Global Competitiveness in the Bottled Water Industry: A Case Study

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Abstract

The bottled water market in the U.S. is a recent development. Most water bottlers had traditionally positioned their products as an alternative to tap water. A few imported waters were sold for health reasons. The real growth in the bottled water market took place in the second half of 1970s when Perrier was introduced as a non alcoholic, chic alternative to soft drinks and alcoholic beverages. Bottled water accounted for $3.2 billion sales in 1992 out of a total beverage sales of $159 billion. Although bottled water is the smallest in terms of revenue, its gallonage market share stood at 8.7 percent, and it is by far the fastest growing category of all beverages.

The future prospects of the bottled water industry in the U.S. appear bright due to the deterioration of municipal water supplies, interest in healthy living, and the movement of bottled water into main stream as a refreshment beverage. Currently, there are over 700 bottled water manufacturers in the U.S. The leader among these is the Perrier Group with almost one-fourth of the market. Although the Perrier Group is a foreign firm, most of its sales are generated from U.S. brands that this company has acquired over the years. For example, its only imported brand Perrier, accounted for only 1.7 percent of the market in 1993. Overall, imports have less than 4 percent of the U.S. bottled water market. This situation is no different than in the beer or soft drink industry. But there is one exception. While lead players in the beer and soft drink industries are U.S. companies, in the case of bottled water the three among the first five industry members are foreign firms (i.e., Perrier Group, Suntory International and Evian), accounted for about one-third of industry sales.

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1. Introduction

The purpose of this case study is to examine the impact of foreign firms' activities in the U.S. bottled water market. The major concern here is with the influence that foreign brands have on domestic business. For example, how competition from imports affects the conduct and performance of U.S. firms. The study is organized into six sections. Section one discusses the history of bottled water industry in the U.S. Section two deals with the structure of the industry. The following section is devoted to brand analysis. The next section probes success factors in the industry; following which marketing strategy perspectives of the industry are examined. The final section discusses the long-term prospects of the industry.

2. History

Bottled water belongs to the broad category of beverages which includes soft drinks, juices, beer, wines, and spirits. The total retail sales of beverages in the U.S. were $159 billion and an average American drank 95.1 gallons of all combinations of liquids in 1992. The most sales dollars were brought by beer ($51.3 billion), the least by bottled water ($3.2 billion).[1] Although bottled water is the smallest in terms of revenue, its gallonage market share stands at 8.7% or more than one third of beer (24%) and it is by far the fastest growing category of all beverages.

Americans increased their consumption of bottled water almost twofold (79% increase) in the late 1980s (from 1,237.7 million in 1985 to 2,209.9 million gallons in 1991). During the same period, beer drinkers managed to down merely 3% more beer (183.1 million in 1985 versus 189.2 million barrels in 1991).

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[1] Greg W. Prince and Eric Sfiligoj, "The Beverage Market Index for 1993," *Beverage World*, May 1993, pp. 33-34.

Bottled water is surprisingly the most difficult category amongbeverages to define because the whole category derives its name from the packaging form rather than distinct technological processes. Nevertheless, not all water that is put into bottles, glass or plastic, .33 liter or 5 gallons, is the same thing.

Bottled water can be classified into three groups: non-sparkling (i.e., flat, still or non-carbonated), sparkling (carbonated), and imported. Non-sparkling is further sub-divided into bulk (containers over two liters in size) and premium (two liters and under). The sparkling category is also sub-divided into domestic sparkling (carbonated water produced by a bottled water filler who is primarily engaged in the bottled water industry) and club soda/seltzer (carbonated water produced by a soft drink filler who is primarily engaged in the soft drink industry).[2] Table 1 gives the respective market shares of different categories. Two facts emerge. First, the non-sparkling bulk category constitutes the major component of business (accounting for 70.3%). Second, imports amount to a small share, i.e., 3.8%.

The ambiguities within the bottled water categories cause confusion among not only customers, but also among manufacturers and government agencies, the latter being most interested in labeling and consumer protection. Just like the beer industry opposes any new tax hikes, the bottled water industry feverishly combats any plans to introduce stricter labeling laws that would make many a bottler reveal the true content of each and every crystal bottle or show that spring water is not quite from a spring but from a regular well. Labeling regulations still remain largely a state matter. For example, in New Jersey, all bottled water must be labeled with a "sell by" date. Similarly, in Vermont, all bottled water sold there must label the amounts of sodium, lead, arsenic and nitrates present.[3] One executive's defense on this matter has been: "Whether you deliver it by C-section or natural childbirth, it's still a baby." This may be all the same to the producer, but definitely not to a consumer whose image of a brand often determines what he or she buys.

Bottled water is unique in one more aspect. The industry enjoys, as devilish as it may sound, natural disasters like hurricanes, draughts, or floods when the publicly provided water becomes too risky to drink

[2] Eric Sfiligoj, "Bottled Bounce," *Beverage World*, October 1993, pp. 48-52.

[3] Eric Sfiligoj, "Searching for Answers from Cincinnati," *Beverage World*, September 1992, pp. 74-76.

