow 6-7% YoY in the coming years driven by manufacturing, agriculture and tourism sectors. However the economy is likely to be affected by exchange rate fluctuations/adjustments and additional measures taken to reduce the trade deficit.

We estimate the bottled water industry to be approximately 110 million litres in 2011. The industry is the fastest growing segment in the non-alcoholic beverages market. Classified as a low cost, high volume driven industry, the competition in the bottled water market is intense. Separately we analyse that the ice cube industry is growing, albeit at a slower pace than the bottled water industry.

Company SS conducted an analysis of the bottled water and ice cube industries by reviewing the market, interviewing buyers and sellers and identifying the competition and trends. We interviewed 20 suppliers and 36 buyers. Responses were mixed with selected suppliers and buyers not willing to disclose detailed information.

1.1 Key Observations – Bottled Water Industry

- **Local resident and tourist consumption drives the industry**
  Our conservative estimate of the bottled water industry in Country AA is 110 million litres; growing 19% in 2010 and 17% in 2011. We calculate local resident consumption at 84 million litres (77%) and tourist consumption at 26 million litres in 2011 (23%).

Figure 1:	Size of the Bottled Water Industry						
Litres	2008	2009	2010	2011	2012E	2013E	2014E
Local resident consumption	61,307,288	68,330,579	76,363,636	84,000,000	89,549,460	95,913,740	102,730,330
YoY %		*11%*	*12%*	*10%*	*7%*	*7%*	*7%*
Tourist consumption	10,523,400	10,749,360	17,670,852	25,679,250	29,531,138	33,960,808	39,054,929
YoY %		*2%*	*64%*	*45%*	*15%*	*15%*	*15%*
Total consumption	71,830,688	79,079,939	94,034,488	109,679,250	119,080,598	129,874,548	141,785,259
YoY %		*10%*	*19%*	*17%*	*9%*	*9%*	*9%*

Sources:

a) Tourism and Development Authority

b) Central Bank

c) Worldwater.org

d) Gradient estimates

We analyse the local resident bottled water per capita consumption was 4.0 litres in 2011. According to available data from the Beverage Marketing Corporation, per capita consumption in Country NO was 4.8 litres and in Country BB it was 4.0 litres for 2004. We believe tourists' consumption is 3.0 litres per day, over the average 10 day stay period.

- **Increasing urbanisation and tourist arrivals to boost future growth**
  We estimate local resident per capita consumption to rise to 4.9 litres in 2014 due to increased urbanisation and people being more aware of bottled water. Urban households currently about 760,000 of total households are likely to increase further. Moreover with tourists arrivals to conservatively reach at least 1.3 million in 2014, we believe the overall bottled water industry to be 142 million litres by 2014; 29% higher than current levels.

- **Future growth to be also based on provincial dynamics**
  Whist it is Company CS that the overall market would grow, we believe specific regions would exhibit more demand.

  - In the North Central, North Western, Eastern and Northern provinces there is a lack of good quality pipe-borne water, as chemicals used for irrigation have contaminated water sources. This is boosting demand for bottled water.

  - Significant development projects in the Eastern province would lead to increased number of tourists (local and foreign). 931 rooms are planned to be built in the province and several areas have been added as tourism zones.

  Several suppliers are targeting these regions;

  - Company SN commenced a water shop initiative in the North Central province through an entrepreneurship program.

  - National Water Supply and Drainage Board (NWSDB) have started a bottling plant in the North Central province to meet and create demand in this region.

  Further confirming the overall growth potential of the market, Company SL commenced a AED45 million plant in City KT and Company WA is preparing to start a new facility in City DK. Unconfirmed reports indicate that about 25 companies are awaiting approval to start bottled water operations.

- **GGG province main bottled water consumer**
  Our analysis indicates that a higher percentage (33%) of bottled water is consumed in the Western province (mainly due to increased urbanisation and tourist arrivals), followed by Southern province (20%) and Central province (13%).

- **Insignificant export market**
  According to the Export Development Board (EDB) 344,607 litres were exported in 2011, mainly to the Country LAM (75%), Country SU (9%). In 2010 about 600,000 litres were exported to Country LAM. The commencement of the Brand BD water bottling plant in Country LAM (outskirts) reduced the demand from Country AA. Separately according to Country AA Customs data AED5 million worth of mineral water was imported in 2011.

- **Current domestic demand met by a large number of suppliers**
  Current demand appears to be met by 78 existing registered and an un-known number of unregistered suppliers. We believe 63% of the market is supplied by Company WA (32.8%), Company BA (10.9%), Company MS (10.9%) and Company SN (8.2%).

- **Intense competition due to a large number of suppliers and generic nature of the product**
  Suppliers compete fiercely on price as buyers are not known for their brand loyalty, switching between brands with ease. Established retailers (supermarkets and large grocers) have bargaining power, resulting in them taking a large of portion of the total profit margin (sometimes as high as 50% of the margin).

  It should be noted that increased regulations appear to have curtailed the number of suppliers to certain extent, benefitting the established players. Cost to enter to industry is moderate as there is a requirement to find a water source of high quality and the initial equipment cost is about AED600,000 – 800,0000 for a 1,000 litre a day bottling plant.

- **Steadily increasing product prices**
  Product prices (retail and wholesale) have increased over the last few years. (This was as per supermarkets, who refused to disclose historical prices) Moreover

recent fuel increases are compelling many suppliers to revise their prices. Most suppliers stated that they would re-look at their current pricing structure.

- **Profit margins affected due to multiple factors**
  As mentioned the industry is characterised by low cost and high volume. The product has to be made available across the country. The high cost of transport due to increased mileage and heavy weight of bottled water together with above mentioned high bargaining power of buyers is reducing bottled water suppliers' profit margins.

  From the limited cost of production information provided to us we believe that the gross profit margins are between 17%-67%.

- **Strict government regulations rules the industry**
  As of February 2012 there were 78 registered suppliers of bottled water. The registration, mandated by the Ministry of Health, came in to effect due to the poor quality of bottled water supplied in the mid-2000, during which time 138 suppliers existed.

  Currently there exist suppliers who have not registered with the Ministry and have not obtained the quality certification SLS 894. They continue to operate in the market offering poor quality unhygienic bottled water.

  Separately, the 25 companies who are waiting to start operations are finding it difficult to gain approval due to the application of strict regulations.

- **Innovative products to be offered as the market matures**
  As the local market grows and mature, innovative products will have to be introduced. Observing trends in other mature bottled water markets around the world, 'enhanced waters' has gained widespread acceptance.

  'Enhanced waters' is an extension of generic bottled water, which involves the addition of vitamins, carbohydrates, electrolytes and other supplements to water. This segment is considered to be a success in America with sales of $20 million in 2000 rising to approximately $100 million in 2002.

  In Country AA, as an early adopter of 'enhanced waters' Company SN offer oxygenated water with lemon water.

- **High environmental concerns**
  It is reported that 3 litres of water is consumed to produce one litre of bottled water. Further high energy usage and difficulties in disposing of COMAPNY TP bottles are cited as negative environmental impacts of the industry.

1.2 Key Recommendations - Bottled Water Industry

- We believe an island-wide presence is important to gain and maintain market share. The product has to be available at all leading retail outlets and supplier should have the capabilities to deliver to households and commercial offices consistently.

