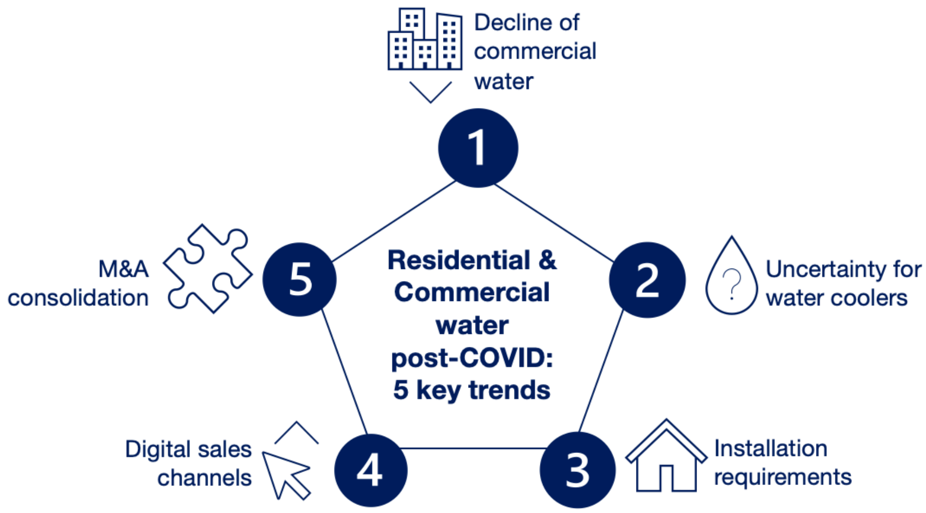
KEY TRENDS IMPACTING RESIDENTIAL & COMMERCIAL WATER POST-COVID



Amane Advisors explores the five key trends shaping the market for Point-of-Use and Point-of-Entry products post-COVID-19

Over the past few months, Amane Advisors has explored and shared our understandings of how COVID-19 has been impacting the water industry as a whole. But what have been the key trends impacting the Residential & Commercial water market, a distinct and very important sector?



As lockdown restrictions begin to ease and non-essential businesses start reopening in most parts of the world, a survey from Water Quality Products anticipated that COVID-19 has had a sizable impact on the Residential & Commercial water market. Here are our thoughts on the top five trends influencing what Residential & Commercial water business operations may look like post-COVID:

1. Commercial water is in decline

Commercial and hospitality sectors are most affected by the COVID-19 crisis, with many offices closing and businesses pausing operations or operating at reduced capacity as people practice social distancing. Commercial real estate investment across Europe was down 75% in March 2020 compared with March 2019. According to Property Fund World, the number of investment deals that have fallen through is also rising quickly, led by retail and office properties. Hotels, Restaurants, and Cafés (Ho.Re.Ca.) have been hit especially hard. A survey conducted by the Office of National Statistics reveals that in the UK, 81% of businesses in accommodation and food services (which includes hotels, restaurants, and pubs) have closed temporarily or ceased trading.

Many small enterprises have not been able to weather the storm and will not be recommencing operations, while working from home (WFH) has been successful and will form part of the new normal for other professional companies. With a reduced workforce in offices and other commercial spaces, businesses may look to cut costs including water services, such as bottle water coolers (BWC) and bottle free coolers (BFC), and multi-functional taps (MFT).

However, with a greater proportion of the workforce WFH, there is potential for a rise in the residential water market. People want the same level of water filtration, and variety of drinking options, as they would have in their normal working space. This may lead to a rise in interest in compact countertop systems, embedded filters (for example in the fridge), as well as reverse osmosis-based under-the-sink (UTS) and MFT in more affluent households.

2. Water coolers face an uncertain future

Products such as BWCs and BFCs are commonly used in commercial spaces, including offices. BWC is likely to be the most heavily impacted sector as the majority of revenues come from the quantity of bottled water consumed. As there has been significantly less commercial activity, there has also been less demand – loss in revenue has been estimated to be between 30-50% in peak COVID-19 months. To date, BFCs have seen fewer impacts, as they follow a rental model and are typically used by larger businesses, which have greater financial reserves. However, as businesses return to normal, they may seek to negotiate discounts, request to extend payments for an equivalent length of time as they have been out of office, or cancel their contracts.

The decline in demand for water coolers is being aggravated by potential regulatory controls. With more attention than ever on hygiene and sanitisation, there is concern that water coolers – which are used by many people each day – present a risk in transmitting the COVID-19 virus. For example, in France, Switzerland and Greece, local governments have been recommending a ban of water coolers (both BFC and BWC) in favour of individual plastic bottles – this is most notably being seen in the office and Ho.Re.Ca. markets.