Table 1 Market Share of Different Categories of Bottled Water (1992)

	Bottled Water	Percent of Market Share
1.	Non-sparkling	
	Bulk	70.3%
	Premium	10.0%
2.	Sparkling	
	Domestic	7.5%
	Club Soda/Seltzer	8.4%
3.	Imported	3.8%
		100.0%

Source: Eric Sfiligoj, "Bottled Bounce," *Beverage World*, October 1993, pp. 48-52.

or simply "dries out."[4] Although most water is dispensed free on such occasions, the PR effect is tremendous.

Water has been known to mankind since the very beginning. It was available in abundant quantities long before any other product (it's hard to call water a product since it constitutes some 75% of the human body) was put on the market. Critics might say that bottled water is nothing more than an example of how to sell something which is basically free. Nevertheless, as 3.2 billion 1992 sales dollars spent and 2.2 billion gallons of water drunk show, consumers find value in buying what most often is a substitute for tap water.[5]

The origins of today's bottled water date back to the European mineral waters that could be found across the old continent in the so-called baths or spas. Those places were usually located close to the rocky surroundings where water coming from the ground contained a higher content of mineral salts (calcium, iron, potassium, sodium and other).

[4] IBWA (International Bottled Water Association) reported that its members provided over 2 million gallons of bottled water and thousands of 1-gallon containers...to meet the unexpected and urgent demand; many bottlers added shifts and operated around the clock to distribute water to the needy. See: *PR Newswire*, August 16, 1993.

[5] "Counting on County," *Beverage World*, January 1992, p. 16.

The American big splash did not occur until the early 1980s, when the European way of drinking water; i.e., at mealtimes or as a substitute for alcoholic beverages, was established among American consumers. The new trend was set by virtually one brand and one company — **Perrier** of France (see Appendix for Perrier's story). Although known for years in the form of office coolers, pure water rapidly enchanted the American consumer when put into green, distinctively shaped bottles.

The rapidly growing market (above 10% annual growth between 1977 and 1990) has brought many new players, often multinational corporations (**Clorox** or **Suntory**) who incorporated unique regional springs into their multiproduct businesses. Those relatively new entrants have added a new dimension to the competition in the industry. The sheer size and support from parent whenever necessary greatly added advertising muscle to the newly acquired subsidiaries and allowed for truly nationwide roll-out of a plethora of new brands.

The rapid growth in the 1980s, which made bottled water the fastest growing beverage category, came to a halt with the onset of the recent (1990-92) recession. For the first time, the bottled water lost its immunity to the downturns in the economy.

The industry remains presently quite fragmented which suggests it is still in the growth stage. The "new age" soda and soft drinks remain water's biggest competitors, and some brands are positioned to cut across those categories to become the ultimate drink among the sophisticated American consumers. Hall notes: "In spite of the soft drink claim, *Clearly Canadian* continues to be sold from the bottled water shelf, a move that ...(is) brilliant, considering the fact that they are not a real bottled water product."[6]

Despite the fact that the bottled water market in the U.S. appeared to be a recent development, there have been over 700 bottled water manufacturers in the country and a substantial number in Europe. A large percentage of American water was sold in a noneffervescent state, as a direct substitute for tap water. It was delivered to home or office in five gallon containers or sold in one-half gallon/1 gallon plastic containers mostly in areas where the quality of the municipal water was inconsistent or of poor taste (California was by far the largest market of this type). Most water bottlers had traditionally positioned their products as an alternative to tap water. A few imported waters were sold for "health" reasons, although the U.S.

[6] Jonathan Hall, "Canadian Theater," *Beverage World*, September 1992, p. 82.

Government was far more strict about these claims than European governments.

In 1976, Bruce Nevins, a former executive at Levi Strauss was introduced to Gustave Leven, Chairman of Source Perrier. Mr. Nevins was convinced that Perrier could capitalize on Americans' growing health consciousness by marketing its product as noncaloric, chic alternative to soft drinks and alcoholic beverages. He intended to keep the premium image to enhance Perrier's appeal to wealthier adults — or those trying to be like them.

Mr. Leven installed Mr. Nevins as president of Great Waters of France, Inc., Perrier's U.S. marketing subsidiary. Mr. Nevins unleashed a $2 million advertising campaign in mid-1977, and Mr. Leven was astonished at the results:

Perrier Sales — Fiscal	1976:	$500,000
	1977:	$12 million
	1978:	$40 million
	1979:	$50 million

This represented a 484% compounded average annual growth rate.[7] This is how the modern bottled water industry evolved in the U.S.

3. Structure of Bottled Water Industry

Table 2 shows the top ten companies in the U.S. bottled water industry and their respective sales and market shares. The following are the major brands of each company:

Perrier Group:	Arrowhead, Poland Spring, Ozarka/Oasis, Perrier, Great Bear, Calistoga, Zephyrhills, Ice Mountain, Volvic.
McKession Corp:	Sparkletts, Alhambra, Aqua Vend, Crystal Bottled.
Anjou Intl.:	Hinckley & Schmitt, Sierra Springs.
Suntory Intl.:	Kentwood, Crystal, Belmont Springs, Polar, Crystal Springs, Talawanda Springs, Willow Springs.
Evian:	Evian.
Sammons:	Mountain Valley, Carolina Mountain, Diamond Water.

[7] Based on information provided by Nestle Source Perrier.

