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## **DANONE IN THE LATIN AMERICAN BOTTLED WATER MARKET: A CASE STUDY**

### **ABSTRACT**

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This case is an example of regional strategy and branding by a multinational. The case discusses Danone's success in achieving market leadership in the bottled-water market of key Latin American countries. Danone's success in the region is based on country-specific strategies for national brands. As Latin American markets become more integrated there is a growing opportunity to shift gears and develop regional strategies. One example is Danone's successful replication of its Mexico strategy in Brazil. Should Danone replicate this strategy in other Latin American markets? Should it adapt its current strategies to better respond to local trends in the regional market? The case contributes to the understanding of the integration of global, regional, and local strategy formulation by multinational companies.

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*Key Words: Danone, Bonafont, Bottled-water market, Latin America*

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## **CORPORATE BACKGROUND**

Danone, a French-based packaged food and beverage company, is the global leader in the dairy (value) and bottled water (volume) markets. The company has four main divisions: fresh dairy products, waters, baby nutrition, and medical nutrition. Total net sales in 2014 reached almost 21.1 billion Euros; fresh dairy products constituted about 52% of the total, while the waters division represented about 20% of total net sales (4.16 billion Euros). This company derives 53% of their sales from emerging countries (Danone, 2014).

Danone is well placed in the global bottled water market. In 2012, Danone controlled about 5% of the global off-trade ready to drink (RTD) soft-drinks market, ranking third in terms of volume, behind Coca Cola and PepsiCo. The company ranked sixth in terms of value sales (2% of global share). The company, however, holds the top position in the bottled water sub-category of the market.

Historically, Danone has focused on its premium water brands (Evian and Volvic), especially in more developed markets. In emerging markets, its strategy has been to develop local or regional brands. The success of this latter approach is evidenced by its dominant shares of the Indonesia and Mexico bottled water markets, and by the fact that in 2012, Bonafont became the company's top seller brand of bottled water, overtaking Evian in terms of value sales, based mainly on Bonafont's strong sales performance in Mexico (Euromonitor International, 2013).

Danone's strengths include a focused and integrated strategy in the health and nutrition segment; well-established global and regional brands; and a willingness to respond to consumers' needs and concerns. Yet, the company faces considerable competition from other global companies, local and regional players, and private labels. This intense competitive climate will require gains in efficiency and productivity, product and process innovations, and effective marketing strategies. Moreover, the slow recovery of the North American and European markets threatens Danone's future profitability, and thus, the company has embarked on a cost-reduction plan involving an elimination of management redundancies and the creation of multi-country units (Euromonitor International, 2013).

## **THE GLOBAL MARKET FOR BOTTLED WATER**

The global bottled water market is considerable in size; at 300 billion liters, it has taken over tea to become the most consumed beverage in 2014 (Euromonitor International, 2014b). The market has experienced sustained growth since 2000, with average growth rates above 6% over the past 15 years. This growth is expected to continue, especially in the functional

water and flavored water sub-categories. The main value of bottled water to consumers is in the quality, purity, availability, and hydration it offers. The market is comprised of about two thirds sales of small packages (e.g., individual water bottles) and one third bulk water packages (e.g., water jugs). In terms of the split between still and carbonated (sparkling) water, the trend over the past few years has been towards a preference for still water. Still, bottled water is especially popular in countries where hydration on-the-go is important for health reasons, and in countries where tap water is scarce or their quality and safety is dubious. Carbonated or sparkling water, especially flavored water, is seen more as a substitute for carbonated soft drinks among consumers wishing to reduce their calorie intake, for themselves or their children (Rani et al., 2012).