  Establishing medium to long term contracts with attractive tenure based discounts with large and medium sized supermarket, commercial establishments, hotels, universities, sport venues/events not only guarantees a steady source of income but also keeps the buyer from contracting with other suppliers.

- Selected suppliers are concentrating on the North Central and North Western provinces. Several suppliers are taking advantage of the poor quality of pipe borne water. However we believe these regional markets are under penetrated.
  - Company SNhas established water shops in North Central province and NWSDB has set up a bottling plant in this province.

- We see significant opportunity exist in the Eastern Province. The province is affected by the poor quality of pipe-borne water and is also experiencing many development activities, thus benefiting the bottled water industry.

  Selected development projects in the Eastern province

  - The $6.5 billion Name:PK project is expected to be completed by March 2012. The project includes 14 new hotels with a combined room capacity of 931.

  - Government promoting City GA to investors.

  - City AV added to the list of tourism zones.

  The supermarkets in the Eastern Province stated that bottled water sales is currently moderate but expects to grow in the near future.

- We believe to build a strong distribution network suppliers should invest in an efficient information technology system. An intelligently designed and implemented integration system including trading orders, invoicing and also one that connects with the COMAPNY TP bottle manufacturers (supply chain management) would be an added advantage.

- Due to limited opportunity to differentiate products, suppliers have to constantly make themselves visible in the market. Visibility in terms of advertisements (television, radio and news print) is deemed the primary avenue (refer section 2.5 Advertisement spending). Further interviews, launching CSR projects and introducing accessories are alternative strategies currently used by suppliers. Thus we believe the services of a professional public relations consultant/agency would be helpful in strategising and positioning suppliers' product.

- Packaging innovations would also differentiate suppliers' bottled water brands. Strategies currently include spill-proof cap for smaller bottles and bubble shaped bottles for children (currently promoted by Speed Water). Further a relatively environmentally friendly bottle that leaves a lesser carbon footprint may attract the environment conscious consumer.

- As the market matures and suppliers are further squeezed for market share, suppliers will be compelled to be innovative. In the Country YES and Country NO markets, bottled water suppliers have commenced supplying 'enhanced waters'.

- An assistant director of the Food Control Administration Unit of the Ministry of Health stated that *"there is a 'Jalakalaapaya' or areas rich in water springs* - *in the wet zone* - *City DK, City EN, City KDH. These are water mines that could be harnessed to earn valuable foreign exchange".* Our research reveals that Company WA is planning to start a bottling facility in the City DK district.

1.3 Key Observations – Ice Cube Industry

- **High competition despite relatively few suppliers**
  Competition is considered to be high as the product is generic in nature. In line with bottled water, brand loyalty does not feature among buyers.

Five star hotels considered to be large users of ice cube produce their requirement in-house and use external suppliers mainly during the season and during emergencies (breakdown of in-house machine). Company FF supermarkets produce their own ice cubes for retail purposes; brand name K Choice. Company PA supermarkets purchase from a leading manufacturer and re-sells it under the brand name "Company PA TM".

- **Increasing regional demand to fuel growth**
  As mentioned there is significant economic development in the Eastern province. This would increase demand for ice cubes.

  67% of the supermarkets stated that sales of ice cubes are increasing. Specifically, Company PA at City HD, Western province stated that "definitely increasing, a lot from last year".

- **Company MS ice cubes deemed market leader**
  Overall, 47% of the buyers surveyed stated that Company MS ice cubes were considered the best in the industry. Survey included 9 Company GM supermarkets, 4 Company PA supermarkets, 5 Company FF supermarkets and 5 others. Company MS ice cubes were the best-selling brand at 88% of Company GM supermarkets surveyed (8 out of 9). Top seller at Company PA was "Company PA TM" and Company FF was "K Choice".

- 33% of the supermarkets stated that the quality of Company MS ice cubes were "good", with 22% stating that the quality was "ok".

1.4 Key Recommendations – Ice Cubes Industry

- As in the bottled water industry long term contracts and wide geographical spread are seen as keys to success. The generic nature of the product makes competition intense.

- Establishing regional ice plants to service distant regions. This would also reduce transport expenditure.

- Subcontracting to regionally based small to medium ice manufacturers; ensuring that the product will be marketed under the established supplier's main brand name.

2.0 Bottled Water Industry

The worldwide bottled water consumption growth has outpaced other beverage categories. According to industry sources, worldwide sales of bottled water are predicted to top $168 billion by 2012. We consider the bottled water industry to be “demand push”, as a large number of suppliers compete for market share.

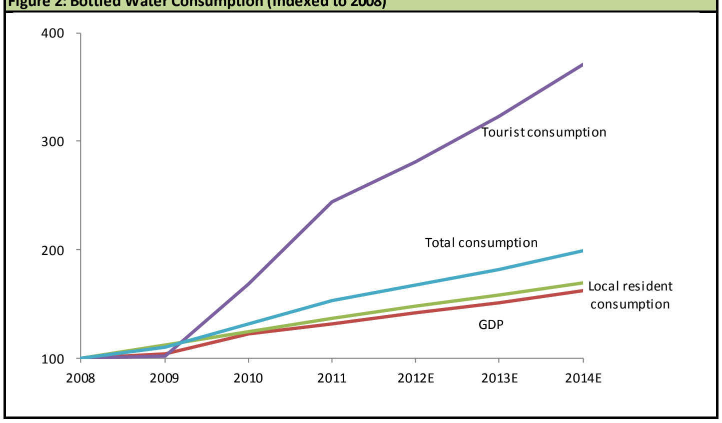
The industry is segmented into domestic and export markets. Domestic consumption accounts for almost all of the industry, hence export sales were not considered in our consumption calculations. Thus we estimate consumption at approximately 110 million litres for 2011 rising to approximately 142 million in 2014 (Figure 1 is reproduced below).

Figure 1:	**Size of the Bottled Water Industry**						
Litres	**2008**	**2009**	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Local resident cons	61,307,288	68,330,579	76,363,636	84,000,000	89,549,460	95,913,740	102,730,330
YoY %		*11%*	*12%*	*10%*	*7%*	*7%*	*7%*
Tourist consumptio	10,523,400	10,749,360	17,670,852	25,679,250	29,531,138	33,960,808	39,054,929
YoY %		*2%*	*64%*	*45%*	*15%*	*15%*	*15%*
Total consumption	71,830,688	79,079,939	94,034,488	109,679,250	119,080,598	129,874,548	141,785,259
YoY %		*10%*	*19%*	*17%*	*9%*	*9%*	*9%*

Sources:

The following chart displays growth in GDP, estimated historical bottled water consumption and forecasted bottled water consumption, indexed to 2008.

Figure 2: Bottled Water Consumption (indexed to 2008)



Source: World Bank Data and Gradient estimates

As of February 2012, Ministry of Health’s publication indicates only 78 suppliers. However as of May 2011 there were approximately 116 brands of bottled water suppliers, the drop in suppliers over the nine month period indicate delays in supplier re-registration and/or the exit of several suppliers. Further it was revealed to us there are many unregistered suppliers who are offering unhygienic bottled water.