Clorox:	Deer Park/Deep Rock.
Crystal Geyser:	Alpine Springs, Crystal Geyser.
Culligan:	Culligan.
Winterbrook:	La Croix.

The biggest bottled water company is the **Perrier Group** with 23.5% U.S. market share and sales of $635.3 million in 1992. Contrary to what the company's name might suggest, the *Perrier* brand is not the largest but certainly the most publicized in the company's brand portfolio of nine. The biggest bottler has been successful with other brands which have strong local franchises. *Perrier* had the highest growth (4.4%) among the top four bottlers in the country. Its sales are greater than the next three top companies combined.

Different brands of the *Perrier* group showed strong performance in 1992. *Perrier* grew strongly by 12.4% in 1991 ($56.2 million from $50 million in 1990). This dramatic growth is partly a result of the 1990 recall when the brand declined a whopping 41.6%.[8] Despite the fact that it is a household name, the flagship brand that entered the market in 1976 ranks only ninth with 2.1% market share overall and only third among the company's brands today. *Perrier* still has not regained its stronghold in off-premise accounts, and is mainly available in traditional urban and suburban areas. Today, the brand features four flavors: lemon, lime, orange and mint.

The biggest **Perrier** brand, and also the best selling brand in the U.S. is *Arrowhead* which grew by 1.9% from $221 to $225.1 million in 1992. It largely remains a Californian brand and so is very dependent on the state of economy there. The second biggest *Poland Spring* grew by 2.4% from $131.1 to $134.2 million in sales in 1992. During the course of 1992, the brand experienced several important events, one negative and two positive: the sales were bad in New England, the flavored line was discontinued, and the State of Georgia regulated favorably that the water was in fact spring, and not well water. Still, some 60% of the brand's business is in office/home delivery market. The *Ozarka/Oasis* saw their sales increase by 4.6% from $61.2 to $64 million putting them together in the third place. The next biggest brand in sales in 1992 was *Great Bear* with $51.8 million, a second year in decline. This is mainly sold through retail (70% of

[8] Source Perrier recalled 160 million bottles of its mineral water worldwide after traces of benzene were found in some samples. See: *Beverage World*, September 1992, pp. 82-84.

Table 2 Top 10 Bottled Water Companies (1992)

Rank and Company	Sales (Mill.)	Share	% Growth over 1991	$ Growth over 1991
1. *Perrier Group*	$635.3	23.5%	4.4%	$26.6
2. *McKesson Corp.*	$235.3	8.7%	2.6%	$ 6.0
3. *Anjou Intl.*	$134.5	5.0%	0.8%	$ 1.1
4. *Suntory Intl.*	$123.9	4.6%	3.4%	$ 4.1
5. *Evian*	$101.0	3.7%	9.8%	$ 9.0
6. *Sammons*	$ 59.0	2.2%	11.3%	$ 6.0
7. *Clorox*	$ 57.0	2.1%	1.2%	$ 0.7
8. *Crystal Geyser*	$ 41.5	1.5%	72.2%	$17.4
9. *Culligan*	$ 37.6	1.4%	5.6%	$ 2.0
10. *Winterbrook*	$ 21.1	0.7%	-20.6%	-$ 5.2
TOP 10 COMPANIES	$1,445.2	53.4%	4.9%	$67.7
ALL OTHERS	$1,259.8	46.6%	1.3%	$16.6
TOTAL INDUSTRY	$2,705.0	100.0%	3.2%	$84.3

Source: *Beverage Marketing Corporation.*

sales accounting through this distribution channel). *Calistoga* grew by 4% from $45.2 to $47 million in 1992. *Calistoga's* most robust line is the plain sparkling mineral water. Florida's leading brand *Zephyrhills* continued its double digit growth, and some was distributed to the relief efforts for free after the hurricane Andrew debacle. After four years of no growth, *Ice Mountain* (acquired from **Pepsico** in 1988) jumped from $4 to $12.5 million, but *Volvic* trailed with $4 million, a decline from $5.3 million in the previous year partly due to the management decision to cut its flavor line in 1992.

In terms of the gross receipts, the **Perrier Group** is followed by **McKesson Corp** ($235.3 million in sales and 8.7% market share). In contrast to the specialized **Perrier, McKesson** is a well-diversified company with drugs accounting for 85% of its sales. From its four water brands the best selling one is *Sparkletts* which grew by 3.1% from $136.8 to $141 million in 1992. After the 1991 decline, *Sparkletts* are targeted for direct delivery than for retail shelving, the latter channel selling poorly because of its pricing at well above premium.[9] The number two *Alhambra* (3.1% growth from $41.7 to $43 million in 1992) also caters to such non-retail channels as home and office delivery. The combined sales of the next two brands *Aqua Vend* and *Crystal Bottled* were $43 million or equal to those of *Alhambra*. *Aqua Vend* uses the innovative channel of distribution — vending machines. The resulting savings from using virtually no advertising and no transportation translate into higher margins, but the brand remains targeted only at the southern states.

Anjou International ($134.7 and 5% market share) is another conglomerate that happens to have bottled water business as well. Its two brands *Hinckley Schmitt* and *Sierra Spring* ($90.8 and $43.9 in 1992 sales, respectively) are mainly represented in the tough California region, but *Hinckley Schmitt* is also strong in Midwest and *Sierra Spring* is even being sold in the Alberta region especially to Japanese residents.