**Table 1. Key global bottled water market competitors**

| Company   | Selected Brands                                   | Global Soft Drinks Market Share based on Volume (%)<br>2012 | Global Bottled Water Market Share based on Volume (%)<br>2012 | Global Bottled Water Market Share based on Value (%)<br>2012 |
|-----------|---|---|---|--|
| Danone    | Evian, Bonafont, Volvic                           | 4.7   | 12.1  | 9.8  |
| Nestle    | Pure Life, Perrier, Poland Spring, San Pellegrino | 3.7   | 8.0   | 9.7  |
| Coca Cola | Dasani, Glacéau, Bonaqua, Ciel, Kinley            | 21.2  | 8.7   | 11.6   |
| PepsiCo   | Aquafina, Propel, SoBe                            | 9.9   | 4.0   | 4.1  |

Source: Authors' elaboration based on data from Euromonitor International (2013).

The main players in the bottled water market are Danone (France), Nestlé (Switzerland), Coca Cola (U.S.), and PepsiCo (U.S.). Although Coca Cola and PepsiCo dominate the carbonated soft drinks segment, Danone is the global leader in the bottled water market (see Table 1). As consumers' concerns for health become ever more prevalent, the bottled water market is expected to outperform the carbonated soft drinks market in the years to come. This trend is being observed all around the world, with emerging markets leading growth in the bottled water market.

Other competitive pressures also exist from private label brands, which appeal to price-conscious consumers in mature and developed markets; and from niche brands that offer 'enhanced water' products such as sports drinks, energy drinks, and functional waters (e.g., calming water, vitamin water). Danone has begun responding to this threat by increasing its

offerings of flavored bottled water through the launching of Bonafont con Jugo in Mexico and Villa del Sur Levité in Argentina.

### **THE LATIN AMERICAN BOTTLED WATER MARKET**

The Latin American bottled water market represented about 120 billion liters in 2013—the world’s second largest market after Asia Pacific (Euromonitor International, 2014b). As is the case in the rest of the world, the market for bottled water continues to expand and mature. In Latin America, the market has seen considerable growth. The drivers of such growth are increasing per capita income, the poor quality of tap water, and increasing concerns over health and obesity (a shift to water from carbonated soft drink consumption). The public water distribution system in most Latin American countries is inadequate and unreliable and the water is not safe for drinking. Most consumers could boil tap water for personal consumption but would prefer the convenience of purchasing bulk still water for home consumption. In countries with more reliable tap water systems, the taste and mineral content of tap water may drive consumers to buy bottled water. Another reason for market growth stems from the concern over health and obesity. Carbonated soft drink consumption is high in the region but consumers are shifting to water to improve their health and deal with obesity.

Country markets for bottled water in the region vary in size and growth (see Tables 2 and 3). The Mexican market for bottled water dwarfs the rest of the region. Mexico is one of the largest world markets with 19.4 billion liters and per capita consumption of 145 liters. Brazil and Argentina are the two other large markets in the region with 6.9 billion and 4.7 billion liters respectively. The rest of the region does not come close to the size of the three largest markets but some are experiencing high growth such as Chile which had a CAGR of 56.8% between 2009 and 2014. Argentina shows some indication that it has reached maturity with negative growth in functional and carbonated waters and a modest growth in bottled water. Other markets that are small but expected to grow include Bolivia, Paraguay, and Peru (Rani et al., 2012).

**Table 2. Latin American bottled water market in volume 2014 (million liters)**

| Category   | Argentina       | Brazil         | Mexico         | Chile        | Colombia    | Peru         | Venezuela   |
|------------|-----------------|----------------|----------------|--------------|-------------|--------------|-------------|
| Carbonated | 2,380<br>-8.1%* | 502<br>2.7%    | 337<br>3.1%    | 169<br>5.2%  | 52<br>4.8%  | 177<br>17.8% | 3<br>0.8%   |
| Flavored   | 1,051<br>52.9%  | 129<br>0.3%    | 1514<br>5.8%   | 59<br>77.6%  | 34<br>15.5% | 24<br>8.1%   | 5<br>11.1%  |
| Functional | 0.9<br>-65.2%   | 2<br>-         | 80<br>11.9%    | 51<br>1.3%   | 9<br>-      | 4<br>8%      | -<br>-      |
| Still      | 1,329<br>44.3%  | 6,304<br>50.6% | 17,485<br>4.2% | 141<br>64.7% | 815<br>3.3% | 313<br>17.2% | 614<br>4.6% |
| Bottled    | 4,762<br>13.4%  | 6,938<br>46%   | 19,416<br>4.3% | 420<br>56.8% | 910<br>3.9% | 519<br>16.7% | 622<br>4.6% |

Source: Authors' elaboration based on data from Euromonitor International (2015a-g).

