



# Bottled Water:

## A Perspective on the New Titans

By Kathleen J. Ransome

**G**rowth in the bottled water industry after two decades continues to come in strong. But the basic nature of the industry and the forces driving it have changed dramatically since Pepsi-Cola's introduction of Aquafina in 1994.

### A risky maneuver

At the time of Aquafina's introduction, bottled water had been touted for years as "the smallest yet fastest growing segment of the beverage industry." Some even believed the industry was showing signs of market maturity. Several large companies were moving to consolidate positions in the home and office delivery business—a seemingly more lucrative and a more rapidly growing bottled segment than retail. The industry was vibrant, with key players focused on natural spring water, which translated into an industry with regional brands tied to local spring water sources.

Many viewed Pepsi-Cola's launch of Aquafina as a huge risk. After all, Aquafina was a "purified tap water" entering a market where natural spring water was "king." But Aquafina wasn't Pepsi's first U.S. foray into bottled water—it had owned, operated and sold a spring water business (Ice Mountain) in the mid-1980s. And it wasn't Pepsi's first foray into "purified water" either—Glacier, a purified and mineralized bottled water

brand packaged in PET plastic, was successfully launched by a Pepsi franchise in the early 1990s in Argentina, a market dominated by natural mineral water brands in glass bottles.

Still, the results for Aquafina were staggering (see *Figure 1*)—it rapidly rose to the No. 1 brand position in the U.S. market, registering annual sales of \$645 million in 2001 with an impressive five-year compound annual growth rate of 95 percent.

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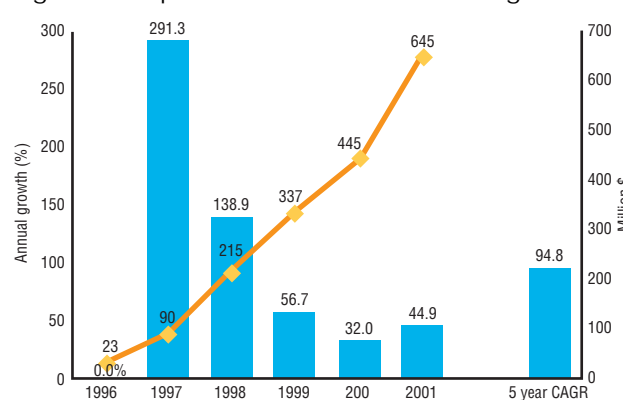
*Beverage Digest* sums up some of the incentives for Coca-Cola to produce Dasani:

"Days before Coke's announcement [to launch Dasani], Henry Schimberg, CEO of Coca-Cola Enterprises, observes: 'We have waters in our portfolio on a market-by-market basis. There is no water we distribute nationally. The ability to distribute and promote a water nationally would offer us a significant advantage.' Adds: 'Consumer (research) finds purified water is equally attractive as spring water.' Continues: 'Purified water would give us a cost-of-goods advantage. So, all-in-all, the introduction of a water (from Coca-Cola Co.) would be a big positive for CCE.'"

—*Beverage Digest*, Feb. 19, 1999

In its third year (2001), Dasani gained the No. 2 brand position in the bottled water market registering annual sales of \$560 million, almost 90 percent of Aquafina's sales in that year (see *Figure 2*). This in part is a result of Coca-Cola's heavy advertising support for Dasani, totaling \$53 million from 1999 through 2001 vs. close to \$29 million for Aquafina from 1996-2001, according to Beverage Marketing Corp.

Figure 1. Aquafina wholesale sales & growth\*



\* Compound Annual Growth Rate (CAGR) calculated by Hidell-Eyster  
SOURCE: Hidell-Eyster International, based on data of Beverage Marketing Corp.

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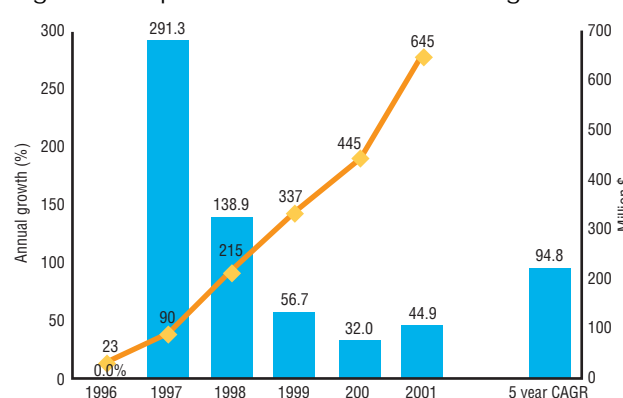
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## **A market's changing face**