2.1 Local resident consumption

Local resident consumption accounts for about 77% of the total consumption. At current consumption levels we analyse that local resident per capita consumption is 4.0 litres. Per capita in Country NO was 4.8 litres and in Country BB it was 4.0 litres in 2004 (source; Beverage Marketing Corporation).

Figure 3:	Local Resident Consumption (Litres)						
	2008	2009	2010	2011	2012E	2013E	2014E
Population (Million)	20.4	20.7	21.0	21.0	21.0	21.0	21.1
Per Capita Consumption	3.0	3.3	3.6	4.0	4.3	4.6	4.9
YoY %		*10%*	*10%*	*10%*	*6.5%*	*7.0%*	*7.0%*
Consumption (Litres)	61,307,288	68,330,579	76,363,636	84,000,000	89,549,460	95,913,740	102,730,330
YoY%		*11%*	*12%*	*10%*	*7%*	*7%*	*7%*

Sources:

We assume local resident consumption to grow at least at a pace equal to forecasted GDP growth rates, thus reaching approximately 103 million litres in 2014, up from our current consumption estimate of 84 million litres for 2011.

With Country AA moving into middle income bracket, perception of bottled water usage has changed to the positive. Previously majority held the view that bottled water was a "waste of money". However usages in offices and households are rising due to;

a) Increasing urbanization resulting in limited time and facilities to boil water. Further high cost of energy (LPG gas and electricity) discourages consumers from boiling water at home.

b) Increasing number of suppliers to choose from, offering a low cost product, with home/office delivery (western province mainly) and packaged in easy-to-use bottles.

c) Bottled water considered to be purer than pipe-borne water.

- Specifically in the North Central, North Western, Eastern and Northern provinces ground water is polluted. This is reported to have been caused by the use of fertilizer and pesticide to maximize the cultivation. City FJ peninsula and City TK peninsula are two main agricultural areas in the dry zone, both producing important secondary food crops.

2.2 Tourist consumption

We believe tourist consumption grew at 35% CAGR over the three year 2008-2011, to 26 million litres in 2011. Our estimates are based on each tourist consuming 3 litres of bottled water per day during a 10 day stay. The Country AA Tourism and Development Authority (AATDA) states that the average stay for a tourist in 2011 was 10 days.

We estimate that tourist consumption will grow to 39 million litres in 2014 based on a conservative tourist arrivals growth rate of 15% per annum over the next three years.

Figure 4:	**Tourists consumption (Litres)**				
Year	Consumption per day (litres)	Avg. stay days	Total litres per tourist	Toursit arrivals	Total tourist consumption
2014E	3.0	10	30	1,301,831	39,054,929
2013E	3.0	10	30	1,132,027	33,960,808
2012E	3.0	10	30	984,371	29,531,138
2011	3.0	10	30	855,975	25,679,250
2010	3.0	9	27	654,476	17,670,852
2009	3.0	8	24	447,890	10,749,360
2008	3.0	8	24	438,475	10,523,400

Sources:

2.3 Geographic distribution of bottled water

Figure 5:	**Geographic distribution of bottled water 2011**									
Provinces	**Population 2011 (million) (a)**	**Local residents' per capita consumption (litres)**	**Total local residents' consumption (litres) (b)**	**Number of tourists visiting each region (c)**	**Total tourist Consumption (litres)**	**Total Domestic consumption (litres)**	**Share of domestic consumption**	**Provincial GDP per capita (Rs. '000') 2009**	**Provincial GDP per capita (Rs. '000') 2010**	**YoY%**
Western	6.0	4.0	23,854,162	413,284	12,398,511	36,252,673	33.1%	381	430	12.9%
Southern	2.5	4.0	10,143,611	278,043	8,341,280	18,484,891	16.9%	206	241	17.0%
Central	2.7	4.0	10,936,716	100,800	3,023,997	13,960,714	12.7%	178	208	16.9%
North Western	2.4	4.0	9,525,396	-	-	9,525,396	8.7%	201	225	11.9%
North Central	1.3	4.0	5,043,335	55,945	1,678,347	6,721,683	6.1%	181	215	18.8%
Sabaragamuwa	2.0	4.0	7,902,581	-	-	7,902,581	7.2%	153	181	18.3%
Eastern	1.6	4.0	6,348,908	7,904	237,114	6,586,022	6.0%	182	212	16.5%
Uva	1.3	4.0	5,393,115	-	-	5,393,115	4.9%	168	190	13.1%
Northern	1.2	4.0	4,852,176	-	-	4,852,176	4.4%	131	161	22.9%
Total	21.0		84,000,000	855,975	25,679,250	109,679,250	100.0%	236	271	14.8%

Notes:

As per our analysis, Western province accounts for about 33% of the total consumption. In addition to the large local resident consumption, Western province receives the largest percentage of tourist arrivals, further boosting consumption.

We have assumed a flat rate of consumption across the provinces, which is likely to differ. Due to provincial dynamics consumption in Western, Eastern, Northern and North Central could be greater and Uva and Sabaragamuwa consumption could be less.

According to Name BAK& Name TSC, 2003, aquifers in City FJ and City TK have been intruded by saline water from the sea and also has been polluted by the increased use of agro-chemicals.

Further it is reported that those living in City CV and City PL are plagued with various liver diseases as a result of unsafe drinking water. As per Reliefweb International the

North Central Province has high fluoride content in the ground water. This is due to constant exposure to high concentrations of pesticides and agrochemicals and due to substandard systems and technology in storing water.

Further the tsunami in 2004 was reported to have contaminated tube wells in the Southern and Eastern province. This created additional demand for bottled water in these provinces.

Households versus Commercial Establishments

Demand from commercial establishments dominates the market with most suppliers having over 60% of their sales from companies.

Figure 6:	Sales split	
	Households	Commercial
Sterling Mineral Water(Pvt)ltd	-	100%
Pet packaging (pvt) ltd	35%	65%
Sajis Watawala Spring water	10%	90%
Spring and Spring rock (pvt) ltd	40%	60%
Randiya Natural Water (PVT) ltd	40%	60%
Water Mart System	30%	70%
Sprout (pvt) ltd	30%	70%

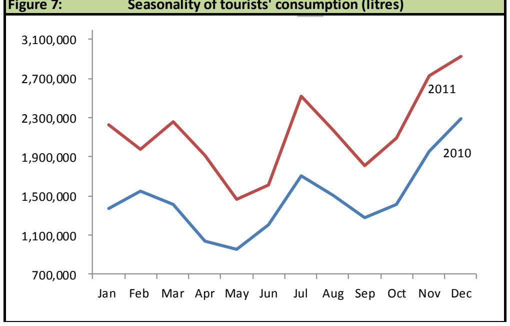
Source: Survey results

2.4 Seasonality

Seasonality could be experienced due to;

a) Tourist arrivals. Based on tourist arrivals we have analysed the possible variability of tourists' bottled water consumption (litres)

