

Belu boss shows bottle for a turnaround

Karen Lynch, chief executive of 'ethical' water firm Belu, on pulling the social enterprise out of the drink.



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Karen Lynch: "We had a history of saying great things and not delivering."



By James Hurley

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For those who believe the term social enterprise is an oxymoron, an “ethical business” that promises consumers it will give all of its profits to charity only to notch up a series of losses could offer a case in point.

If the business in question sells bottled water – turning life’s most basic resource into a consumer brand has been cited as evidence that capitalism has gone too far – the potential for a kicking from the media, customers and competitors is clear.

Belu was founded with the good intentions of film maker Reed Paget in 2004 as an environmentally friendly bottled-water business. His counter-intuitive reasoning was that an ethical bottled-water brand could help highlight the fact that a sizeable chunk of the world’s population does not have access to a clean water supply. Unlike many of its rivals, it would not import or export water – it should be a local resource available to all. It would also give all of its profits to clean-water projects in Asia and Africa.

Investors included Body Shop co-founder Gordon Roddick, environmentalist Ben Goldsmith and Chris Cooper-Hohn, the billionaire hedge fund manager.

The initial signs were encouraging. By 2006, the company had become the world's first bottled-water firm to be 100pc carbon neutral and it won orders from caterers, hotels, restaurants and upmarket bars, including Nobu, Sketch and the Groucho Club.

But Belu was not making any money. In 2007, the company lost £600,000 on sales of £1.5m, and after recording a minute pre-tax profit from a £2.7m turnover in 2008, it swung back into the red in both 2009 and 2010.

It did manage to make charitable donations of around £30,000 each year, but, as current chief executive Karen Lynch admits, the message was far from ideal. "We had a history of saying great things and not delivering," she says.

Asked by Paget to join Belu as a marketing director, Lynch looked at the business model.

"I didn't get it and nobody else did either. 'Belu loses £600,000' was the headline. They still honoured charity commitments, so you had a group of investors backing a business that didn't make any money, but because there was a charitable element they were investing out of losses."

With investors supporting a £2.1m deficiency in the company's balance sheet, Lynch, a former Emap and Barclays executive, saw that more drastic action was required.

She tore up the company's business model and presented investors with one of her own.

"We had to ask, is there anything worth saving? Interest rates had gone down, so investors weren't saying, 'give us our money back', but they were asking, 'where is this going?'. The business model has to be sustainable. Anyone can throw money at causing chaos. We had to define what we were about."

Belu's backers obviously liked what they saw – Lynch was asked to take over from Paget. Her first move raised some eyebrows: she slashed the company's top line by switching from direct distribution to wholesale. "Convincing a team that we were going to take less money to make more was hard.

"Having trucks traipsing water around didn't work, but if someone is going to deliver some juice, some beer, some wine, why not make use of it?" She further cut costs and boosted listings by replacing an in-house sales team with agency Windfall Drinks.

The 42 year-old also decided it would make more sense to outsource its charitable commitments, through a partnership with WaterAid.

"I was managing the due diligence to build a dam in Rajasthan. It's great to say we did that, but for every £1 spent, WaterAid has the bigger impact. And it takes away the worry about how we were being charitable – they're the country's best-known water charity."

Last year, Belu signed a contract with WaterAid committing it to giving £300,000 to the charity over three years. Lynch's new structure has delivered deals with restaurant chains, including Zizzi, and from April its bottles will be sold in Sainsbury's. As such, it will give £134,100 to WaterAid this year from sales of £2.4m.

The Sainsbury's deal should add at least £600,000 to next year's sales, but Lynch is understandably nervous about making big claims:

"I don't want to talk a great story, under-deliver and spend my life retrospectively justifying myself. Now we're about doing what we say we're going to do.