Global Water Risk: Building a Resilient Business

AN EXTRACT FROM THE REPORT
GLOBAL WATER RISK: BUILDING A RESILIENT BUSINESS
Classed by the World Economic Forum as the world’s number one long term risk, water crisis is a key issue impacting on a huge number of businesses, from energy production, to agriculture, food production, apparel and heavy end use industries such as beauty and personal care, laundry detergent and laundry appliances. This report looks at how a range of companies are tackling this pressing concern, from supply chain management, to community initiatives and product innovation.
WATER CRISIS: THE #1 GLOBAL LONG-TERM RISK

The growing level of water stress—the need for products requiring less water for rinsing—can pose risks for businesses at different levels, including the loss of sales due to lack of environmental compatibility. Some water-reliant brands have been exploring ways to make their brands more compatible with environmental indicators, but there are scopes for improvement.

Water crisis rising up the agenda
In 2015, the World Economic Forum named water crisis as the number one long-term global threat. This is the fourth time that water crisis has appeared in the annually published list, but it is the first time it has secured the top spot. One third of the world’s population lives in a water-stressed area, and according to the UN, this will rise to two thirds by 2025.

Huge potential impact on business
Still underestimated by many businesses, water risk is a very serious and complex issue threatening wildlife, human access to clean water and continuation of business through scarcity, flooding and pollution. A well-managed water strategy, conversely, can help to build a resilient and innovative business and a strong ethical brand image.

Water resilience is an important issue for a large number of businesses, from food production, to clothing, to laundry appliances. Even where water is not a key part of the manufacturing process, it is often critical to provision raw materials or to the end use of the product.
When considering the importance of water, businesses need to look at three main areas of impact: operational, reputational and regulatory. However, water management is not just about mitigating risk—it can also offer opportunities for businesses to strengthen efficiencies, differentiate and innovate.

**Physical and operational risks to production**

Operational risks consist of managing water resources to maintain business continuity both in direct operations and the supply chain. These include scarcity, or too little water to maintain production; flooding, or too much water to operate and distribute; and pollution, or water that is unfit for use, leading to pre-treatment costs or scarcity.

**Damage to brand image**

Reputational risks encompass managing company image among local communities and fellow watershed users, investors and end users. These include stakeholders’ real or alleged negative perceptions affecting future business viability as well as local community concerns or protests about the impact on local water resources, communities, worker health and ecosystems. Consumer concerns about the ethical positioning of a company can also have a profound effect on success.

**Costs and issues relating to governance**

Regulatory issues involve keeping on top of changes that may raise additional costs or rationing on water. Changes in public water governance can lead to more stringent water allocation or regulation as well as higher costs. Ineffective or inconsistent water regulation can also be a hurdle for companies.
Strong water management creates opportunities and a resilient and innovative company

Companies that manage water risk do so throughout the company and their supply chain through clear, measurable and time-specific goals. They consider the full watershed context for maximum resilience, working with other users of the river basin to optimise access for all. This not only builds resilience but also opens up opportunities for cost efficiencies, brand differentiation and end product innovation.

Good water management creates opportunities for new goods and services focusing on reducing water footprints as a USP—this includes laundry and personal care products that use less water, for example. It also has significant benefits along the supply chain and operations, allowing for a more resilient supply chain that can adapt to short-term water shortfalls, and creating a more efficient operational structure with lower costs. Crafting an image as a water-responsible brand also has positive impact for many consumers, especially those who are ethically and environmentally aware. Similarly, it has an impact on investors, allowing, for example, listing as part of a pension or investment portfolio focusing on responsible companies.

Water management across product chain

Water management is not only an issue for direct operations but also for the supply chain and post-sales use. For food production in particular, control over water use in the supply chain is critical—use of water in agriculture to grow raw materials is extremely high. Concerns over water need to be extended into a broader approach to water stewardship, which considers the long-term implication in protecting the water supply at river basin level for all users, thus safeguarding supplies and maintaining a strong connection with the local community.

After-sales use is also an issue to be considered, and is particularly important for industries such as textiles, household cleaning and household appliances where the greatest amount of water use tends to occur at consumer level. This is particularly the case in drought-impacted areas where there is strong demand for low water products from consumers and opportunity for targeted innovation is strong.
MOVING TOWARDS A WATER POLICY

360° inclusion
Water risk assessment and management needs to extend across all business aspects and drill through the supply chain into end-consumer use. Policies need to be company-wide and third-party suppliers assessed and given clear targets.

Robust targets
Clear, quantifiable targets with deadlines are important. Coca-Cola, General Mills, Kellogg, Nestlé and Unilever all have deadline-driven goals for water management practices.

Watershed inclusion
Currently, few companies look at the river basin or watershed context—this is a critical step forward that companies should consider carefully, engaging other watershed users into a responsible and considered river basin policy.

Global water crises—from drought in the world’s most productive farmlands to the hundreds of millions of people without access to safe drinking water—are the biggest threat facing the planet over the next decade. The nexus of water, food, energy and climate change is one of the overarching megatrends that will shape the world in 2030.

ABOUT EUROMONITOR INTERNATIONAL

Established in 1972, Euromonitor International is the world leader in strategy research for consumer markets. Comprehensive international coverage and leading edge innovation make our products an essential resource for companies locally and worldwide.

Our global market research database, Passport, provides statistics, analysis, reports, surveys and breaking news on industries, countries and consumers worldwide. Passport connects market research to your company goals and annual planning, analysing market context, competitor insight and future trends impacting businesses globally. And with 90% of our clients renewing every year, companies around the world rely on Passport to develop and expand business operations, answer critical tactical questions and influence strategic decision making.

Purchase the full report of this strategy briefing or request a live demonstration to discover more about the power of Passport.