Figure 7: **Seasonality of tourists' consumption (litres)**

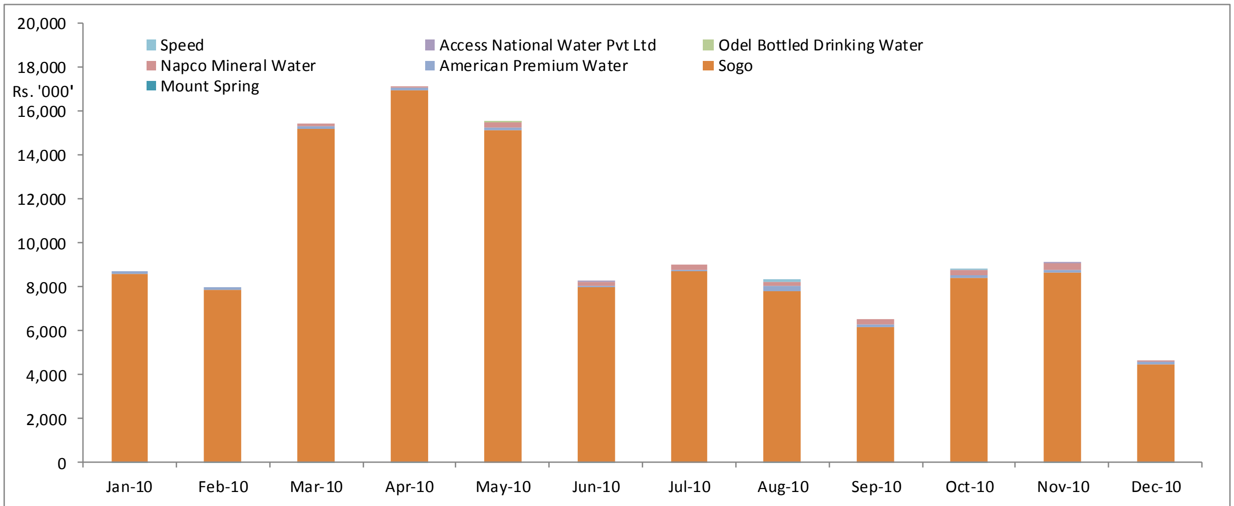


b) Consumption could increase during the dry season especially in the North Central, Northern, North Western and Eastern provinces.

c) Sales are likely to reduce during the Race UM fasting season (August).

2.5 Advertisement spending

During 2010 bottled water suppliers spent AED119,519,000 on advertising. This includes TV, paper and radio. Company MM bottled water supplier spent a large portion of the total advertisement spending; amounting to AED115,569,000 (97%).



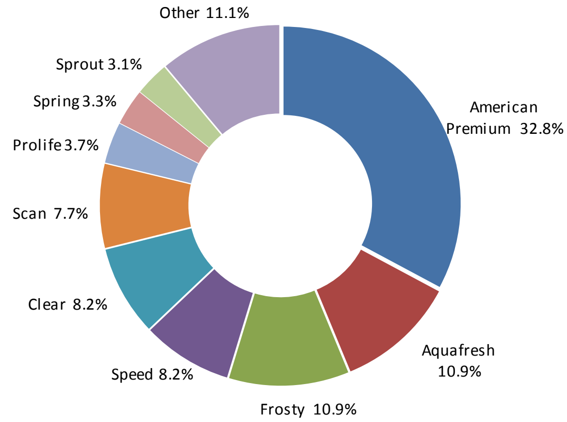
Source: Ad industry spend data

3.0 Supplier Analysis

There are 78 registered suppliers and an unknown number of non-registered suppliers. The low price offering, generic nature of the product, large number of suppliers and high threat of substitutes makes for an intensely competitive market place. However it should be noted that increased regulations appear to have curtailed the number of suppliers, benefitting the established players (116 registered suppliers in May 2011 down to 78 registered suppliers in February 2012)

We believe 63% of the market is dominated by four players, namely Company WA (32.8%), Company BA (10.9%), Company MS (10.9%) and Company SN (8.2%).

Figure 8: Market share



Sources:

Company WA, Company SL, Company MP and Company CS have the best island wide presence. Buyers consider Company WA to be of the best quality and offer an efficient delivery service. Company SN is known for its innovations and is constantly in the media with new and improved products (lemon water, water shop concept) and product extensions (cover for 18.9 litre bottle). Company SL is considered to be a high quality premium product.

The table below indicates production volumes for 2011 (Assuming a 300 working day production year and disclosed monthly and daily production information).

Figure 9: Suppliers

Supplier	Brand	Daily production (L)	Monthly production (L)	Days	2011 Production (L)	Market share	Comments
American Premium Water Systems (Pvt.) Ltd	American Premium	120,000	-	300	36,000,000	32.8%	(a)
Access Natural Water (Pvt.) Ltd	Aquafresh	-	1,000,000	-	12,000,000	10.9%	(b)
Frosty Marketing (Pvt.) Ltd	Frosty	-	1,000,000	-	12,000,000	10.9%	(c)
Speed Water Systems (Pvt.) Ltd	Speed	30,000	-	300	9,000,000	8.2%	(d)
Clear Water Systems (Pvt.) Ltd	Clear	-	-	-	9,000,000	8.2%	(e)
Scan Product Manufactuing (Pvt.) Ltd	Scan	-	-	-	8,400,000	7.7%	(e)
Water Mart (Pvt.) Ltd	Prolife	-	-	-	4,104,000	3.7%	(e)
Spring and Spring rock (Pvt.) Ltd	Spring	-	-	-	3,600,000	3.3%	(e)
Sprout (Pvt.) Ltd	Sprout	-	-	-	3,420,000	3.1%	(e)
Mega Way Marketing & Services (Pvt.) Ltd	Sogo	-	-	-	576,000	0.5%	(e)
Randiya Natural Water (Pvt.) Ltd	Lanka Premium	-	-	-	684,000	0.6%	(e)
Sterling Mineral Water(Pvt.) Ltd	Sterling	-	-	-	200,000	0.2%	(e)
Other					10,695,250	9.8%	
Total market size					109,679,250		

Sources:

Source of water

We believe a majority of suppliers source water from dug wells (about 50%), with tube wells being the next most popular source (27%) natural springs accounted for about 20%.

Geographical distribution of sales

Western province was a major contributor to sales.

Figure 10:	Geographical sales spread (Major provinces)							Geographical sales spread (Major towns)						
	WP	CP	SP	NP	EP	NW P	Other	Colombo	Kandy	Galle	Jaffna	Trincomalee	Ampara	Other
Mega Way Marketing	20%	-	-	25%	15%	30%	10%				Not disclosed			
Pet packaging (pvt) ltd	Present	-	-	-	Present	-	-	Present	-	-	-	Present	-	-
Sajis Watawala Spring water	Present	Present	Present	Present	Present	Present	-	Present	Present	Present	Present	Present	Present	-
Spring and Spring rock (pvt) ltd	100%	-	-	-	-	-	-	60%	-	-	-	-	-	-
Randiya Natural Water (PVT) ltd	75%	-	-	15%	10%	-	-				Not disclosed			
Clear Water System				Not disclosed				Present	-	-	Present	Present	-	-
Water Mart System	Present	-	-	-	-	-	-	Present	-	-	-	-	-	-
Sprout (pvt) ltd	Present	-	-	Present	Present	-	-	Present	-	-	Present	Present	-	-

Source: Survey results

Gross profit per bottle

Company MP and Company MM were the only two suppliers to disclose cost of production. Thus we were able to calculate the gross profit margin for these two suppliers.

