

Nestle Pure Life: Marketing Bottled Water

Introduction

Sitting in his first floor office room Mr. Neeraj noticed the abundant flow of pure monsoon rain water turning muddy as it neared drains. Despite the rains outside Neeraj felt himself vaporizing as he thought over the fate of Pure Life brand of water he had marketing responsibilities for since its inception. While launching Pure Life in early 2001 Mr. Dattani, CEO of Nestle India had announced that Nestle aimed to be the No. 2 player in the water business in India in the short term and would occupy the top slot in the long term. Not too ambitious a target for the world's largest selling brand in an even faster growing market. The brand had a slow start attributed to fierce competitive action and ever since had been trailing far behind the leading brands in the category. Margins had been far below Nestle and industry average even in a fast growing market. Given that the product met all the quality and safety standards and had the support of an international brand name like Nestle, already well accepted in the country for more than six decades, questions were raised on marketing effectiveness. As the marketing in charge for the brand, Neeraj had to review the past and suggest, on a war-footing, some convincing plans to save the brand.

Nestlé's Water Business

Nestle India, the Rs. 435 crore subsidiary of Nestle SA of Switzerland - world's largest food company-, had become the third largest manufacturer of food products in India by late 1990s. Its products included soluble coffees, coffee blends and teas, condensed milk, noodles infant milk powders and cereals. Nestle has also established its presence in chocolates, confectioneries and other processed foods. Soluble beverage products are the major contributors to Nestle's total sales with 33 percent and 24 percent each. Some of Nestle's brands such as Nescafe, Milkmaid, Maggie, and Cerelac were among the leading brands in corresponding categories such as instant coffee mix, condensed milk powder, instant noodles and sauces, and nutrient powder for infants.

Nestlé S A entered packaged water business in 1969 and in two decades was present in every continent. Through a series of acquisitions and brand launches Nestle emerged the number one player in global bottled water market with a turnover of about US \$ 3.5 billion representing a share of about 15% of the world market and owned well known bottled water brands such as Perrier, Contrixor, Vittel, Arrowhead, Poland Spring, Calistoga, San Pellegrino.

In 1998, for the first time in its history, Nestlé associated its name with bottled water: **Nestlé Pure Life**. The brand was launched in Pakistan and soon appeared in Brazil, followed by Argentina, Thailand, the Philippines, China, and Mexico in 2000. In 2001, India, Jordan, and Lebanon followed, and in 2002, Egypt, Uzbekistan and the United States.

Indian Packaged Drinking Water Market

In 1965 Bisleri Ltd., an Italian company introduced two varieties of bottled mineral water (carbonated and still) in glass bottles in Bombay. The brand carried the company name "Bisleri". In 1969 Ramesh Chauhan an entrepreneur in soft drinks and confectionary business bought Bisleri brand and marketed it through the soft drinks and confectionaries distribution channels. Bisleri remained the only nationally marketed bottled water brand for more than two decades in India. By early 1990s, the branded mineral water industry grew to Rs 3 billion in size, producing around 100 million litres annually and Bisleri leading with 70% of market share. However, the mid 90s witnessed some hectic activity in branded mineral water industry. On an average, every three months, a new brand was launched. International brands like Nestle Purelife, Aquafina, and Kinley were expected to hit the market by early 2000. As of 2002 market share of Bisleri was 40%. Since 1995, Bisleri operations have grown substantially and the turnover has multiplied more than 20 times over a period of 10 years and the average growth rate has been around 40% over this period.

By late 90s the brand turned so popular that in public perception Bisleri was synonymous to bottled drinking water.

Marketers of drinking water in India had reasons to be hopeful. Though the per capita bottled water consumption was still quite low - less than five litres a year as compared to the global average of 24 litres- the total annual bottled water consumption had risen rapidly in recent times. In absolute terms India was only the tenth largest bottled water consumer in the world but the growth in consumption of bottled water in India has been the highest in the world. Consumption more than doubled between 1999 and 2002- from about 1.5 billion litres to 3.5 billion litres. Bottled water sales were about \$250 million dollars (Rs. 1,000 crores) in 2002 and the market presently grows at a rate of 50%-70% annually.

In 2002 there were around 200 bottled water brands in all of India. Nearly 80 per cent of these were local brands, none of them having a national presence, sold in small regional pockets and functioned like cottage industries. These shallow local brands were primarily available in metro cities, small towns and rich rural. However, the dominant players in the industry were big and each enjoyed double digit market share. Bisleri held 40 per cent of the market share, Kinley held 20-25 per cent of the market and Aquafina was approximately 10 per cent. Others, including the unbranded local players, had the rest.