The fourth ranking **Suntory International** is a company that has mainly grown through acquisitions started in 1985 with the purchase of *Kentwood*, its biggest brand to date (1.4% growth from $36 to $36.5 million in 1992). The brand is primarily sold in bulk for commercial delivery.

The fastest growing company is **Evian** with its only brand of the same name which has achieved nearly 500% growth for the past five

[9] *Bottled Water in the United States*, 1993 edition (New York: Beverage Marketing, May 1993), p. 151.

years and has maintained its fourth place among the best selling brands in the U.S. and first position among imports. The company's strategy is to make the brand available to as large a population as possible (93% coverage) through store-door delivery using a combination of soft drink, beer, wine and liquor distributors. The next five companies in the industry play a smaller role hanging on their specialized market niches.

Historically, the bottlers were limited in their marketing effort to their immediate vicinity due to perceived "locality" value of their brands. Nevertheless, the major marketers, like *Perrier* and *Evian*, were able to develop their national brands through economies of scale in advertising, distribution, and other marketing functions. Still, transporting pure water over great distances poses a cost problem deterring further consolidation of the industry.

Starting in the early 1980s, **Perrier, Clorox, Suntory,** and **Anjou International** went on an acquisition binge and positioned newly acquired brands to emerge as strong national/regional leaders. For example, Perrier acquired Arrowhead from Beatrice Foods and Ice Mountain from Pepsico. Perrier itself, however, was later acquired by the Swiss food giant, Nestle.

4. Brand Competition

Table 3 lists top ten bottled water brands. In terms of performance in 1993, the best selling **Perrier's** *Arrowhead* leads the pact with $225.1 million in sales and 8.3% market share. It is followed by *Poland Spring* ($145 and 4.9%) and *Sparkletts* ($141.7 million and 4.8%). The latter has lost its long-time second position due to a slight decrease in sales. The recent star performer *Evian* ($140 million and 4.7%) has been fourth in the years 1990-92 and has shown the most consistent and robust growth among the top 10 brands (30% growth rate for the last five years). The middle ranks of 5 through 7 have been occupied by *Hinckley & Schmitt*, *Ozarka/Oasis*, and *Deer Park/Deep Rock*, respectively. The eighth *Perrier* remains the only imported brand apart from *Evian* among the top ten and it has been recouping slowly from its 1990 recall disaster. *Great Bear* holds its ninth position after coming down a notch in 1991, but its growth is still sluggish (2.9% versus 8.3% average for the top ten). The last brand, *Crystal Geyser*, has grown from 0 to $50 million in sales within four years. It is by all means the fastest growing brand that has virtually conquered the national market bypassing the regional stage.[10]

[10] According to company sources (also confirmed by Perrier Group of America), *Crystal Geyser* continued to be the fastest growing brand in 1994.

Table 3 Top 10 Bottled Water Brands (1993)

Rank and Brand	$ Sales (Mill.)	% Share
1. *Arrowhead*	220.0	7.4%
2. *Poland Spring*	145.0	4.9%
3. *Sparkletts*	141.7	4.8%
4. *Evian*	140.0	4.7%
5. *Hinckley & Schmitt*	103.0	3.5%
6. *Ozarka/Oasis*	68.2	2.3%
7. *Deer Park/Deep Rock*	53.5	2.1%
8. *Perrier*	59.0	2.0%
9. *Great Bear*	53.3	1.8%
10. *Crystal Geyser*	50.0	1.7%
TOP 10 BRANDS TOTAL	1,043.8	35.3%
ALL OTHER BRANDS TOTAL	1,916.3	64.7%
TOTAL	2,960.0	100.0%

Source: *Beverage Marketing Corporation.*

The most represented company among the top ten brands is **Perrier Group** that has five brands: *Arrowhead* (1.), *Poland Spring* (2.), *Ozarka/Oasis* (6.), *Perrier* (8.), and *Great Bear* (9.). All other companies have only one brand in the top ten category although there are four more top companies that market at least three brands. **Evian** and **Crystal Geyser** remain clear winners who managed to enter the top 10 rank with just one brand.[11]

The market shares of top 10 brands are in the single digits and account only for 35.3% of the total market. Thus, bottled water still remains a relatively fragmented industry. The fastest growing bottlers are single-brand producers who went for national distribution early on.

4.1 Competition from Imports

Surprisingly, imports hold only 3.2% of the total U.S. market despite the fact that they actually started the industry, and that the top companies have foreign sounding names. This dilemma can be explained by the fact that bottled water has always been domestic in character and imports have only directed consumer attention back to old domestic springs.[12] Table 4 shows the sales history of imports.

In order to better understand the current position of imports in the U.S. market, it is convenient to divide the last 15 years of the marketing of imported bottled water — when sales grew from 1.2 million gallons in 1976 to 86 million in 1992 — into three distinct periods: 1) late 1970s: triple digit growth rates with absolute dominance of *Perrier* (yuppies considered the green bottle a smart drink); 2) recession of 1981-83: less excitement in the marketplace, few new product introductions; and 3) mid 1980s-1990: very strong growth due to the introduction of flavored waters.