Figure 11	Gross profit margin								
	Selling price (MRP)			Cost			Profit margins		
	500ml	1L	1.5L	500ml	1L	1.5L	500ml	1L	1.5L
Scan Product Manufacuring	35	50	65	12	28	35	67%	44%	46%
Mega Way Marketing	22	-	30	16	-	25	27%	-	17%

Source: Survey results

Several suppliers stated that the supermarkets and large grocery store owners are able to extract a large portion of the overall profit margins (It was reported that some retailers extract about 50% of the total profits margin).

Suppliers' thoughts on the industry

60% of the supplier participants stated that Company WA and Company SL are their main competitors. Company TL stated that as they provide natural spring water they don't face any competition.

Company MP says there is large demand for bottled water and view that the market will continue to grow. They stated that the market is saturated with a lot of suppliers thus increasing competitive rivalry, also stating that several suppliers produce bottled water of low quality thus giving a negative view of the industry.

Company MM stated that the tsunami contaminated the well water in the Southern and Eastern provinces, resulting in increased interest in bottled water in those areas (especially the east) . Further the management stated that they see an increase in consumption among the younger generation.

Company TL was also of the view that the industry will continue to grow as pesticides has polluted the quality of water causing a segment of the population to move towards bottled water.

Company RW stated that “cost of maintenance is very high” and “a minimum of 10,000 litres is required to breakeven”.

Company CS and Company OU stated that current demand for their products is good and that they expect this increase in the future.

Large suppliers welcomed the increased regulations, however small and medium suppliers were not happy, as it has led to higher costs.

All suppliers stated that the government had not implemented policies to develop the industry. We note the government has taken certain steps to improve the industry a) On-site inspections b) encouraged suppliers to obtain SLS certification c) ensured bottles are labeled with expiry dates, registration numbers, company name etc.

3.1 Product pricing

Suppliers noted that prices have increased over the past two to three years. Moreover, they stated that the recent (February 2012) fuel increases are likely to effect a further price revision. Maximum retail price at selected supermarkets (Company GM, Company PA and Company FF) for several brand names are detailed below;

Figure 12:	Maximum retail price (Rs.)			
	500ml	1L	1.5L	5L
Scan	35	50	65	-
Cargills	35	45	60	155
Kist	40	-	65	-
Delmege	35	50	60	150
Blue Mountain	35	45	65	-
Crystal	35	50	65	160
Aqua				
Keells super: Rajagiriya	40	-	70	-
Keells Super Department Store - Kotikawatta Awissawella Road, Kotikawatta	35	-	60	160
Keells SuperDepartment Store : Negambo Road, Wattala-Mabola	45	-	70	-
Speed				
Keells SuperGrocery or Supermarket: 1st Floor, Kandy City Center Dalada Veediya, Kandy	35	-	65	-
Scan				
Keells Super Miscellaneous Shop: Kurunegala	35	-	65	160

Source: Survey results

Commercial retail prices

We posed as a buyer representing a 15 member commercial establishment and received the following quotations;

Figure 13:	Commerical establishment rates									
	Main categories only					Dispenser				
Supplier	500 ml	1.5L	5L	18.9L	Comments	Normal	Hot & Normal	Hot & Cold table tap	Hot & Cold Standing unit	Hot, Cold & Normal (3 taps)
American Premium	Rs.19.5 + taxes	Rs.29 + taxes	Rs.110 + taxes	Rs.226 + taxes	(a)	Rs.4,000	Rs.5,000	Rs.8,500	Rs.17,500	-
Aqua Fresh	a) Premium Rs.25.6 b) Classic Rs.23.6	-	128	240 + taxes	(b)	-	-	-	16,200 + taxes	22,000 + taxes
Scan	15 + taxes	28 + taxes	100 + taxes	170	(c)	-	-	-	-	-
Sogo	20	26	100	200		-	-	-	17,000	-
Nelu	20	30	125-130	220		-	-	-	13,500	17,000
Laugfs	20	37	105	250	(a)	-	-	-	11,500	14,500
Prolife	21	33	-	260	(d)	3,360	-	-	17,360	19,700
Life	16	24	130	-		-	-	-	-	-
Speed	-	-	-	150	(e)	-	-	-	15,500	-

(a) Minimum purchase price for one case i) 500 ml - 1 case = 24 bottles, ii) 1.5L - 1 case = 12 bottles iii) 5L - 1 case 3 to 4 bottles
(b) Minimum purchase price for one case i) 500ml - 5 cases, 5L - 5 cases
(c) Initial deposit Rs. 550 per 18.9 L bottle
(d) Minimum purchase price for one case i) 500 ml - 1 case = 24 bottles, ii) 1.5L - 1 case = 12 bottles iii) 5L - 1 case 3 to 4 bottles
(e) Discount rate for 20 guaranteed 18.9 L unit purchases

Source: Survey results

Water dispensers

There are five types of water dispensers.

a) Water dispensed at room temperature (normal)
b) Hot and normal standing unit
c) Hot and normal table top

d) Hot and cold standing unit
e) Hot, cold and normal standing unit

Several suppliers stated that the hot and normal table top is the least popular due its high defective rates.

3.2 COMAPNY TP bottle manufacturers

Locally, Company CK and Company IC are manufacturers of COMAPNY TP bottles.

We researched several overseas suppliers of COMAPNY TP bottle machines on www.website.com, selected findings are presented below

bottling machine

Min. Order: 1 Set

FOB Price: US $10000-30000 / Pack

water filling **machine** for packaged drinking water,mineral water and bottled water filling **machine** in **pet** bottles...
Type: Filling **Machine**

4 YR BLENZOR (INDIA)
[Manufacturer]
India

Automatic Mineral Water **PET Bottling Machine**

Min. Order: 1 Set

FOB Price: US $1000-32000 / Set

1.mineral water **PET bottling machine**
2.capacity:2000-12000BPH
3.stainless steel
4.CE&ISO9001...
Processing: Filling **Machine**

17 Similar from this Supplier

4 YR Zhangjiagang Jiazhou Machinery Co., Ltd.
[Manufacturer, Trading Company]
China (Mainland)

PET bottling machine

Min. Order: 1 Set

FOB Price: US $700000-800000 / Set

PET bottling machine
speed:5000bph-40000bph
washing,filling capping rotary **machine**
certificate:CE
Bottle size:300ml to 2Ltr...
Processing: Filling **Machine**

35 Similar from this Supplier

8 YR Newamstar Packaging Machinery Co., Ltd.
[Manufacturer]
China (Mainland)

aerated drink **pet bottling machine**

Min. Order: 1 Set

FOB Price: US $8000-50000 / Set

1.aerated drink **pet bottling machine**
2.capacity:1000bph-22000bph
3.automatic
4.filling monobloc
5.plc control...
Processing: Filling **Machine**

3 YR Zhangjiagang Sheenstar Technology Co., Ltd.
[Manufacturer]
China (Mainland)

3.3 Industry Challenges

1. Intense competition

The low price offering, generic nature of the product, large number of suppliers and high threat of substitutes makes for an intensely competitive market place. Further positive industry growth prospects are enticing new entrants.