The Indian Consumer

Households in urban India had accepted the habit of consuming packaged water. However, the custom in rural strictly had been to drink water from the well attached to each household. Where public wells or tap water was only available households boiled the same and drank. In the cities wells were not common. Almost all households resorted to public water supply and drank the same water either after boiling and then cooling or purifying using a water purifier only for drinking purpose. On the other hand, bottled water was highly preferred by the same urban middle and upper class family members when they were out of home especially while traveling long distance. Households, young families where both partners worked or bachelor groups, that did not want to go through the hassles of boiling or didn't believe that a purifier did a satisfactory job, of late, have started consuming water from bulk cans that usually get replaced on a regular basis. The 20-litre home consumption jar was thus becoming the growth engine for this business in the household and office segments.

Product Variety

Variety in bottled water was primarily in terms of the following;

1. Premium natural mineral water: Included brands like Evian, San Pelligrino and Perrier. They were imported and were priced above two dollars a liter.
2. Natural mineral water: Brands such as

Himalayan and Catch, were priced above Rs.20 a litre were as they were sourced from natural springs.

3. Packaged drinking water: Included brands such as Parle Bisleri, Coca-Cola's Kinley, PepsiCo's Aquafina and Nestle's Purelife. They were just treated water, positioned as pure and safe to drink and were priced around Rs. 10 a liter. They were available in different packages meant for different target groups.

Though the popular bottle sizes were one liter and half liter, water, especially packaged drinking variety, was available also in pouches and glasses, 330 ml bottles and 20- to 50-litre bulk water packs. Parle was particularly strong in the bulk water packs market with Bisleri enjoying almost a monopoly. Parle agents spot-delivered and replaced Bisleri bulk cans regularly for customers primarily constituted of offices, households and food caterers for events like marriages, birthdays and others. The bulk water segment occupied 40% of the market in revenue and 80% of it in volume and was growing at a rate close to 40% annually. Kinley from coca cola was the major competitor to Bisleri in this segment. Parle reinvented its 20-litre jumbo Bisleri home pack to acquire a more 'consumer-friendly' format and maintained a dedicated distribution system only for the households market. CCI continued to spearhead its 20-litre bulk business by tying up with or by acquiring strategic partners, and opting for contract manufacturing. PepsiCo planned introduction of Aquafina into bulk segment by 2003. The 500ml to 2 liter bottles

were primarily for personal consumption and the 330 ml packs were for onetime consumption along a meal or snack.

Bottling plants in India were primarily concentrated in the southern region of the country. Of the approximately 1,200 water bottling plants in India, 600 were located in Tamil Nadu, the southern most state. The southern states were however water starved and had recent agitations from locals and interest groups on account of alleged water level depletion in a few places where plants were located. However, consumption of bottled water in India was linked to the level of prosperity in the different regions. The more developed western region accounts for 40 per cent of the market and the eastern region contributing just 10 per cent.

Pure Life was launched in 2001 and was positioned on the purity plank targeted at the 'family' consumer. "Nestle" in white on blue background was the most visible word on the bottle followed by "PURELIFE" in red or blue capital letters but a bit smaller in font. Besides the nestle name the bottles also carried a happy family logo.

Distribution

Nestle distributed Purelife through the grocery and supermarket channels, the same channel through which it marketed other its other lead brands. Indian consumers in rural, semi-urban and urban categories historically bought items for household consumption from the grocery store. More recently in the urban areas organized food retailers (supermarkets) have

emerged attracting families as the ideal place for buying household consumption items. With self service and all under one roof features more and more families are attracted to these stores. For regular customers the grocers as well as supermarkets arranged for home delivery of items against orders placed over telephone.

The grocers bought the item along with other nestle products from the wholesalers who received regular delivery from the C&F agents. Nestle found clear synergy in selling the newly launched Purelife through the existing channel rather than exploring channels newer to the company. Being new to the market Purelife did not enjoy the volume that Bisleri enjoyed that made a dedicated distribution channel financially viable. The grocery channels were less service intense but high in geographic reach with resultant cost advantage for the marketer. A typical grocery shop owner visited wholesale shop in the city or town once or twice in a week, bought items on credit spanning till the next visit, loaded items in a small carrier bearing the transportation expenses. The grocery distribution channel if effectively handled could reach close to 5, 60,000 villages of the country.