Pepsi-Cola and Coca-Cola have changed the face of the bottled water industry:

- They've proven that consumers have accepted purified drinking water. This is a distinct departure from traditional focus of the industry on natural spring water
- They've created national brands in a market dominated by regional brands tied to specific spring water sources.
- Their sole focus in the bottled water industry is on the convenience size PET segment, in contrast with other leading bottlers who focused on both the retail segment and home and office delivery.
- They've achieved leading market positions from new brand development rather than acquisition. This contrasts sharply with the leading bottled water players, which have relied heavily on acquisition to increase market share.
- They have built in economies of scale. They're the market leaders in carbonated soft drinks, an industry six to seven times the size of the bottled water industry. They have nationwide state-of-the-art bottling facilities and

blow molding operations.

- They have the infrastructure to benefit from cost-effective nationwide distribution with strategically located production plants and distribution facilities. For example, Pepsi currently produces Aquafina in 27 U.S. locations.

- They're experts in beverage advertising and promotion. They've established relations with and the power to influence the distribution trade—retailers, wholesalers, food brokers, etc. They support their brands with large advertising and promotion budgets.

All of this is within the context of the commitment made over a decade ago by Coca-Cola and Pepsi-Cola to the total beverage concept, with positions in iced teas, coffee drinks, fruit juice beverages, sports drinks and functional beverages. Functional beverages are those with some ingredients added about which health claim benefits can be made. These are regulated as food and the added ingredients must be "generally recognized as safe" (GRAS) under federal regulation. In the water category, Aquafina ESSENTIALS was introduced in May 2002 and Dasani Nutriwater is slated to be launched soon. These waters don't meet the FDA definition of

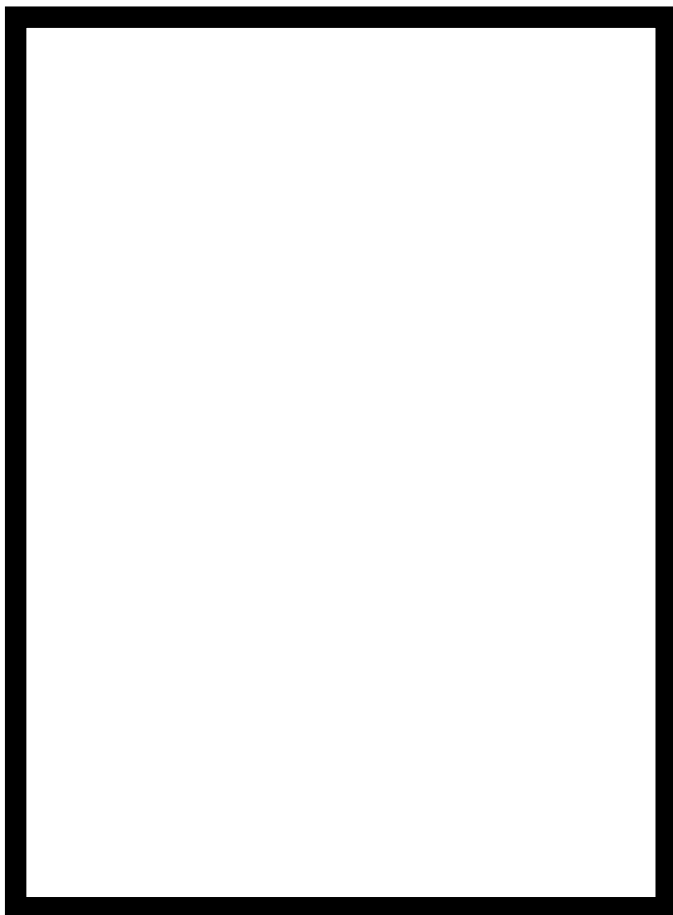
bottled water—but rather are beverages. Ingredients may include flavors/essences, vitamins, fructose/glucose and other agents that may impart a health benefit such as fiber, ginkgo biloba, cholesterol lowering agents, to name a few.