The next phase that started in 1990 and continues to date cannot be characterized because the underlying trends are not quite clear yet. The most urgent task for the whole import segment is to regain the dynamics in sales it enjoyed in the 1980s and regain the consumers' confidence in the purity of its waters.

Top imported brands show much greater concentration at the top. 81.5% of 86.3 millions gallons imported in 1992 went to the top 10 brands. French *Evian* and *Perrier* lead the pack holding 36% and 18% of the market, respectively. Long gone are the days when *Perrier*

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[11] See: Greg W. Prince, "Back, Back, Back, Back," *Beverage World*, March 1994, pp. 72-80.

[12] In 1909 the American Medical Association endorsed Poland Spring for medicinal purposes. See: Jeffrey J. Sherman, "Poland Spring Bottling Corporation," *Harvard Business School*, Case 9-580-108, p. 5.

Table 4 Imported Bottled Water Sales History

Year	% Volume Change	Dollar Sales (in thousands)	Average Price $
1976	N/A	1,981.7	1.66
1977	169%	4,324.7	1.34
1978	318%	22,427.0	1.67
1979	109%	53,669.6	1.91
1980	- 59%	24,913.0	2.18
1981	2%	24,056.3	2.07
1982	11%	26,311.2	2.04
1983	5%	28,063.2	2.06
1984	22%	33,189.1	2.01
1985	80%	59,464.0	2.00
1986	4%	57,850.2	1.88
1987	21%	73,174.8	1.97
1988	34%	93,301.7	1.88
1989	12%	89,956.3	1.62
1990	33%	110,183.1	1.49
1991	- 3%	92,491.1	1.30
1992	21%	104,040.3	1.21

Source: *Beverage Marketing Corporation.*

ruled over the market with almost 63% (1985) share. The then second *Evian* had a tiny 3.6% share, but it grew rapidly to take over the lead in 1990, a fatal year for *Perrier*. *Perrier* has since worked on its purity debacle and in 1992 posted an impressive growth rate of 38% from the depressed base in 1991.

The third brand — *San Pellegrino* from Italy, grew at twice the top 10 rate which helped to keep its third position, but not enough to be counted among the top ten bottled water brands. In 1992, it shipped 5.1 million gallons or 6% of the total imports in the U.S., a 27% increase in gallonage from 1991.

Naya, which was fourth in 1992, comes from **Nora Beverages, Inc.** in Canada. The U.S. market absorbed 4.2 million gallons of *Naya* in 1992, a 10.5% increase from the previous year. *Naya* is the first foreign brand to go into the vending machines — the fastest growing distribution channel.

The fifth, *Vittel* from **Perrier**, fared worse and sold only 3.5 million gallons in 1992 versus 4.5 million in 1991. The brands ranked from six to ten: Belgian *Spa*, another **Perrier** brand — *Volvic*, the German *Appolinaris*, and Swedish *Ramlosa* all saw their sales decline and held their relative market shares constant from 3.5% to 0.2% between *Vittel* and *Ramlosa*.

France remains a clear leader among the importers into the U.S. in 1992 with 55.2% in terms of gallonage and 59.5% in sales dollars, a clear example of premium pricing. France's leadership has eroded from the mid-1980s when its market share stood at over 85%. The "culprit" of France's weakness is Canada which has built its gallonage share from 1.3% in 1985 to 34.5% in 1992 (dollar receipts showed a slower pace growing from 1.4% to 23.1% — discount pricing). Both Canada and France account for nearly 90% of imports to the U.S. in terms of gallonage. The stellar performance and bright prospects for the future of Canada (with growth rates in the three-digit range in the 1987-1990 period) can be explained by its unbeatable reputation for purity in the U.S., lower prices, and virtually no transportation costs. The only other significant exporter is Italy, formerly number two for quite some time, but today left only with 4.6% market share.

As with any imported good, prices of imports have been under the constant pressure from exchange rate changes in the exporting countries. Strong dollar brought price declines, and the U.S. currency depreciation caused inevitable price increases. So, the average prices hit the all-time bottom of $1.21 per gallon in 1992, a far cry from $2.18 in 1980. This had a significant effect on importers' profitability.

4.2 Competition from Club Soda/Seltzer Waters

Although it is hard to give rational reasons for it, industry analysts like to separate club soda and seltzer brands from the mainstream of bottled water business. The difference lies in the structure rather than in the product itself. Whereas, bottled water producer usually means a sole bottler who is just filling bottles with one type of liquid — water, sparkling or not, sodas and seltzer waters are usually add-ons to the usual soft-drink business. The differences disappear when water bottlers market flavored spring water or soft-drink bottlers use spring water in their manufacturing process. The new competitive category of "New Age" drinks comes from this class.

Some other differences include franchising agreements usually for soft-drink businesses. Ingredient specifications, delivery and merchandising are often established by the parent and later carried out by the individual bottlers. Within the class, club soda is a traditional alcohol mixer and seltzer is just a refreshing drink.

In terms of sales performance, club soda is constantly losing to seltzer. Between 1986-1992, club soda shipped from 90 million down to below 70 million and seltzer rose from below 90 million to over 120 million gallons. The class as a whole has experienced a lackluster growth in the recent years growing from 192.4 million in 1989 to a mere 193.6 million gallons in 1992.

