



**Iqra University** IU

# Strategic Management

**Case #1**

**Competition in the Bottled Water**

**Industry**

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**Introduction:**

This case study discusses bottled water industry of U.S. It discussed about the global sales of bottled water industry in 2001 and annual growth average between 1996 and 2001. The growing popularity of bottled water industry in the United States was attributable to concerns over the safety of municipal drinking water, an increased focus on fitness and health and the hectic on-the-go lifestyles of American consumers. The factors like convenience purity and portability of bottled water provide natural solution to consumer's dissatisfaction over the tap water. There was an increase in industry volume and dollar sales as a result for the introduction of PET containers which satisfied the needs of convenience, portability and finally purity which would make the bottled water industry very attractive. An increased emphasis on healthy lifestyles and improved consumer awareness of the need for proper hydration led many consumers to shift traditional beverage preferences toward bottled water. Bottled water industry nature of competition was fierce competitive rivalry and it was dominated by a few international food and beverages producers like Coca-Cola, PepsiCo, Nestle and Groupe Danone. Per capita consumption in 2002 fell substantively below consumption rates in Western Europe, Middle East, and Mexico. Also the per capita consumption in United States was also lagged by a wide margin of soft drinks. There are top 5 leaders of bottled water brands of 2001 which consists of PepsiCo, Coca-Cola, Nestle Waters, Groupe Danone and final Crystal Geyser. The top leader in brand is Aquafina by PepsiCo which has a market share of 10% as compared to other competitors. The top 9 companies who are considered the leading U.S. Bottled Water Producers of 2001 was Nestle Waters with a market share of 32.5%.

## **General Environmental Factors**

### **Political and Legal Factors:**

## **1. Environmental Protection Agency (EPA) and Food and Drug Administration (FDA)**

Bottled water produced in United States was required to meet the standards of both the EPA and U.S. Food and Drug Administration.

### **Present Impact**

Companies are producing bottled water according to the standard of EPA and FDA.

### **Future impact**

In future the sale of bottled water will increase because of meeting the standards..

## **2. Inspection by state agencies**

Bottled water also regulated by state agencies that conducted inspections of bottling facilities and certification of testing facilities to ensure that water is safe to drink.

### **Present Impact**

Companies are inspected by State agencies.

### **Future impact**

People will more aware more about safety of bottled water.

## **3. FDA's Standard of identity**

It is required for bottlers to place the source of water on their product's labels.

### **Present Impact**

Consumers check the information on labels.

### **Future impact**

Awareness about source will increase in near future.

## **Socio Cultural Factors:**

### **1. People awareness about health**

Awareness of people about bottled water is increasing due to high advertising in television.

**Future impact**

Sales of bottled water will increase in future because of advertising.

**2. Life style**

- The popularity of bottled water in the United States has increased. People are now more focused on fitness and health.
- Because of portability of bottled water, people are switching from tap water to bottled water.

**Future impact**

The use of bottled water will increase in future.

**Economical Factors:**

**1. Slowing Industry Growth Rate**

- Setting off stronger price competition in the industry
- Modest declines in pricing both at the retail and wholesale levels
- Implementation of positioning for industry maturity by purchasing smaller regional brands
- Average retail price of bottled water sold in supermarkets had declined by 3.4% since July 2001, with the price of some brands down by as much as 9 percent from the previous year

**Future Impact:** Some industry observers believed the industry could consolidate further to three sellers accounting for 75 percent of industry sales by 2005.

**2. Fierce Competition:**

The world's bottled water sellers jockeyed for market share and volume gains

**Future Impact:** The bottled water industry will continue to have a fierce competition on a global level because of price wars and quality comprise.

**3. Per Capita:**

- In 1990, per capita consumption approximated 9 gallons
- By 2001, U.S. per capital consumption had grown to nearly 20 gallons a year

**Present Impact:** In 2002, Per capita consumption of bottled water fell substantially below consumption rates in Western Europe, the Middle East, and Mexico.