2. Several suppliers providing poor quality bottled water

There exist many suppliers who have not registered with the Ministry and have not obtained the quality certification SLS 894. They continue to operate in the market offering poor quality unhygienic bottled water. In mid-2000 out of the 138 suppliers only 80 had obtained the SLS 894 certification.

3. High raw material and energy usage

It was reported that three litres of water are required to produce one litre of bottled water. Further an industry study in 2007 study found that producing bottled water requires between 5.6 and 10.2 million joules of energy per litre. This is about 2,000 times the energy required to produce tap water, which only consumes 0.005 million joules per litre for treatment and distribution.

4. High cost of transport

The cost of transport is high due to high diesel prices, increased mileage and relatively heavy weight of bottled water. Chairman of Company WA in an interview with a national newspaper stated that cost of transport adds about AED9 per bottle.

5. Increased regulations

Ministry of Health has introduced strict regulations, including tough initial setup regulations (soil, water tests etc.), ensuring ongoing standards are maintained. Please refer Regulations section.

6. Environmental concerns

The manufacture of every tonne of COMAPNY TP produces about three tons of carbon dioxide (CO_2). Further bleaching a COMAPNY TP bottle for re-use is not effective, as the structure of the bottle reportedly collapses, thus making it difficult to refill or retain water.

As per industry sources, the world-wide bottled water industry produces up to 1.5 million tonnes of plastic waste per year. A large amount of energy is needed to dispose COMAPNY TP bottles as it is claimed that it could take as long as 1,000 years for the bottles to biodegrade.

4.0 Regulations

Ministry of Health

In mid-2000 the Ministry of Health intervened to regulate the bottled water industry due to the existence of nearly 300 brands The Health Ministry introduced regulations under the Food Act of 1980 to protect the rights of consumers. The regulations prohibit the bottling, packaging, importing or distribution of mineral or drinking water without obtaining a certificate of registration from the Chief Food Authority of the Health Ministry.

The "Bottled Water Registration" was introduced in 2005 and is valid for three years, during which period the plants are monitored by the authorities. The Registration for "Bottled Natural Mineral Water" (for which UV treatment is not used) is valid for one year only.

Country AA Standards Institution

The standard certification from the Country AA Standards Institution (AALS), is not compulsory. SLS 894 means the product has undergone strict and regular monitoring to ensure its purity.

National Water and Sewage Drainage Board (NWSDB)

In May 2011, NWSDB stated that a licensing system will be introduced to all mineral water bottle manufacturers in the country. The reason for the new license is due to several bottled water manufacturers bottling pipe-borne water supplied by the NWSDB.

The gazette notification with reference to the licensing system has yet to be issued. NWSDB stated that once implemented the suppliers are to be given time to obtain licenses, and this considered to be mandatory.

5.0 Buyer Analysis

We interviewed 36 buyers which included offices, leading supermarkets and hotels whom we considered to be the main buyers of bottled water. The table below depicts consumption by commercial establishments (18 offices and hotels).

Figure 14: Buyer consumption patterns

Name of Commercial establishment	Annual consumption (Litres)			Brands currently used	Average annual spent on purchasing bottled water (Rs.)
	2009	2010	2011		
Arpico (head office)		Not disclosed		American Premium, Scan	Not disclosed
Holcim Lanka	-	-	13,680	Prolife	720,000
SLBA bank		Not disclosed		Aqua Pearl	100,000
Nawaloka Hospitals	-	-	1,000-1,250	Panil	40,000-50,000
Taj samudra Hotel	-	570,000	570,000	Mount Spring, Scan, Aquafresh	Not disclosed
Intercontinental Hotel	180,000	180,000	180,000	Scan, Aquafresh	Not disclosed
Galle Face Hotel	-		117,000	Mount Spring, Zest	Not disclosed
Arpico (head office)		Not disclosed		American Premium, Scan	Not disclosed
Holcim Lanka	-	-	13,680	Prolife	720,000
Hilton Hotel	-	-	1,300	Scan	50,000
Brandix Finishing	-	-	2,280	American Premium	Not disclosed
Logistic International	-	-	18,000	American Premium	720,000
DFCC	-	-	75,000	American Premium	Not disclosed
John Keells(head office)	-	-	7,500	American Premium	150,000
LB Finance	-	-	275,000	American premium	1,440,000
Hayleys	-	-	115,000	Aquafresh	720,000
Ace cargo	-	-	2,000-2,400	Aquafresh	Not disclosed
Food City				Crystal	Not disclosed
Classic Travels	-	-		Sprout	Not disclosed
Cricket club café	-	-	2,400	Mount Spring, Aquafresh, Spring	Not disclosed

Source: Survey results

Company WA was the most popular supplier (33%) in our buyers' (commercial establishments) survey. The buyers stated the high quality of the product and on-time replenishment as stand out features of this supplier.

Further buyers stated that consumption levels are currently stagnant and do not expect to increase in the future. Hilton, Logistics International and Company XB stated that they would welcome a supplier who can provide bottled water at a lower price.

33% of the commercial buyers stated that Company WA is their first choice of bottled water. Second most popular choice was Company OS.

Figure 15:	Commercial Buyer preferences		
	1st choice	2nd choice	3rd choice
American Premium	6	0	0
Mount Spring	3	0	0
Scan	2	2	0
Aquafresh	2	2	1
Aqua Pearl	1	0	0
Panil	1	0	0
Prolife	1	0	0
Spring	0	0	1
Zest	0	1	0
Crystal	1	0	0
Sprout	1	0	0
Total	18	5	2

Source: Survey results

Brands intended to purchase in the future

Among commercial buyers, Company WA was the most popular brand (33%) they wished to purchase in the future. Company SL was the next most popular (20%), followed by Company MS (13%) and Company MP (13%).

Buyer thoughts on the future of the bottled water industry

40% of the buyers were neutral when asked about the future growth of their bottled water consumption.

29% of the buyers stated that demand is increasing and that rates and regulations should be strictly adhered to.

Hotel HJ stated that there are many suppliers and that they have experienced issues with poor quality of water. Company PA stated that bottled water will become and essential good in the near future.

6.0 Selected suppliers information

The following section details the main bottled water suppliers.

6.1 Company WA

The company is the market leader with a 32.8% market share (the company claims to have 65% of the market). Established in February 1995 as a joint venture with Company PLA, City FS, in the Country YES., Company OIP and the Companies GTP in Country AA. The company distributes bottled water under the brand name "WA". Production in 2011 was reportedly 120,000 litres per day.

Location

Derives its water from wells at City OM located past City NH**,** within a radius of 10km from its factories. The manufacturing facility is located in City NH.

Customer base

Reportedly 90% of customer base is comprised of corporates. As per company reports, their customer base 15,000. The top-10 customers served at present include: Company XB, Company GG, Central Bank of Country AA, Company TC, COMPANY CC, Company AS, Company YL, COMPANY BN, Company FF, Company UU, and Company LI.

Distribution network

The company distributes via its branches in City CV, City OK, City DK, City NN, City GL and City IH, while distributors operate from City FJ, City UX, City JM, City EL, City TB, and City HC.

The company owns a fleet of trucks delivering 18.9 litre and 5 litre bottled to commercial offices and households on a daily basis.

Expansion

In Country AA the company is planning to establish a plant in the City DK district.