The brand competition in this segment is less intense than in the regular bottled water market. 85.6% of the market is held by the top five brands 50% of which belongs to *Canada Dry* owned by **Cadbury-Schweppes** — undisputed number one for several years now. Ranked second is *Schweppes* from the same company which in 1992 held around 10% of the market. It has been experiencing sales declines for some time now. *Vintage* comes as third with 7.5% share. It is marketed in New York and Philadelphia metro areas by a single soft-drink bottler — **Harold Honickman**. *Seagram* from **Seagram** maintains its fourth place with around 6% market share. The last, *White Rock*, from the company of the same name trails with 2.9% which is the result of decline from 4.8% as far back as 1985.

5. Success Factors in the Bottled Water Industry

In order to be successful in the fast growing bottled water market, bottlers have to develop unique strategies that take into consideration the fact that markets are still fragmented (most of the water is sold on East and West coasts), distribution is still regional, and the consumer is still looking for the upscale image that French (*Evian*) and recently Canadian (*Clearly Canadian*) brands create.

There are at least three critical success factors to excel in the bottled water business. The first and paramount to the whole industry is the purity. Consumers will not switch from tap water if they do not perceive an added value for their health concerns and will not be ready to pay extra or what looks the same, tastes the same and is such a staple.

The second factor is obvious to every marketer: recognition of changes in consumer tastes and behavior. Whoever neglects consumer trends and the constant search for newness, will see his or her market share shrinking, especially during a business down turn. For the ultimate understanding of human tastes, the bottled water marketers must stress patterns that affect taste.

The third equally important factor is brand management. Brand awareness, identity, and equity are all important aspects of competing in the marketplace. This was the main reason behind the binge of

brand acquisitions in the 1980s by such corporations as **Perrier** and **Suntory**. Successful brand management means also national roll-out of a single brand like **Evian** or **Crystal Geyser** and cordial relations with distributors. As has been said:[13] *Clearly Canadian* understood that, using an innovative four-tier method of distribution — with master distributors working as the conduit between manufacturer and wholesaler — helped catapult its products on bottled water shelves. Furthermore, in order to keep up with the historical growth rates, bottled water marketers must look beyond the category and track the developments in the soft drink, beer, and especially "New Age" categories. By stressing freshness and purity, bottlers should be able to retain the loyalty of the consumer. Turcsik notes: "upscale drinks that contain no artificial flavors, and are lighter and healthier than traditional soft drinks...they are much higher priced and appeal to the yuppies."[14]

6. Marketing Strategy Perspectives

6.1 Consumer Demographics

In 1992, on average 20% of all Americans (35.7 million) drank a bottle of non-carbonated spring water every week. This was a sharp increase from 18.9% in the previous year. In the same year, across the consumer categories, the consumption (highest and lowest percentage in each category) structure looked as follows:[15]

Gender (females vs. males)	52.3%	vs.	47.7%
Age (35-44 vs. 55-64)	24.7%	vs.	9.9%
School (graduated from college vs. did not graduate)	34.4%	vs.	12.0%
Occupation (professional vs. precision/craft)	29.9%	vs.	5.7%
Status (married vs. widowed/divorced)	59.6%	vs.	18.8%
Race (white vs. non-white)	88.0%	vs.	2.8%
Region (south vs. midwest)	30.8%	vs.	18.9%
Income (over $71,000 vs. under $10,000)	56.8%	vs.	6.1%

[13] *PR Newswire*, March 9, 1993.

[14] Richard Turcsik, "Clear Change," *Supermarket News*, March 8, 1993, p. 4A.

[15] Based on a proprietary study commissioned by the Perrier Group of America.

The above statistics describe only two categories (non-sparkling premium and imports) which together account for about 15% of the market, but is the fastest growing segment, giving the best prospects for the future. The typical consumer picture of a heavy bottled water user is the intuitive, white female in her thirties, college educated and married, with family income over $70,000 from a profession, and living in the west, most probably in California.

6.2 Geographical Consumption

In 1992, the seven regions of the U.S. were unequally represented in the bottled water sales. Climate and population density explain why the Pacific and Northeast are the largest markets, representing 40% and 23% of the market, respectively. The Southwest and South are in the middle positions with 15% and 12%, while the Central and Western areas trail with shares below 3% each.

The leading state both in absolute and per capita terms has been California, accounting for one third (33.4%) of the total U.S. market and 23.3 gallons per capita consumption (with national average of 8.3 gallons) although its gallonage has been declining for the past two years. The states of New York, Florida and Texas have also been competing for the second place since 1984, but their total consumption both in absolute and per capita terms is not even half of that of California (386.4 million vs. 701.5 million gallons and 9.6 vs. 23.3 gallons per capita).

The leading states (top 15) have seen their share decline from 77.8% to 70.5% between 1986-1992. This suggests a further spread of regional brands beyond their states of origin. The consumption and the markets, however, are still concentrated on both coasts where a more affluent population tends to live.