**Future Impact:** By 2010, the industry is expected to double the division revenues.

## **Technological Factors:**

### **1. Internet Availability:**

- It is a fast growing pace of information
- Effective in the usage of a better distribution channel systems of bottled water industry.
- Online Interaction with the wholesalers, retailers and also consumers
- Consumers can check the industry trends analysis of bottled water for the past 4 or 5 years and analyzing what is the current trend of the bottled water industry

### **2. Tracking Devices:**

- The usage of tracking devices installed on the truck, delivery van and cargo ships will indicate the location of delivery of bottled water from location to another
- Hand-held inventory tracking devices are used for the wholesalers and retailers to monitor the inventory levels of bottled water which are being used in wholesale and retail outlets.

### **3. Equipment of Water Purification & Filling Bottles:**

- Was manufactured and marketed by about 50 different companies
- About 10 manufacturers offered a complete line of
  - ❖ filling equipment,
  - ❖ distillation equipment,
  - ❖ deionization equipment,
  - ❖ bottle washers,
  - ❖ labeling equipment,
  - ❖ packaging equipment, and
  - ❖ reverse osmosis

## **Industry's Dominant Traits:**

### **Market size and Growth rate:**

In the year of 2001:

Global Sales:

- The sale of the bottled water industry was exceeding 32 billion gallons.
- The industry faced 6,477 million dollars revenue.

Growth rate:

- The annual growth rate averaged approximately 9 percent between 1996 and 2001.

The industry is at the rapid growth stage. This fact is justifiable by having a look at the exhibit 3 i.e. (*U.S. Per Capita Beverage Consumption, 1996 and 2001*).

The bottled water per person consumption in 1996 was 13 gallon whereas it increased to 19.9 gallons in 2001 thus proving the fact of being at the rapid growth stage.

### **Competitive rivals:**

There are basically five key major rivals or competitors competing against each other in this industry (*bottled water industry*). These are:

- Nestle
- Coca-Cola
- Pepsi
- Groupe Danone
- Suntory Water Groups

The rivalry among them is intense and they are competing against each other at the global stage.

### **Number of Rivals:**

There are 9 bottled water producers mentioned in the case study. Out of them 5 key major players are dominating this industry.

There are many small regional sellers that are contributing their parts in terms of low-cost or differentiation strategies.

Industry has gone through a period of consolidation to the top sellers such as Danone and Nestle that long competed against each other in most country markets.

### **Buyer needs and requirements:**

The attributes such as:

- Convenience
- Purity
- Portability

are the requirements of the final buyers that are making the industry move. Final buyers are more concerned with what they get most from the final product.

Therefore, the attribute “Convenience” can give the consumer easy accessibility to bottled water. Purity focus on fitness and health; and portability of bottled water explains it from the perspective of easy-to-carry than glasses or cups of water.

### **Product Innovation:**

The industry has gone through product innovation.

- Bottled water used to deliver to homes and offices in returnable five-gallon containers and dispensed through coolers.
- It also used to be sold in one-liter or smaller single-serving polyethylene terephthalate (PET)
- The product has been in the high-density polyethylene (HDPE), too.
- The introduction of enhanced waters since the bottled water gain widespread acceptance in the United States.
- Most sellers in 2002 were moving quickly to introduce variations of their product that included vitamins, carbohydrates, electrolytes, and other supplements.
- The innovation seemed to be a hit with consumers – the market for enhanced bottled waters expanded from \$20 million in 2000 to \$85 million in 2001 and was expected to surpass \$100 million in 2002

And finally it is in the small shape of plastic bottle that is not heavy but easy to carry.

### **Degree of Product Differentiation:**

The industry differentiated the bottled water from the tap water:

- By removing or stripping all chlorine and other particles out of tap water.
- By refining and purifying water by installing:
  - ❖ Filtration equipments
  - ❖ Reverse osmosis equipments
  - ❖ Distillation equipments
  - ❖ Deionization equipments
  - ❖ Labeling equipments
  - ❖ Bottle washers
- By adding ozone gas to the water to prevent bacteria growth. (*Pepsi Co does*).
- By placing different associations like EPA, FDA or IBWA to require for the bottled water producers to test the presence of bacteria.