In 2008, the company entered the Country NO market by establishing a production facility in City EZ. The initial investment was reportedly US$ 500,000. The product is marketed under the 'City BJ' brand name. The chairman stated that the company is among the top 10 suppliers, with 70%-80% growth in recent years. Further it plans to expand to other Country NO states and achieve a 10% market share in another five years.

The company plans to open a plant in City ZX and another in the Country LAM.

6.2 Company SN

History

Company SN is a manufacturer and supplier of purified drinking water since February 2003. The company is a subsidiary of Company OLL, a registered company in City GK. The company states that it has captured 40% of the market, however we believe their market share is 8.2% at the stated 30,000 litres a day. The company states that it was the first company to issue “free dispenser” to customers.

Location

The local bottling plant is situated at City RG, City KPP (35km from City XXX) and uses reverse osmosis system.

Customer base

The company states that it secured 1,000 customers in its first year of operations (2003).

Distribution network

Company SN launched 'Water Shops', a scheme offering bottled water at manufacturing price direct to the customer.

There are over 22 Company SN outlets around City XXX and the company is in the process of opening outlets in principal cities in other districts. The 22 principal towns include City QW, City SF, City WL, City LAP, City AGE, City HD, City LMT, City CPO, City LBA, City GNB, City BAT and City RMV

Recent developments

The 18.9 litre water bottles are subjected to scratches and dents in transport, disfiguring their appearance. Company SN has introduced a cover for this water bottle, which is fitted to the dispenser. The cost of the cover is AED175.

The company initiated a programme to offer self-employment opportunities to young men and women in the country’s rural sector. The first phase was launched in the City CV district (Nov 2011) in collaboration with National Youth Services Council (NYSC) youth officers of the North Central Province. Under the self-employment project, NYSC youth officers will operate a Company SN sales outlet in towns in the North Central Province. Stocks of bottled water required by these sales points will be supplied by the City CV district agent of the company. The company expects NYSC youth officers will be able to generate a monthly turnover between AED10,000 and AED40,000.

The company also sells oxygenated water, Kids' water and SPEED ice.

Exports

In 2005, the company exported a consignment of bottled water to the Country AA Army who were assigned to the UN Mission in Country HAM. Moreover in a press release the company stated it is exporting bottled water to City GK, Country YU and several other countries and also seeking government approval to start a joint venture in Bangladesh.

6.3 Company BA

History

Company BA, (bottled water brand name ANIT) was established as a subsidiary of the CCA Group of Companies in 2001.

Reportedly the facilities and process are designed and performed according to the SLS 894, ISO 9001:2000, ISO 22000:2005 and Dutch HACCP standard with the approval of Country AA Health Ministry. Monthly production was reported at 1,000,000 litres.

Location

The wells are located in the City LUB forest range, in the wet zone of Country AA. The bottling factory is located in UGN, City KPP, and has 45 employees. The COMAPNY TP bottles are blown at the factory, filled and sealed. The process does not bring water from outside but use a tube well that runs more than 200 feet passing the bed-rock.

Customer base

Customers include Country AA airlines, QL airways, CP AIR, DXC Airlines World Health Organization, UNICEF, UNDP, Company YL, Bank NPC, Company SAP, Bank BNS, some of the companies in the Company FF Group and Bank OMG. The company also caters to households.

Distribution network

The distribution network includes City MT, City UX, City EL, City VIN, City IH, and City BLH. They also stated that the most expensive component is the cost of transportation.

Other

The company received the 'Water for Life' award in 2005 from the United Nations. The UN gives this award once a decade for a region. It claims that the clay pot water dispenser was invented by the company. The clay pot dispenser preserves the natural chilling of water.

6.4 Company MP

Company MP is a division of Company AZX. Company AZX is engaged in manufacturing, importing, marketing and distribution of branded FMCG products specialising in the food and beverage category. Company MP Water is an ISO 9001, SLS and Registered with the Ministry of Health.

Location

The bottled water is branded as "Company MP" and is sourced from a tube well, located in City U.

Customer base

Main customer base is reported to be hotels.

Company MP reportedly caters to the domestic market and stated that annual sales (litres) were 7,200,000 in 2010 and 8,400,000 in 2011. Information relating to geographical distribution of sales were not disclosed, however we believe western province to be significant contributor to the company's overall sales.

Other

The company was the official water supplier at the AVC Beach Volleyball Continental Cup Central Asian Qualifying tournament for the City KCC Olympics 2012. This tournament was held on the City NN Beach from 20th to 22nd January, 2012.

6.5 Company SL

A subsidiary of COMPANY DSLB, providing bottled water since 2002. The company states that it operates with its own water source and has a bottling capacity of 35,000 bottles per day.

In February 2012, the company started construction of an automated water bottling plant in City KT bordering City KPP. The investment is reported to be AED45 million and the company expects to commence production within three months.

The chairman W.K.H. Wegapitiya in a press release stated that *"….decided to expand operations in order to become leader in the bottled water sector in the country. After commencement of the operations of the plant we would be in a better position to promote our product across the island with new a distribution and retail network..."*

6.6 Company CS

Company CS is a family company and commenced operations in 2006 at Udugampola. The bottled water is distributed under the brand name "XZT". The company states that demineralized water is produced through one of two methods, distillation or reverse osmosis, to remove all the water's original minerals. The company produced 9 million litres of bottled water in 2011.

6.7 Company MS

We interviewed 18 commercial establishments and 18 supermarkets and we did not encounter any consumers who purchased Company MS bottled water. As per reported production levels of 1,000,000 litres per month the market share is analysed at 10.9%.

With the objective of identifying the brand presence of Company MS bottled water the following specific questions were asked from the buyers;

Question 1 – "*When you hear the name "Company MS bottled water" what comes to your mind?"*

24% of the commercial buyers who participated in the survey had an opinion of the brand/company.

Their comments are below;

i) Two companies stated that "'Company MS bottled water' has a solid brand"

ii) Two companies stated that "The 'Company MS has a good image".

iii) One company stated that "Provides unsatisfactory service"

Question 2 – "*Where have you seen advertisements for "Company MS bottled water"*

23% of the commercial buyers stated that they had seen advertisements for "Company MS bottled water" in the newspaper.

7.0 Porters Five Forces – Bottled Water Industry

Bargaining power of suppliers – moderate to high

- Limited number of COMAPNY TP bottle manufacturers, bottling plant equipment manufacturers; deionization, reverse osmosis and filtration equipment manufacturers
- Workers/casual employees can also be considered suppliers, having a low bargaining power
- High transport costs increases the overall cost
- Switching costs – High switching costs due to limited number of COMAPNY TP bottle manufacturers and other machine suppliers
- Threats of forward integration – Limited threat
- Supplier product an important input to buyer's business – COMAPNY TP bottles are integral to suppliers who buy in large quantities and the existence of limited number of COMAPNY TP manufacturers makes this feature a high risk to suppliers.

Bargaining power of buyers - high

- Buyers (resellers and final consumers) have many suppliers to choose from.

  Resellers - Significant portion of sales is through the main four supermarkets, while the remaining is through a large number of independent outlets. Several bottled water suppliers stated that resellers demand more of the overall profit margin (almost 50% of the profit margin)

Final consumers – Consumers prefer convenience (ease of accessibility), purity (fitness and health) and portability (ease to carry over glasses or cups of water). The large number of suppliers increases the bargaining power of buyers

- Threat of backward integration – considered to be low
- Switching costs – As the price of bottled water is cheap switching costs is considered to be low.