## **The impact is felt**

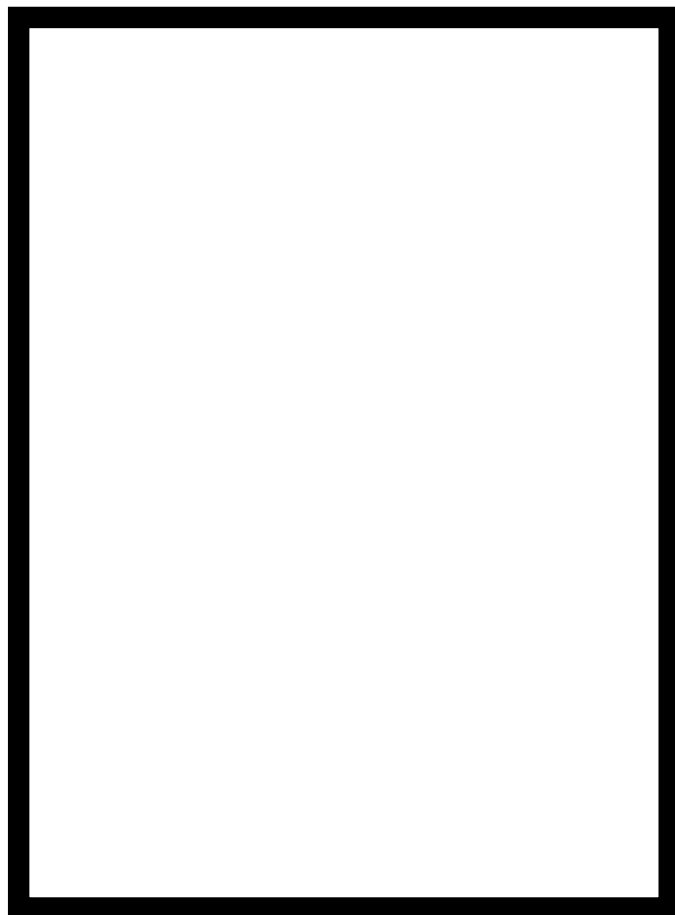
Needless to say, the bottled water industry has felt the impact. There's no questions Aquafina and Dasani may have created incremental sales for the industry overall, but there is also no question that these brands have displaced sales that would have been realized by the key bottled water players active in Pepsi-Cola's and Coca-Cola's distribution outlets—primarily Nestle, Danone and Suntory.

- *Nestle Waters of North America (the No. 1 bottled water company in the U.S.):* If Nestle had not purchased Aberfoyle Springs in Ontario, Canada, and Black Mountain Spring Water in California in 2001, its share of the U.S. bottled water market would have decreased in 2001. Nestle—whose flagship has been Perrier—is launching its own NESTLE brand of bottled water.

- *Danone Waters of North American (No. 2):* Danone's sales and market share



• Circle 70 on Reader Service Card •



• Circle 69 on Reader Service Card •

were clearly impacted by Pepsi-Cola and Coca-Cola. The company chose not to engage in the competitive price war in bottled water and not to focus on the U.S. market. Danone's Riboud stated, "Under no circumstances will we let our margins deteriorate by chasing market share." Danone's recent agreements with Coca-Cola reflect Danone's resolve. Danone launched its DANNON brand of spring water in 1996 as a moderately priced national bottled water brand. This brand has been surpassed by Aquafina and Dasani.

• **Suntory Water Group (No. 5 after Pepsi-Cola and Coca-Cola):** Since 1999, Suntory has been bumped from No. 2 to the No. 5 position. Danone's purchase of the McKesson Water Group in January 2000 moved Suntory from No. 2 in 1999 to No. 3 in 2000. Pepsi-Cola and Coca-Cola usurped Suntory's No. 3 position in 2001 moving it to position No. 5. In the same year, Suntory suffered a \$4 million loss of sales in 2001 and close to a 1.5 percent decline in market share.

Aquafina and Dasani accounted for approximately half of the industry's growth in sales dollars in 2000 and in 2001. There is no question that Pepsi-Cola and Coca-Cola will continue to play a key role in the future direction of the industry.

### Conclusion

Many believe that the three key bottled water players moving forward will be Nestle, Pepsi-Cola and Coca-Cola. It remains to be seen whether Pepsi-Cola and Coca-Cola will enter the U.S. home and office delivery business. While the PET segment of the bottled water industry has been "inundated" by the entry of Aquafina and Dasani, the home and office delivery segment has experienced competition from point-of-use (POU) players, such as Culligan, and in some cases bottlers have incorporated POU coolers into their offering. The POU business has economic potential that merits close examination.