Some companies in the industry introduced enhanced bottled water that carried the additives like:

- ❖ Vitamins B6, B12, C, B3, B6, B12 as well as
- ❖ Chromium
- ❖ Lycophene
- ❖ Pantothenic acid
- ❖ Niacin
- ❖ Calcium

**Attractiveness of the industry**

**Porter's 5 Forces Model**

**Threat of New Entrants / Entry Barriers**

<b>Factors</b>		<b>HUFA (1)</b>	<b>MUFA (2)</b>	<b>Neutral (3)</b>	<b>MFA (4)</b>	<b>HFA (5)</b>		<b>Comment</b>
Economies of Scale	Low		*				High	New entrants can produce more units
Capital Required	Low				*		High	Lack of Access to latest technology
Expected Retaliation	Low				*		High	Fierce industry rivalry
Differentiation	Low	*					High	New entrants can introduce new ingredients
Government Action	Low			*			High	Government regulations & policies (EPA, FDA & GMP)
Access to Distribution Channels	Ample					*	Restrict ed	Difficult for new entrants since they don't have much access to distribution network
Brand Loyalty	Low					*	High	New entrants can not enjoy brand loyalty
Experience Curve	Insignifi cant				*		Signifi cant	Existing firms have more share in experience curve

### **Exit Barriers**

<b>Factors</b>		<b>HUFA 1</b>	<b>MUFA 2</b>	<b>Neutral 3</b>	<b>MFA 4</b>	<b>HFA 5</b>		<b>Comment</b>
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Specialized Assets	High				*		LOW	No need any further specialized assets
Fixed Cost Exit	High		*				LOW	High Fixed Cost
Strategic Interrelationship	High		*				LOW	Acquisition and Merger.
Government Barriers	High				*		LOW	Governments barriers are low

## Competitive Rivalry

Factors		HUFA 1	MUFA 2	Neutral 3	MFA 4	HFA 5		Comment
Composition of Competitors	Equal Size		*				Unequal Size	There are many competitors.
Market Growth Rate	Slow		*				High	Slow growth industry
Scope of Competition	Global		*				Domestic	Globalization
Fixed Storage Cost	High				*		Low	Transportation Cost
Degree of Differentiation	Commodity				*		High	Additives like vitamins, calcium etc.
Strategic Stake	High			*			Low	Successful Global market

## Power of Buyers

Factors		HUFA 1	MUFA 2	Neutral 3	MFA 4	HFA 5		Comment
Number of Important Buyer	Few		*				Many	Lot of options available
Threat of Backward Integration	High				*		Low	Firms have more access on quality and price control
Product Supplied	Commodity				*		Specialty	There is a level of product differentiation
Switching Cost	Low				*		High	There are many options
Profit earned by buyers	High				*		Low	In order to have an access on shelf space

## Power of Suppliers

Factors		HUFA 1	MU FA 2	Neutral 3	MFA 4	HF A 5		Comment
# of important Supplier	Few		*				Many	There are not many suppliers
Switching Cost	High		*				Low	High switching cost
Availability of Substitutes	Difficult			*			Many	Few No. of suppliers
Threats of Forward Integration	High				*		Low	Effective distribution system
Importance of Buyer industry to Suppliers	Buys small Portion				*		Buys large portion	Purchases in large quantity
Supplier Product an important input to Buyer's business	Less Important				*		Highly Important	It is difficult to switch Suppliers

### Threat of Substitute Products

Factors		HUFA 1	MUFA 2	Neutral 3	MFA 4	HFA 5		Comment
Threat of Obsolescence in the Industry Product	High		*				Low	Moving to other markets
Aggressiveness of substitute products in promotion	High	*					Low	Promotion of substitutes products is high
Switching Cost	Low		*				High	Based on your perception
Perceived Price / Value	High		*				Low	Substitute products would be high

