

## EDITORIAL

# Bottled Water – A Global Market Overview

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The global bottled water market has seen a remarkable and continued annual growth in the past 15 years. In value terms, the total global bottled water market for 2010 stands at approximately €66bn. The year 2000 was highly impressive with the annual growth rate reaching 11.4%. Whilst it has not been as high in the years since, the rate has remained above 6.0%, displaying the market's strength and resilience, proving that the fundamental bottled water values of quality, purity, availability and hydration are as strong today as they have ever been. For consumers seeking health and well being, bottled water is an alternate to the traditional soft drinks. The media attention on the growing obesity problem in the West, particularly in the European and North American populations, the links made between it and the increased consumption of soft drinks by children has reinforced the growth of bottled water.

A closer look at the dynamics of the global market reveals that with respect to the split between still and sparkling water, still formats have steadily gained share over their sparkling counterparts as sparkling water remains the preserve of the households. Sparkling water is becoming increasingly out of vogue and reflecting a wider overall trend towards still beverage consumption. Much of the growth in still water consumption has been driven by water for coolers and other bulk formats. Parallel to this, the increasing consumer preference for still water hydration on the above has bolstered the still water sector. Traditionally, still water hydration has been a substitute for tap water in countries where shortages occur during hot summers or the tap water is not of the required drinking quality. Sparkling water is often seen as a substitute for carbonates and this is particularly true for flavoured sparkling water.

Despite facing increasing competition from 'mains fed' point of use (POU), water coolers and bottled water coolers continue to be a fast growing service sector across the globe. Sales in bulk formats through coolers, dispensers and pumps have helped to drive the total bottled water market forward. The split between small packs and bulk water formats has effectively been maintained at around two-thirds to one-third, for a number of years. Bulk formats have seen strong growth, notably in the developing world, where they often act as a replacement for infrequent or poor quality mains water. Smaller pack formats (50cl or 1ltr "on the go" products to 5ltrs sizes and above for households), on the other hand, have witnessed strong surges in availability and demand. Both small and bulk pack sizes have a distinct role for a variety of consumption occasions from impulse purchases to consumption.

### Regional Market Overview

With the world's regions at varying stages of bottled water product lifestyle, it's no surprise that regional consumption per person differs from the global average. West Europe is by some margin the world's most mature bottled water region driven by longstanding markets such as France, Germany and Italy that dominate Europe by scale. Within Europe, the Eastern European states are seeing particularly robust growth each year driven by the Bulgarian, Estonian, Hungarian and Polish markets.

Well established and highly competitive, the West European region is experiencing lower year on stable growth rates. The elevated growth rates across Eastern Europe are generally a result of low per capita bottled water consumption, as the industry continues to progress at a promising rate. Eastern European average per capital consumption is around 34ltrs per year. West Europe's lower annual growth rates are attributable to that fact that annual per person consumption is already very high, with 2010 figures showing 110ltrs per capita each year. The story is North America is

quite different to that of Europe. Unlike Europe, the development of the North American bottled water industry has accelerated over the last sixty years. This per capita consumption in the North American region is lower than that of Western Europe, but higher than their Eastern counterparts. In 2010, around 94ltrs of bottled water was consumed per person in US, an annual increase of 13 per cent.

The Middle East and Africa have a mixed trend in terms of bottled water consumption patterns. The Middle East is generally characterized by a mature and well-established bottled water industry. Turkey is by far the largest consumer of bottled water in the region. The greatest annual growth in 2010 was witnessed by Iran albeit from a relatively low base. The region as a whole saw annual per capita consumption reach around 15ltrs, up one-third from 2001. Africa, on the other hand, is an emerging market, ripe from investment. In Latin America there has been steady growth over the past 5 years with Mexico accounting for the single largest regional share with nearly 50% of the market. The annual per capita consumption for 2010 was around 54ltrs. Over the near future Bolivia, Peru and Paraguay are forecast to experience greatest annual growth.

#### **Asia/ Australasia – Market Focus 2001-2010**

The bottled water sales in Asian/Australasia regions have nearly doubled in the past five years. The region is second only to Western Europe in terms of volume consumption and is the fastest growth region across the globe. Growth has been spectacular in a number of countries, most notably in India, Pakistan and Japan, with bottled water becoming the norm for homes and on-the-move hydration. China represents the largest market in terms of volume consumed with Indonesia representing the second largest market. This is on account of the excessively large populations in both these countries. In terms of per capita consumption, the highest is in Australia, Indonesia and South Korea. This strongly correlates with the fact that these countries have some of the strongest economies in the region. For Indonesia and South Korea, there has been significant growth in the bottled water market in large parts due to the growing middle class.

The leading companies across the Asia/ Australasia regions are Aqua Group, Wahaha and Robust. Groupe danone has an interest in all three companies and has thus established itself as an extremely influential player in the region. Both regions offer significant opportunities as they are relatively new and emerging markets with evolving distribution structures and a rapid influx of new players. There is great potential for sustained growth in countries such as India, Pakistan and Vietnam, which have large populations and the supply safe drinking water is of paramount concern. China will continue to be the dominant consumer within this region with the largest population and with increased prosperity in some of its cities.