### About the author

*Kathleen Ransome is director of the Beverage Division of Hidell-Eyster International. She provides business and financial consulting services for international clients in market research, strategy development, business plans, and mergers and acquisitions. She's also a past member of the WC&P Technical Review Committee and remains active in the International Bottled Water Association. She can be reached at (781) 748-8040, (781) 749-2304 (fax) or email: ransome@hidelleyster.com*

## Bottled Water: By the Numbers

The following statistics are courtesy of Beverage Marketing Corp., of New York

### U.S. BOTTLED WATER MARKET

Volume and Producer Revenues (1991–2001)

Year	Millions of Gallons	Annual % Change	Millions of Dollars	Annual % Change
1991	2,355.9	2.1	\$2,512.9	-0.6
1992	2,486.6	5.5	\$2,658.7	5.8
1993	2,689.4	8.2	\$2,876.7	8.2
1994	2,966.4	10.3	\$3,164.3	10.0
1995	3,226.9	8.8	\$3,521.9	11.3
1996	3,495.1	8.3	\$3,835.4	8.9
1997	3,794.3	8.6	\$4,222.7	10.1
1998	4,130.7	8.9	\$4,666.1	10.5
1999	4,583.4	11.0	\$5,314.7	13.9
2000	4,904.4	7.0	\$5,809.0	9.3
2001	5,425.3	10.6	\$6,477.0	11.5

### U.S. BOTTLED WATER MARKET

Per Capita Consumption (1991–2001)

Year	Gallons Per Capita	Annual % Change
1991	9.3	—
1992	9.8	4.7
1993	10.5	7.4
1994	11.5	9.4
1995	12.2	6.4
1996	13.1	7.4
1997	14.1	7.4
1998	15.3	8.3
1999	16.8	10.0
2000	17.8	6.0
2001	19.5	9.4

### U.S. BOTTLED WATER MARKET

Volume & Growth by Segment (1991–2001)

Year	Non-Sparkling		Sparkling		Imports		Total	
	Volume*	% Change	Volume*	% Change	Volume*	% Change	Volume*	% Change
1991	2,112.2	2.6	172.3	-2.1	71.4	-3.4	2,355.9	2.1
1992	2,228.0	5.5	172.3	0.0	86.3	20.9	2,486.6	5.5
1993	2,422.2	8.7	174.7	1.4	92.5	7.2	2,689.4	8.2
1994	2,687.6	11.0	174.8	0.1	104.0	12.4	2,966.4	10.3
1995	2,965.6	10.3	164.2	-6.1	97.1	-6.6	3,226.9	8.8
1996	3,224.3	8.7	159.0	-3.2	111.8	15.1	3,495.1	8.3
1997	3,491.4	8.3	153.8	-3.3	149.1	33.4	3,794.3	8.6
1998	3,823.8	9.5	146.1	-5.0	160.8	7.8	4,130.7	8.9
1999	4,286.3	12.1	146.0	-0.1	151.1	-6.0	4,583.4	11.0
2000	4,622.4	7.8	144.2	-1.2	137.8	-8.8	4,904.4	7.0
2001	5,157.4	11.6	144.0	-0.1	123.9	-10.1	5,425.3	10.6

\* Millions of gallons

### GLOBAL BOTTLED WATER MARKET

Leading Countries' Consumption and Compound Annual Growth Rates, or CAGR (1996–2001)

2001 Rank	Countries	Millions of Gallons 1996	Millions of Gallons 2001	CAGR 1996/01
1	U.S.	3,495.1	5,425.3	9.2%
2	Mexico	2,674.2	3,496.5	5.5%
3	Italy	1,923.9	2,502.6	5.4%
4	Germany	2,097.6	2,336.5	2.2%
5	France	1,498.9	2,064.6	6.6%
6	China	565.0	2,007.8	28.9%
7	Indonesia	512.1	1,352.1	21.4%
8	Thailand	854.5	1,198.3	7.0%
9	Brazil	475.7	1,139.6	19.1%
10	Spain	884.0	1,091.4	4.3%
<b>Top 10 Subtotal</b>		<b>14,981.0</b>	<b>22,614.6</b>	<b>8.6%</b>
All Others		4,205.4	7,488.4	12.2%
<b>WORLD TOTAL</b>		<b>19,186.4</b>	<b>30,103.0</b>	<b>9.4%</b>

### GLOBAL BOTTLED WATER MARKET

Per Capita Consumption by Leading Countries (1996–2001)

2001 Rank	Countries	Gallons Per Capita 1996	Gallons Per Capita 2001
1	Italy	33.5	43.4
2	France	25.7	34.7
3	Mexico	28.1	34.3
4	Belgium-Lux.	28.8	32.6
5	U.A.E.	25.7	31.3
6	Germany	25.6	28.1
7	Spain	22.3	27.3
8	Switzerland	21.1	23.8
9	Lebanon	12.7	22.5
10	Saudi Arabia	15.1	22.5
11	Austria	18.5	20.5
12	Cyprus	14.2	20.2
13	Czech Republic	12.9	19.6
14	United States	13.1	19.5
15	Thailand	14.5	19.4
<b>Global Average</b>		<b>3.3</b>	<b>4.9</b>

SOURCE: Beverage Marketing Corp.