

ADDITIONAL SOURCE OF FUNDING WATER DELIVERY – THE CASE OF GHANA WATER

COMPANY LIMITED (GWCL)

BACKGROUND

The thought of GWCL having a business line in the packaged water industry i.e. the production of sachet, jar and bottled water, dates back to many years ago.

The current efforts which culminated in the production of the G-Water brand of packaged water started in 2013. With the re-organization of GWCL i.e. the merging of Ghana Water Company Limited (GWCL) and the Ghana Urban Water Company Ltd (GUWL), in 2013, several units were set for the first time to lead the quest of GWCL to enter the packaged water industry. In 2015, the Business Development Unit (BDU) was finally formed which successfully completed the assignment in 2018.

A local contractor, Messrs. Blessedfields Limited was awarded the contract for the construction of the water bottling plant which began in November 2017. Commercial Production and sales were started in December, 2018.

PRODUCTION AND SALES STATISTICS TO DATE (NOVEMBER, 2019)

Production figures

Since the commencement of the commercial operations in December, 2018 production cumulative figures are as follows:

330ml		500ml		1500ml	19Lt Jars		Sachet
Packs	Boxes	Packs	Boxes	Packs	New	Refill	Bags
11,812	629	116,536	14,126	NIL	333	1083	89,918

NB: For Jars, new means the jar and the water content; and refill is the water content only.

A pack consists of 15 bottles, a box, 24 bottles and a bag consists of 30 sachets of 500ml each.

Images of the various products are showed in the Appendix attached.

Sales Figures

Sales to date have been as follows:

330ml Bottles		500ml Bottles		1500ml Bottles	19L Jars		Sachet
Packs	Boxes	Packs	Boxes	Packs	New	Refill	Bags
11,812	629	112,461	13,453	NIL	317	1,083	85,636

DISTRIBUTORSHIP

The distribution of the products has mainly been in the hands of private distributors with a few GWCL regions or offices participating.

So far, one hundred and two (102) third party distributors have been registered at a fee. Of this number, fifty-nine have never received any supply of the products. The reason being mainly due to lack of product availability. The registration of new distributors have actually been suspended since January, 2019 for the same reason.

The average supply period per a distributor is once every seven weeks. This indicates that there is a lot of demand for the products.

PRODUCT HAULAGE

The haulage of the product is being done by private haulers. GWCL Offices also do some limited product haulage using existing GWCL trucks and other means.

PROFITABILITY ASSESSMENTS

As the packaged water industry is a bit competitive and existing customers are strongly attached to the existing brands, GWCL as a new entrant has adopted price penetration strategy to have a respectable presence in the industry.

The current prices of our products are very reasonable and affordable compared to existing industry wide ex-factory prices of the products.

The analyses below show the profitability of the various products under production. The prices are generally lower than the ongoing market prices in line with our market entry strategy.

	Sachet Bag GHS	330ml Shrink Pack GHS	330ml Box GHS	500ml Shrink Pack GHS	500ml Box GHS	19LT Jar New GHS	19LT Refill GHS
Selling Price	2.00	7.00	14.00	8.50	17.00	45.00	7.00
Taxes	-	0.931	2.0713	1.1403	2.4885	0.70	0.70
Net Selling Price	2.00	6.069	11.9287	7.3597	14.5115	44.30	6.30
Total Variable Production Cost	1.5889	4.9905	10.6093	5.5579	12.05	33.71	1.71
Net Revenue per piece available for fixed costs/overheads recovery	0.4111	1.0785	1.3194	1.8018	2.4615	10.59	4.59

Efforts Made Towards More Efficiency

The unit started with an introductory prices of GHS6.00 and GHS12.00 for a pack of fifteen (15) bottles shrink wrap and a box of twenty four (24) 500ml respectively in December, 2018. These were reviewed in January, 2019 to GHS7.50 and GHS15.00 respectively. These were finally increased to GHS8.5 and GHS17 respectively in July 2019. The 330ml came to the market in May, 2019 with introductory prices of GHS7 per a pack of 15 bottles and GHS14 per a box of 24 bottles respectively.

A second shift of eight hours was started in May, 2019 to better utilize the installed facilities. A third shift is under consideration.

CONTRIBUTION TOWARDS GOVERNMENT DEVELOPMENTAL AGENDA

The establishment of the plant has enabled GWCL to turn a sizeable portion of its land holding which was lying fallow to be put into economic use.

TAXES

Since the inception of operations from December 2018 to November 2019, GWCL has contributed a total of GHS191,398.92 in taxes to the government. The breakdown is as follows:

	GHS
Excise Duty	86,328.10
VAT	76,088.86
National Health Insurance Levy (NHIL)	14,490.98
Get fund Levy	14,490.98
Total	191,398.92

Direct Employment

The plant has offered direct employment to thirty-eight (38) young men and women i.e.