#### **Global Bottled Water Market – Leading Players**

Danone with Evian and Volvic, Nestlé with pure Life, Poland Spring, Perrier and San Pellegrino, Coca-Cola with Bonanqua and Kinley, Dasani and Ceil and PepsiCo with Aquanafina, Aqua Minerale and Aqua Diamant are undoubtedly the brand giants of the global bottled water market. There are of course other bottled water brands owned by these companies and other alike making a splash at a national, regional and international levels. While Danone and Nestlé have been bottled water heavyweights for many years, PepsiCo have been bottled water heavyweights for many years, PepsiCo and Coaca-Cola Company have spent the last few years expanding their portfolios into still drinks, shifting its dependence on its carbonated soft drink (CSD) brands, to juice, sports drinks and bottled water. The Coca-Cola Company, renowned for its dominance in the global water arena, wanting to capitalise on the growing demand for healthier beverages. The recent acquisition of vitamin water maker Glacéau and the success of its brands in North America and elsewhere around the globe suggest that the future is a bright one.

#### **Global Bottled Water market – Future Developments**

The US, China, Mexico, Germany and Italy currently hold the top five positions in the global bottled water league table in terms of volume consumed. Over the next five years, strongest growth is forecast on India, Pakistan, New Zealand, Bolivia, Russia and the Czech Republic. PepsiCo's current motivation and focus for growth in its Indian operations, along with the company's strong non-carbonated beverages portfolio, is set to drive growth in the consumption bottled water in the country. Asia/ Australasia is expected to be fastest growing region with Africa following on close behind. Africa's underexploited bottled water market, which has seen sporadic investment in recent years, is set to experience double-digit growth over the next five years triggered by

increased competition in other developing world markets. Eastern Europe would also generate solid volume gains in the coming years as patterns mirror those of Western Europe in the early 1990s. Conversely, there will be low levels of growth experienced in the more mature market of West Europe with demands driven by consumers looking for water products with added flavour and functionality. With regards to North America, continued double-digit growth is expected through to 2015 as consumer desire for healthier beverages continues unabated. For Latin America and the Middle East steady growth of around 5% is forecast.

### **Global Bottled Water Market – Trends and Challenges**

Flavoured water is becoming increasingly popular with the international demand growing for a product that goes beyond the normal refreshment factor of plain waters to one where increased flavour and functionality is present. Bottled water incumbents have been launching flavoured variants to their popular brands for the past few years. More recently, however, there has been a mounting fascination with the functional or enhanced water segment. The genre of water can be vitamin-enriched and/or contain other functional elements for the consumer such as a calming relaxant or multi-vitamin reviver. There have been numerous new products launches of these sometimes called near-waters, across East and West Europe, North and South America and Japan, China and South Korea. Another emerging trend blurring the bottled water boundary is the development of a functional water created for sports and energy use – a trend mirrored in the dairy segment.

As consumers become more fickle turning to healthier beverage options, the global bottled water industry is definitely going to benefit. The challenge for the bottled water industry is to keep up with the consumer demands for enhanced water products while maintaining traditional plain water primary virtues of naturalness and hydration. Bottled water is currently under attack for its environmental impact and high prices. The bottled water production process is often criticised for using vast amounts of energy in water extraction, water processing, bottling and transportation, not to mention the waste created by the empty bottles for landfill sites around the globe. Calls for manufacturers and consumers alike to understand the environmental impact of bottled water are becoming increasingly vociferous across the globe. These are perhaps most marked in the US where there is a growing movement against the promotion of bottled water over tap water in restaurants, in an attempt to reduce the amount of bottled water being consumed.

Whether it's crude oil used for the PET packaging or the water shortages experienced in villages near water extraction sites in developing countries; there is growing awareness that manufacturers need to offer more environment friendly offerings. And responding they are. There are number of so-called ethical waters being produced by smaller independent brands, for example Frank Water and Belu in UK. These ethical waters are aimed at the socially and environmentally responsible consumer looking to continue to enjoy and environmentally responsible consumer looking to continue the benefits of bottled water albeit in a more globally responsible way.

The major global manufactures are also seeking alternative processes in an attempt to reduce their environmental footprint. The Coca-Cola Company has pledged that its goal is to replace every drop of water used in beverages and their production. The company aims to do this by reducing the amount of water used to produce its beverages, recycling water used for manufacturing processes so it can be safely discharged into the environment and replenishing water in communities and nature through locally relevant projects. In line with its commitment to water management, Nestlé stated that it planned to cut its water usage by 29 per cent to 155bn litres in 2010, from 218bn litres in 2008. In addition, Nestlé Waters used 40bn litres of water in 2006, from 218bn litres in 2010, representing 33 per cent reduction since 2005. Some market players have even started to use the fact that their water supplies are 'municipally sourced' onto their labels in efforts to thwart environmental criticism and promote their environmental responsiveness. In a bid to reduce the energy consumption and waste there have been moves by some manufactures to reduce bottle weights and sizes and use alternate biodegradable materials for the production of the bottle themselves. Nestlé Waters, North America launching its new eco-shape in US with 30 per cent less packaging is an example of a major producer looking of an alternate eco-friendly materials being developed for use in food and drink packaging; poly lactic acid (PLA) is the most renowned of these. Made from corn-based polymer the material is 100 per cent bio-degradable, compared to the

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close to 1,000 years taken in PET bottles, the vast majority are said not to be recycled, to decompose. PLA and other such biodegradable materials would appear to offer the solution. However, in most markets there is currently no commercial composition provider due to the cost of managing such a process when economies of scale are not balanced yet. To support manufacturers, governments around the globe need to back programmes offering support at the national and municipal level to ensure that the environmental impact of bottled water consumption is kept to the minimum.

(Courtesy: Natalie Cording, Market Analyst with a leading food and drinks consultancy Zenith International focussing on the International soft drinks market)