However, Competitors like Pepsi, Coca-Cola and Parle sold through usual soft drink distribution channels that covered restaurants, bakeries, school and college campuses, fast-food outlets and travel joints. These channels were service intense, low on geographic reach with high concentration in cities and towns and were more costly to cater to. Company trucks

with crews plied in cities and towns on a regular basis replenishing stocks, ensuring that the water is kept for cooling, placing bottles while chatting with the shop keeper on shelves visible for pedestrians on road outside the shop. These shelves in a typical shop would usually be closer to the billing and payment counter behind which the shopkeeper stood. These marketers held that water needed dedicated distribution set-up so that it is widely and readily available. The two channels of distribution are depicted below:

1. Company warehouse → C&F Agents → Wholesaler → Retailer
2. Company warehouse → Retailer (Restaurants, Bakeries, small outlets)

Pricing

MRP for national brands were by and large similar at Rs. 10 for a one liter bottle. Nestle was priced Rs. 12. Mr. Dattani opined "Market would understand and accept the value of the quality we offer at a Rs 2 premium. The consumer wouldn't trade functionality for quality. So they would prefer to pay Rs 12 for Pure Life."

All major players gave considerable discounts to stockists. Nestle did not give trade discounts instead believed in a pull from customers than push through the channel. Market watchers were of opinion that packaged water business relied heavily on availability and price.

While for most customers the choice set included only nationally known brands they were not loyal to any particular brand. That

meant the customer was fine with any national brands. Promotion in national and local media helped in getting into the choice set.

Nestle had a very poor first year. Nonetheless, Mr Dattani said in 2002 "We are building up to compete and one day we will. In water, I am not certainly making money, but I am investing." This hope was further fuelled by the fact that the \$250 million industry out-beat all other beverage categories including carbonated soft drinks, tea and coffee, and powder drinks. However, in 2002 many smaller players were edged out by the big brands. PepsiCo India's Aquafina, meanwhile, remained a low-key player, with its market share hovering around 11-12 per cent through the year. Nestle India's pure life was still a marginal player in this category.

Packaging

Perhaps the most significant development of the year in the branded water segment unfolded on the packaging front. The peak summer months saw CCI rolling out Kinley in 200 ml cups. The cups, priced at Rs 3 each, were first rolled out in pockets of Gujarat. With this initiative in place, the company hoped to generate market share from the institutional segment such as restaurants and hotels, caterers, and transport channels such as buses and trains. In addition to Bisleri, only few other brands retail packaged water in cups of 250 ml and 200 ml sizes. The presence of most brands in this pack sizes has been limited owing predominantly to quality control issues. Pure life had no representation here.

Water turns Muddy

In Feb 03 a Centre for Science and Environment (CSE) study revealed that the best-known local brands available in the Indian market have doses of pesticides and other chemical contaminants above the maximum permitted levels. Nestle India was among companies like Parle, Coca Cola, Pepsi and numerous others whose brands had unacceptable levels of pesticides. The months followed witnessed considerable fall in softdrinks and bottled water sales in India. This was particularly harmful for purelife. The brand had never taken off in its true sense though it was launched in the year 2001. Competition had been stiff and and Nestle's marketing efforts did not bare fruits leaving very little presence in an otherwise fast growing market. Purelife had become a problem child for Nestle India.

In August 2002 Nestle India had begun restructuring its bottled water business and constituted a new team under a new business head for the purpose. Nestle has appointed Robert Coblee as the new head for the business, replacing Paul Popelier, who has been transferred to another business. Nestle India managing director Carlo Dattani admits his

company's error in strategy in an extremely competitive market. "We have reworked the packaged water model and modified the distribution and costing at various levels. Nestle will launch a new model in terms of product, communication, distribution and marketing."

Pure Life, when launched, was positioned on the purity plank and targeted at 'family,' which was modified and repositioned in 2002 on the 'stay active and fitness' platform. Pure Life was unable to increase sales due to Nestle's emphasis on selling the product through the grocery channel. Industry sources believed that Water cannot be sold through the same distribution network as Maggi, baby food and coffee powder. In India, consumers use the grocers to buy items for home consumption and one-litre water bottles (in which Nestle has a presence) are mostly consumed out of home. According to them, water needs dedicated distribution set-up so that it is widely and readily available. Consumers should be able to buy the product at critical areas.

Neeraj had almost little time in hand as the top management was already discussing withdrawal of purelife from the market. While the mistakes committed were clear the road ahead remained unclear.