Be that as it may, one of the key drivers of the commercial water market is a greater awareness of sustainability. Thus, any trend towards small-pack water bottles may be counter-balanced by an anti-plastic stance. Currently legal proceedings against the use of water coolers have been dropped, providing that strict advice on water cooler use is followed.

Crises can be times of innovation and behavioural change, especially if companies can harness the potential of technology. Many of the key solution providers offering water coolers also have touch-free options, including foot pedal kits to convert existing water dispensers and water fountains to hands-free units. Similar to the surging digitalisation trends among utilities, a water dispenser start-up has introduced a touchless dispensing feature that allows customers to use the dispenser via an app without using the machine’s touchscreen.

3. Installation requirements cause short-term rebalances of residential sales

Products such as softeners, which are commonly used and specified in the residential sector, have seen a sharp decline in sales. However, this is expected to be only a short-term dip linked with an initial pause in construction, and operating with a reduced workforce, as well as with changes in sales channels and service or installation ability.

With restrictions on who may enter individuals' homes, the ability to install products by plumbers and service teams has been limited. This has led to a rise in sales of simple point-of-use (POU) products – DIY solutions – which do not require installation. For example, according to All View Cloud, the Chinese residential market sales of countertop filtration products, including water pitchers and BFC, evidenced a 33% year-on-year growth in the first quarter of this year.

Further, as mentioned above, countertop systems (like water pitchers), UTS, MFT and embedded filters may see a rise in use as home-workers desire premium drinking options. These include improved filtered water, remineralisation and carbonation – options which are commonplace in office environments. However, UTS and MFT require installation, so may be limited by restricted entry and personal preferences on service providers entering households. For any of these products, being able to sell direct or indirectly to end users is an advantage right now.

4. New sales channels are emerging

More complex and higher specification products such as softeners, UTS systems and MFT are traditionally sold through sales reps, plumbers or kitchen suppliers, all of which require some level of face-to-face contact. Other products, such as simple POU devices like pitchers, embedded filters (such as in the fridge) or shower filters are most commonly sold through retailers.

As a result of the pandemic, the general public have an enhanced awareness of health and safety, and people who may not have been worried about drinking water quality are now more concerned. As such, people's attention to water quality products is increasing. For example, in China online search rates for residential water treatment products has increased by 80% since the COVID-19 outbreak.

As customers are limiting contact (in the home) and retailers shut temporarily, the use of digital sales channels has increased. As such, solution providers are looking to increase digital presence – such as offering virtual consultations with technicians – and online sales capabilities through their own or existing platforms (e.g., Amazon). However, there is uncertainty surrounding the permanence of these sales channels: customers still value direct, face-to-face contact when deciding to purchase premium and more complex solutions. For example, customers view MFT as a premium appliance rather than a simple water dispensing product, so the decision to buy online may not be clear cut.

5. Preparation for an upswing in M&A activity

The Residential & Commercial water sector is highly fragmented, with many smaller dealers focused on their local geography. However, the negative effect felt by some smaller players may pose a great opportunity for investors and market leaders. In April, Waterlogic secured further investment from four institutional investors – British Columbia Investment Management Corporation, Neuberger Berman, StepStone and Skandia – which will support Waterlogic's growth ambitions. Likewise, in March, Culligan received additional funds from Ares Capital to support Culligan's acquisition of AquaVenture earlier in 2020. Despite a slowdown in M&A activity since Q1 2020, we expect a rise in M&A activity such as tuck-in or bolt-on investments targeting smaller companies that won't weather the COVID-19 storm, attracted by the security of a larger balance sheet. Waterlogic has commenced this trend, with acquisitions of two bottle free water cooler providers in the United States in Q3.

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About Amane Advisors

Amane Advisors (www.amaneadvisors.com) is the world's leading advisory firm dedicated to the water industry. Its team on five continents partners with clients to push the frontiers, inspire innovation and create the future, anticipating the waves of the water industry.

For the past 10 years, Amane's raison d'être has been to help clients navigate the water business, providing services on all matters relating to their growth. These clients range from multinationals, institutions and investors, to innovative start-ups and technology companies. The firm's services include Strategy, Market Intelligence, Commercialization, Mergers & Acquisitions, PPP Advisory and Digital Transformation.

Amane also offers specialised advisory services to the dynamic Residential & Commercial water market. Learn more at https://www.amaneadvisors.com/sectors-residential-commercial.

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