Competitive rivalry – very high

- Large number of suppliers and another 25 companies are awaiting approval. Visiting any local supermarket one would find bottled water of many suppliers' being displayed.
- The generic nature of the product and current low price levels lead to low switching costs
- Market growth rate – High growth rate at least over the next three to four years.
- Distribution costs – High transportation costs affects suppliers ability to have an island-wide presence. This would benefit the large established suppliers.

Threat of substitutes – high

- There are substitutes in the form of pipe-borne water, carbonated drinks and fruit juices. Moreover tea, coffee, milk and alcohol are considered standard substitutes. Innovative products such as flavoured water, non-calories water and vitamin added water (enhanced waters) could also be considered substitutes.
- Company LI Country AA has introduced a water purifier called "Company LI Pure it", in Country AA. The water purifier entails filling pipe-borne water into its filtration unit. The product sells for AED7,500 (manual filling of water) and AED9,500 for the unit that has a nozzle that can be fixed to a tap. At the recently held Architects 2012 exhibition in City XXX, this item was viewed with great interest by the general public, with several making unit purchases at this event.

  http://www.Brand PRTwater.com/IN/Brand PRT-benefits

The initial price indicate that this may be attractive only for new consumers, as many current users of bottled water have already purchased a water dispenser ranging from AED8,500 - 22,000.

- Switching costs – considered to be low as the price of bottled water is low

Threat of new entrants – moderate to high

- Capital costs – moderate investment costs
- High industry growth rates encouraging new entrants
- Economies of scale – The unit cost of production is low and continues to decrease with use of the latest technology.
- Differentiation – Currently suppliers mainly produce a generic bottled water product. Going forward new entrants may introduce ‘enhanced waters’.
- Government regulations – Strict regulations introduced by the Ministry of Health and impending regulations is making operations difficult for existing and even more difficult new entrants.
- CCA to distribution channels – As incumbents dominate the market, new entrants struggle to gain CCA to distribution channels/networks
- Brand loyalty - As incumbents dominate the market new entrants struggle to develop brand loyalty for a generic product.

8.0 Ice Cube Industry

- The ice cube industry is in a moderate growth stage. Our research indicates that there about 10-20 ice cube suppliers in the country. Several ice cube suppliers stated that despite moderate growth in sales they believe supply exceeds demand, as they are forced to aggressively compete on price. Further brand loyalty among buyers is considered to be low.

- Geographically, western province is most likely to be the highest consumer followed by the central province.

- Company MS, Company IMNA and Company CIE are considered to be the main suppliers of ice cubes

- The hotels who participated in the survey stated that they produce their ice cube requirement (Hilton 100%, City GL Face Hotel 90%, Hotel HJ100%).

  Overall, 47% of the buyers surveyed stated that Company MS ice cubes were considered the best in the industry. Survey included 9 Company GM supermarkets, 4 Company PA supermarkets, 5 Company FF supermarkets and 5 others. Company MS ice cubes were the best-selling brand at 88% of Company GM supermarkets surveyed (8 out of 9). Top seller at Company PA was "Company PA TM" and Company FF was "K Choice".

- Seasonality - Several supermarkets stated that sales of ice cubes were constant throughout the year. However it is likely that during the Christmas season sales would increase.

- 67% of the supermarkets stated that sales of ice cubes are increasing. Specifically Company PA at City HD stated that "definitely increasing, a lot from last year".

- 33% of the supermarkets stated that the quality of Company MS ice cubes were good, with 22% stating that the quality was ok.

- Several participants stated that they had seen advertisements for "Company MS bottled water" in the newspaper and cutouts.

- Five buyers rated the overall quality of Company MS ice cubes. Their ratings were as follows 8,7,8,9,8 (1 being worst 10 being best)

- Interestingly, Company PA stated that Company MS ice cubes are comparatively larger in size and that this is disliked by several customers.

9.0 Ice Cube Suppliers

- Company IMNA

COMPANY IMNA Tube Ice is a product manufactured and marketed by COMPANY IMNA Distributors (Pvt.) Ltd. Country AA Standards Institution granted the certification for COMPANY IMNA Tube Ice on 13/12/07.

In May 2011 Company IMNA Group of companies bought a three acre land in Aniyakanda for future expansions of operations.

- Company CIE

Primarily considered to be a manufacturer of block ice, Company CIE is also a manufacturer of ice cubes. In the second half of 2011 we conducted an island-wide survey of block ice manufacturers; the survey results revealed that the company's ice (cube and blocks) were of the highest quality. Further the maintenance of ample stocks was greatly appreciated by the buyers.

- Ice Cubes (Pvt.) Ltd

A producer of ice cubes mainly servicing the local market. Annual production is reportedly 100 - 200 cubes a day. The company stated that 60% of its sales are from the western province (80% City XXX, 15% City KLTR). The company sells a standard bag of ice cube at AED170-180. High electricity cost is a major deterrent for further growth. Company CIE is the company's main competitor.

10.0 Porters' Five forces – Ice Cube Industry

Bargaining power of suppliers – Low

- Number of suppliers – Limited number of machinery, chemicals and other suppliers
- Switching costs – low, as the use of externally sourced raw materials are low
- Threats of forward integration – considered to be low as raw material (water) is obtained in-house and it is unlikely that providers of materials would become ice cube manufacturers.
- Supplier product an important input to buyer's business – Limited effect.

Bargaining power of buyers - high

- Buyers (resellers and final consumers) have several supplier options to choose from.

  Resellers - Significant portion of sales is through one of the main four supermarkets, while the remainder is through a large number of independent outlets.

  Final consumers – Despite existence of only several suppliers' low brand loyalty and cheap product price increases buyers' bargaining power

- Threat of backward integration – considered to be low
- Switching costs – As the price of ice cubes are cheap switching costs is considered to be low.

Competitive rivalry – very high

- Composition of competitors – Our research indicate that there about 10 ice cube suppliers in the country. Cheap product price result in low switching costs.
- Distribution costs – High transportation costs
- Nature of the product – Currently suppliers' offer ice cubes with no differentiation thus increasing competition.

Threat of substitutes – low

- There does not exist direct substitutes to ice cube apart from the obvious choice of not using ice cubes

Threat of new entrants - low

- Capital costs - moderate investment costs
- Economies of scale – The unit cost of production is low and continues to decrease with use of the latest technology.
- Differentiation – Product is of generic in nature enticing new entrants
- Government regulations – Unlike the bottled water industry, less stringent regulations are in place for the ice cube industry

- CCA to distribution channels – As incumbents dominate the market, it would be difficult for new entrants gain CCA to existing distribution channels
- Brand loyalty - As incumbents dominate the market, it would be difficult for new entrants to develop brand loyalty for a generic product.

Disclaimer

We primarily collected information for the market analysis through a survey. We note that some suppliers and buyers had their reservations in providing information. Hence the format of the report changed from the initial structure based on the information made available to us.

Company SS will not publish or distribute the results of the survey or the reports to any outside parties without the written consent of the management.