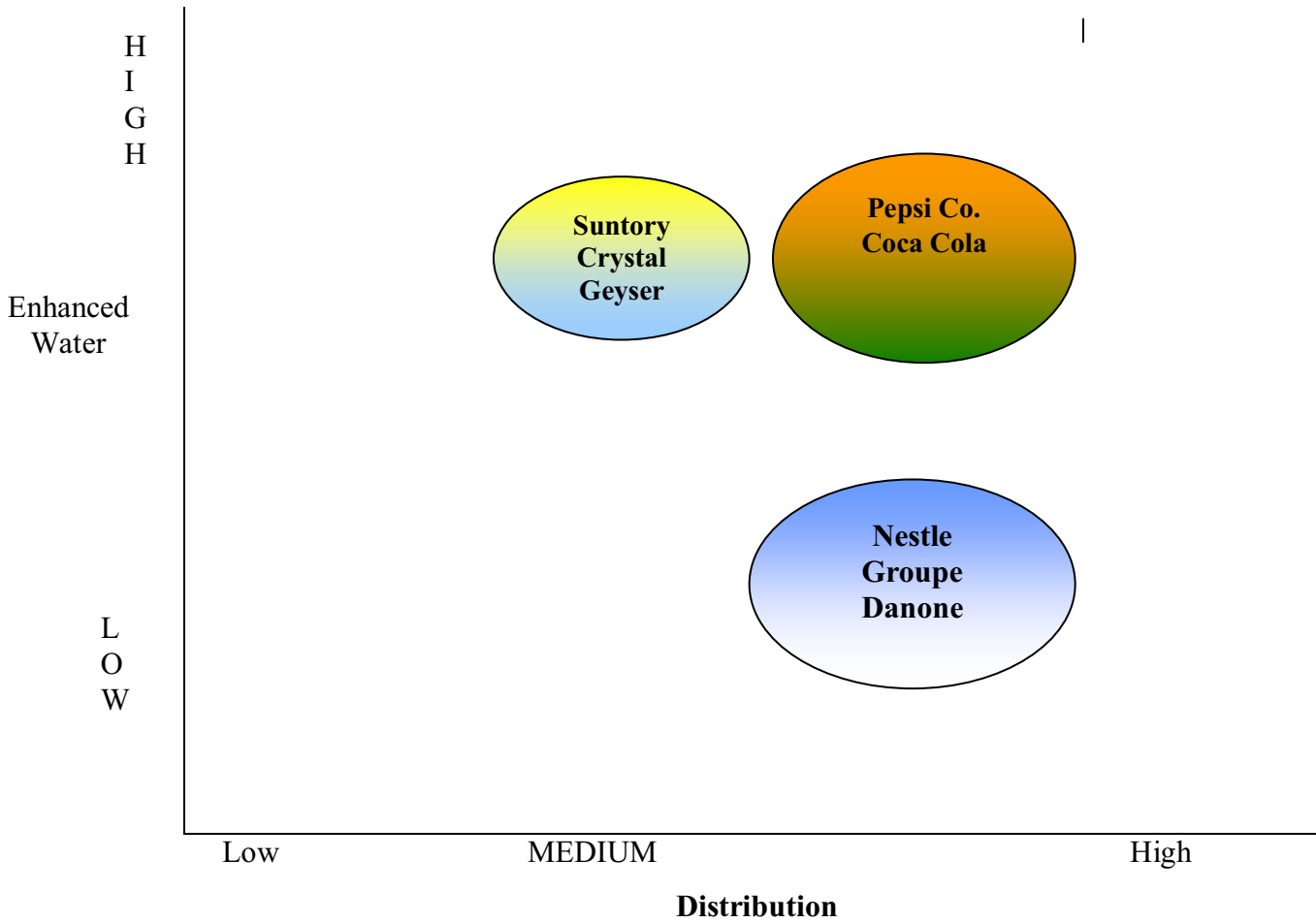
### Overall Industry Attractiveness

Factors	Unfavorable	Neutral	Favorable
Entry Barrier			3.5
Exit Barrier		3	
Rivalry among existing firms		2.83	
Power of Buyers			3.6
Power of Suppliers		3.1	
Threat of Substitute	1.75		

**Overall industry rate is 2.96**  
**So we can say that it is an average industry**

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**Strategic Group (Mapping) in Bottled water industry:**



**Criteria:**

These strategic groups of US Bottled Water industry are formed on the basis of Enhanced Water and Distribution.