Distribution Channels

The bottled water is distributed in the United States by five distribution channels: home delivery, commercial delivery, on-premise retail (restaurants), off-premise retail (grocery), and vending. The most innovative channel — vending — experienced the fastest growth of 16.9% from 148.6 million gallons to 173.7 million gallons in 1992 (accounting for 7.6% of the market). On-premise and commercial delivery channels have rebounded after the 1991 decline, whereas home delivery and off-premise grew about 3%. Table 5 breaks down the gallonage, market share and growth of each channel.

The uniqueness of bottled water distribution has its origins in the days when water was delivered for home and office use as a substitute for tap water. Only recently, grocery stores started stocking water in

Table 5 1992 Channels of Distribution

Product Type	Gallonage (in millions)	Market Share	% Growth
Home delivery	492.5	21.5%	3.3%
Commercial	467.7	20.4%	1.1%
Grocery	952.2	41.6%	3.6%
Restaurants	205.6	9.0%	1.3%
Vending	173.7	7.6%	16.9%
TOTAL	2,209.9	100.0%	3.7%

Source: *Beverage Marketing Corporation.*

6.3 Advertising

addition to such traditional beverage items as beer or soft drinks. Nevertheless, today it is through the off-premise channel that over 40% of total sales are made. The restaurants have traditionally been the best place for selling upscale imports. The home and commercial delivery channels hold about 20% of the market each, driven largely by the news about the quality of tap water and natural disasters. Thus, these channels are also used for free distribution as a good PR device.

A closer look at the distribution channels of different water types reveals the following picture. Non-sparkling remained most prominent in the off-premise market (33.8%), but vending was the most active channel (it grew from 8.1% to 9.2% market share). None of domestic sparkling, club/seltzer or imports were sold through home and commercial delivery with off premise remaining the most important channel (81.3%, 59.6%, and 86.1% shares, respectively). Club/seltzer products were prominently sold in restaurants (37.6% share).[16] Advertising expenditures in the bottled water market have been lower than in other beverage categories like soft drinks or beer. In 1992, the industry spent a total of $29.4 million or 1.4 cents per gallon on advertising compared to beer's $750 and soft drink's $500 million.[17]

[16] Eric Sfiligoj, "Bottled Bounce," *Beverage World*, October, 1993, pp. 48-52.

[17] Prudential Securities Incorporated," Research Report on Beverages, April, 1993.

National advertising can only support national brands, which in the case of bottled water, are few. The rate of change in advertising expenses is quite erratic and shows inconsistency of advertising campaigns which are first to be slashed from budgets when sales are down. The advertising dollars per gallon have also declined consistent with the decline in the average price per gallon (from 2.2 cents in 1979 to 1.4 cents in 1992 per gallon). Overall, imports are more heavily advertised. For example, the imports spent 14 cents on a gallon versus the tiny .9 cents spent by the domestic bottlers.

The biggest spender is the leading **Perrier Group** who spent over $10 million on its three leading domestic brands, or over 57% of the total domestic industry spending on advertising. This is because its brands had to compete with the increasingly more congested coastal markets, and the company had to match its imports rival **Evian**. The Perrier Group led in ad spending in the case of imports as well. For example, *Perrier's* advertising expenditure amounted to $6.1 versus $5.2 million spent by Evian. Still, the 1992 numbers seem small when compared with almost $15 million spent on the single brand in 1990; i.e., *Perrier*. In an effort to rebuild the image and market share of the once leading brand, the company went out of its way to promote the brand. Table 6 gives the historical trends in advertising for imports and domestic brands in absolute and per gallon terms.

6.4 Packaging

Plastic is the absolute hegemon among the bottled water packaging materials. It commands an impressive 88% of the market. Glass comes only second and its market share is constantly declining. Cans and other innovative forms of packaging hold a tiny 0.5% of the market, but are growing rapidly due to the emergence of the vending machines channel.

Plastic is above all convenient to both marketers and consumers. It is light, unbreakable, and inexpensive. Therefore, it is easy both to transport over long (commercial) and short (after purchase) distances. The other material suitable for beverage packaging is glass. It is breakable, heavy, and hard to dispose of. Despite these flaws, glass has one important feature, it has the upscale image. Presumably, glass helps in retaining the original taste. As has been said: "As soon as you put (your product) into plastic, you loose flavor because those products are made from chemicals. Whatever you do in plastic, no matter how

good the quality, you get a plastic taste."[18] So, understandably, imports and other premium brands, which are sold in on-premise markets, predominantly use glass for packaging. Some consumers still perceive plastic as giving an aftertaste and less efficient in retaining carbonation in the case of sparkling waters. Cans, although becoming more and more acceptable, have not found any significant acceptance yet.

Across the categories, domestic non-sparkling waters use plastic, glass and other materials in the same proportion as all categories together. The dominant type in retail is by far the one gallon plastic container (23% of the market); the dominant type in commercial is the 5-6 gallon plastic (48% of the market). The fastest growing types are the 1/2 gallon plastic and the three gallon plastic, respectively.

In the domestic sparkling category, glass is still dominant, holding over 82%, but plastic is rapidly growing (from 2.8% in 1985 to 15.8% of the market in 1992). The most popular type of glass is the 10-12 ounce sizes commanding over 45% of the market. The second most popular type is 1-2 liter glass having a 21% share of the market. Table 7 shows market shares by the material type and container size.