Permanent GWCL Staff	29
National Service Personnel	2
Casuals	<u>7</u>
Total	<u>38</u>

Their combined disposal incomes have had some positive influences on the economic activities of the locality which is a few kilometers from the capital city, Accra.

Indirect Employment

A host of distributors, haulers and other allied businesses have been given new business opportunities, suppliers of input materials and other services inclusive.

STRATEGIC EXPANSION PLAN

The Facility currently in use is a linear one with a capacity of 3,000 bottles per hour. The recommendation is for the acquisition of a medium capacity plant of 10,000 to 12,000 bottles per hour plant. The reasons being that:

- (a) The current volume of production/sales cannot support the profitable operations of the intended fully fledged GWCL subsidiary company. Also, an expanded production facility would lead to lower per unit production cost.
- (b) There is an outstanding huge demand for the limited products being off loaded onto the market hence the cessation of admission of new distributors. Registered suppliers who have never been supplied and the lead supply time of 7 weeks per distributor at least give credence to the supply gap. GWCL to date has deliberately not done any serious sales promotion and marketing for fear that the resultant extra demand cannot be met from the existing production size. For example, a leading local supermarket chain in preliminary discussion requested for the following volumes on weekly basis:

550ml- minimum requirement of 17,000 bottles to a maximum of 60,000

330ml- average requirement of 2,400 bottles

1.5lt – average requirement of 3,000 bottles

We could not conclude any deal as they were demanding assurance of our ability to reliably supply these weekly quantities which capacity we lack.

- (c) There is the need for an expanded machine capacity to match the already built civil assets for example, the factory, offices etc. i.e. to better utilize the available excess civil capacity through the acquisition and installation of extra machinery.
- (d) In the early 1990's when Ghana Telecom now Vodafone joined the mobile phone industry, they did not make any serious efforts to make available sim cards for the acquisition of the huge potential users then, who had a lot, of goodwill for the company. This failure resulted in customers forgoing the product regardless of its attraction for other brands. So GWCL needs not suffer the same fate but rather should build on the huge acceptance of its products by making the products readily available.
- (e) The existing linear plant uses weightier preforms compared with the higher rotary capacity plant GWCL intends buying. The cost of preform forms about 48% - 50% of the total input cost.
The estimated cost of the new plant is being borne from the funds so far generated from the bottle water operations.

CHALLENGES

- **Mixed reactions**

Upon the introduction of the products onto the market, the public reaction was mixed thus some were in support whilst others were against our entry onto the market. We simply stayed cool and we never engaged in any of the open public debate.

The other existing players seem to have reacted to GWCL's entry into the market. They have introduced a lot of sales promotion activities including price cuts. The activity has ultimately benefitted the consumers

- **Seeming Competition against our own product**

The other public outcry was that GWCL competing against our own primary product and that is, was GWCL saying the quality of its primary product is not good enough for drinking hence the packaged water?

We believe in the quality of both products and our answer has been we are offering our consumers the opportunity to easily carry the same pipe water quality in packaged containers.

We also tell the public that we can use the quality of our packaged water to judge the quality of similar products.

- **Market Entry**

The packaged water industry is a bit packed with some strong major players who have been into the market for years. Since GWCL has nationwide presence with over four thousand staff members, we started our market rollout using our staff as first-time customers with gradual spread of the sales of products onto the market beyond. We have also used a lot of vehicle fleet to advertise the products. To date, our external advertising cost is zero.

Our acceptance in the market is the general confidence the public have in our primary product and our capabilities in the water industry.

LESSONS LEARNT AND WAY FORWARD

- **Consultancy**

GWCL entered the industry without the appointment of a seasoned expert to assist in our effort. Upon hindsight, the project would have been better managed, but over the one-year period, GWCL has gained enough experience which can be made available to any sister utility company which wants to embark on such a project.

- **Input Substitution measures**

Our one-year journey in the industry has afforded us to know a lot of input substitution measures that would help improve our profitability in the industry.

- **Plant upgrade**

The existing installed plant capacity is three thousand bottles per hour. In some months, an additional twelve thousand bottles an hour plant would be installed to bring the total to fifteen thousand bottles per hour with its attendant extra business and employment opportunities.

- **Establishment of a Subsidiary Company**

To enhance the bottle plant operations, GWCL intends to establish a full-fledged subsidiary company to run that business.

CONCLUSION

There have been various benefits that have been accrued to various parties since the inception of the GWCL water bottling business e.g. Employment, tax payments, etc. in the long run, GWCL hopes to make adequate financial returns to support its primary business.

During this one year of this business, GWCL in addition have acquired very relevant and adequate experiences in this field of endeavor. GWCL would therefore be more than ready to make the skills learnt available to any sister utility company interested to diversify its sources of funding through this type of venture

They should have a business operating environment that would be flexible enough for such a venture to be undertaken.

APPENDIX

IMAGES OF G-WATER PRODUCT LINE