# Industry dynamics on dominant strategic groups (Porter five forces of competitive)

## Group 1 (Nestle, Groupe Danone)

Threats of new entrants: **Low**

New enters don't have brand loyalty

➤ Rivalry among existing firms: **High**

Group 1 has fierce competitive rivalry with Group 2

➤ Threat of Substitute Products or Services: **High**

There are a lot of substitutes available

➤ Bargaining Power of Buyers: **High**

Since there are a lot of Bottled water producers buyers can dictate price and can demand for best quality

➤ Bargaining Power of Suppliers: **Low**

They can switch to any other suppliers because of high distribution network.

## Group 2 (Pepsi, Coca Cola)

➤ Threats of new entrants: **Low**

Fierce Competition

➤ Rivalry among existing firms: **High**

They have been competing for years

➤ Threat of Substitute Products or Services: **High**

There are a lot of substitutes available in the market

➤ Bargaining Power of Buyers: **High**

Can dictate price

➤ Bargaining Power of Suppliers: **Low**

Group 2 can acquire another supplier

## Group 3 (Suntory, Crystal Geyser)

➤ Threats of new entrants: **High**

Any new entrant can copy the product

➤ Rivalry among existing firms: **Low**

Since they are not as much popular as Pepsi, Nestle or Coke

➤ Threat of Substitute Products or Services: **High**

There are other substitutes available

➤ Bargaining Power of Buyers: **High**

There are other Bottled water producers

➤ Bargaining Power of Suppliers: **High**

There are a few numbers of suppliers



## **Drivers of Change in the industry**

### **1. Product innovation**

- Many companies like Coca Cola and Pepsi Co. are making enhanced bottled waters which include vitamins and minerals.

### **2. Globalization**

- Because of increasing use of bottled water, many companies expand their business in many countries of the world like Nestle, Pepsi etc.
- Companies are also marketing local brands of bottled water in different countries.

### **3. Life Style**

- Due to awareness of people about health, more and more people are shifting from tap water to bottled water.

### **4. Joint Ventures**

- Some major firms doing joint ventures with local firms.

## Key Success Factors

- Purity
- Safety
- High advertising
- Marketing
- Portability
- Brand loyalty

## Industry Matrix/ Competitive Profile Matrix (CPM)

Strategic Factor	weight	Nestle rate	weighted score	Pepsi Co. rate	weighted score
Perception	.3	3	0.9	3	0.9
Innovation	.2	3	0.6	3	0.6
Brand Loyalty	.2	4	0.8	3	0.6
Distribution	.15	3	.45	3	0.45
Recall	.15	3	.45	4	0.6
	<b>1.0</b>		<b>3.2</b>		<b>3.15</b>

Strategic Factor	weight	Coca- Cola rate	weighted score	Group Danone Rate	weighted score
Perception	.3	3	0.9	2	0.6
Innovation	.2	3	0.6	2	0.4
Brand Loyalty	.2	3	0.6	2	0.4
Distribution	.15	3	0.45	3	0.45
Recall	.15	3	0.45	1	0.15

## **Conclusion:**

There has been an improvement in technology in the bottled water industry for the use of equipment which provides water purification and filling bottles and also a state-of-the art bottle facility that would require a capital investment of more than \$100 million. Types of equipment includes a complete line of filling equipment, filtration equipment, distillation equipment, deionization equipment, bottle washers, labeling equipment, packaging equipment, and reverse osmosis equipment, with others specializing in a few equipment categories. Due to the technological change and advancement, bottled water industry were successful in satisfying the needs and requirements of the final consumers and that the final consumers would be purchasing PET containers of bottled water because of convenience, portability and purity and the future aspect of the bottled water industry as being attractive in the current trends, would prosper in the near future by major improvements in technology.

## **RECOMMENDATIONS**

- The bottled water industry should implement advanced supply chain management software such as S.A.P to improve the effectiveness and efficiency of distribution channel systems

- They should increase the no of advertisements regarding their products in TV regarding about the health awareness.
- They should spend more on the promotional strategies to promote the product in such a way that consumers would be brand loyal to a bottle water industry as compared to the substitute products industry.