7. Conclusion and Implications

The future prospects of the bottled water industry in the U.S. appear bright. This conclusion is based on the following three trends:

- Deterioration of municipal water supplies
- Interest in healthy living
- Movement of bottled water into the mainstream as a refreshment beverage to challenge other beverages.

Interestingly, imports have less than 4% of the market. Thus, it is the domestic brands that will benefit as the industry gains further ground; i.e., domestic brands being marketed to growing U.S. market. This situation is no different than what we have in the beer or soft drink industries. But there is one exception. While lead players in beer and soft drink industries are U.S. companies, in the case of bottled water the three among the first five industry members are foreign firms. These three companies (i.e., Perrier Group, Suntory Inter-

[18] Jonathan O. Hall, "Bottled Water Bastion," *Beverage World*, October 1990, p. 62.

Table 6 Advertising Expenditures in the Bottled Water Industry

Year	Domestic (in millions of dollars)	Imports (in millions of dollars)	Total	Per Gallon
1979	3.0	7.7	10.7	.022
1980	3.2	3.9	7.0	.013
1981	3.7	2.1	5.9	.010
1982	3.9	3.1	7.0	.010
1983	4.6	3.1	7.7	.010
1984	4.1	3.0	7.1	.008
1985	5.4	6.9	12.3	.011
1986	8.4	6.7	15.1	.013
1987	7.9	5.5	13.4	.010
1988	8.9	9.3	18.2	.012
1989	15.5	9.3	24.8	.014
1990	21.1	21.8	42.9	.021
1991	16.8	11.5	28.2	.014
1992	17.6	11.8	29.4	.014

Source: *Beverage Marketing Corporation.*

Table 7 1992 Market Share by Categories and Packaging Type

Category/Type	Plastic	Glass	Cans/Other
Domestic sparkling	15.8%	82.1%	2.1%
1-2 liter	9.6%	20.9%	0.0%
10-12 ounce	1.2%	45.3%	1.7%
Domestic non-sparkling	94.6%	5.0%	0.4%
1 gallon (retail)	23.2%	0.0%	0.0%
5-6 gallons (Commercial)	48.4%	2.5%	0.0%

Source: *Bottled Water in the United States,* 1993 edition (New York: Beverage Marketing, May, 1993), pp. 100-115.

national and Evian) control about one-third of the industry in terms of sales revenues and market share.

The fact that the industry is controlled by foreign corporations does not mean much as far as consumers are concerned. As a matter of fact, with their world-wide experience, realizing economies of scale, they should be able to offer quality products at fair prices. Similarly, sales of ingredients and packaging materials, and employment are not effected by the foreign ownership. It only means that financial gains will accrue to foreign interests since profits will flow to them.

Among the three foreign companies, Source Perrier will continue to be the leader. In the U.S. it has almost one-fourth of the total market. It is two and one-half times larger than the nearest competitor. Putting it differently, Source Perrier is larger than number 2 to 6 competitors combined. Its brands command premium prices, although it is a low cost producer. Thus, Source Perrier will be the industry trend-setter.

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Nestlé Sources International

Appendix Perrier's Story

Known since antiquity, the Bouillens spring at Vergèze today makes the whole world sparkle: every year, nearly a billion bottles of Perrier are consumed in 120 countries.

History

The Vergèze spring is located 200 meters from the ancient Roman road. Medals discovered, as well as the remains of a Roman pool prove that the spring was very highly valued in Caesar's time.

In 1863, the operating permit for the Bouillens mineral spring was granted. But it wasn't until 1891 and the work of Dr. Perrier that the spring's tremendous possibilities could be appreciated.

Looking for a financial partner, Dr. Perrier went to the British aristocrat, Sir John Harmsworth. The deal was concluded in 1906 with the establishment of the Compagnie de la Source Perrier. Sir John Harmsworth, who invented the famous little green bottles, was inspired by his arm exercises with small Indian clubs, and he decided to give the same form to the bottles. In 1948, the company became French again, and since then the Perrier spring has sparkled all over the world.

Geographical and Geological Characteristics

The spring is located 17 km from Nîmes, between the Garrigue and Costières hills.

Formation of the Perrier spring began over 100 million years ago. Perrier mineral water results from the natural underground mix of three waters. The first filters across a layer of gravel under the Languedoc plain, the second flows across limestone faults in the Garrigues Hills and the third, hot and of volcanic origin, rises up through these faults charged with natural gas. These waters meet between 11 and 28 meters below the earth's surface in a bed of sand and gravel protected by a thick layer of clay. The spurting jets of the Bouillens spring (this boiling gave the place its name) result from the meeting of the water vein and the natural gas, "trapped" by the layers of impermeable marl which creates a passage through the cracks.

The gas is collected through a well separate from the water well, and restored to its original proportions in bottling.

With its complete range, Perrier is the world leader in sparkling waters. Flavored Perrier is available in 4 varieties: orange, lemon, lime and mint, the latest addition in 1991.

Perrier: An Advertising Saga

Since 1870, when its first advertising campaign appeared, Perrier has always presented a creative and seductive image to the world. The brand's saga is part of the legend of the first major international brands. Perrier, always a sports sponsor, was for long the drink of the winner of the Tour de France. It is still the official drink of the Roland Garros Tennis Tournament.
Source: Nestlé Sources International

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