Note: \* 2009-2014 CAGR%.

Other categories such as carbonated and flavored bottled water are small and offer great potential for growth. Flavored water in particular has been growing as a result of consumer preference for tasty drinks. Many bottled water producers have increased their product portfolio with a myriad of flavors. With a rich variety of fruits, the potential for new flavored waters is endless. The popularity of a pomegranate flavored bottled water in Chile is an example.

The potential of the bottled water market has attracted different competitors. Global players are present in major markets (see Table 3). Global players use a combination of premium and volume brands as well as global, regional and local brands to participate in these markets. Coca-Cola uses Dasani as its global volume brand and Aquarius as its regional brand. Coca-Cola relies on strong local brands to compete as a local player such as in the case of Ciel in Mexico. In addition, Coca-Cola joins forces with its major regional anchor bottler, FEMSA, to market these brands in countries where the Mexican bottler has presence with carbonated soft drinks. For instance, FEMSA/Coca-Cola markets the Brisa and Manantial bottled water in Colombia and the Nevada brand in Venezuela. Other global players in the bottled water market in Latin America include Danone and Nestle with a combination of global brands (Pureza Vital-Pure Life) and premium brands (Pellegrino and Perrier).

**Table 3. Competition in the Latin American bottled water market**

| Competitor           | Argentina  | Brazil  | Mexico   | Chile  | Colombia  | Peru  | Venezuela   |
|----------------------|--|---|--|--|---|---|---|
| Danone               | Villa del Sur*,<br>Villavicencio, Ser,<br>Waikiki<br>MS= 21              | Bonafont*<br>MS=2.1   | Bonafont*,<br>Evian<br>MS=47                                       | Not present  | Not present with<br>water   | Not present with<br>water                     | Not present with<br>water                         |
| Nestle               | Pureza Vital, Awafruit,<br>Eco de los Andes*,<br>Glaciar<br>MS=6.5       | Pureza Vital, Santa<br>Barbara, Sao<br>Laurenco, Perrier,<br>Levissima, Aquarel<br>MS=1.8 | Pureza Vital*,<br>Santa Maria,<br>Pellegrino,<br>Perrier<br>MS=4.3 | Pure Life,<br>Cachatum,<br>Porvenir<br>MS=43         | Not present with<br>water   | Not present with<br>water                     | Not present with<br>water                         |
| Coca Cola            | Aquarius*,<br>Bonagua,<br>Kin, Dasani,<br>Vitamin, Aybal, Cepita<br>MS=5 | Aquarius,<br>Bonagua,<br>Crystal*<br>MS=2.4   | Ciel*, Glaceau<br>MS=19.4  | Aquarius,<br>Benedictino,<br>Dasani, Vital*<br>MS=39 |   |   |   |
| FEMSA-Coca<br>Cola   |  |   |  |  | Aguas Alpina,<br>Brisa*, Dasani,<br>Manantial*,<br>Santa Clara<br>MS=41.7 |   | Nevada*<br>MS=6.9                                 |
| Pepsi Cola           | Twister*,<br>H2Oh!<br>MS=1.4   | H2Oh!<br>MS=1.5   | Be-light*,<br>H2Oh!,<br>Propel<br>MS=3.4                           |  |   | San Carlos*<br>MS=0.2                         | Minalba*<br>MS=9.7                                |
| National<br>Champion | IVESS: Ivess*<br>MS=6.8  | Indaia<br>MS=8.4  | Electropura,<br>E Pura<br>MS=15.9                                  | Soprole:<br>Next*<br>MS=4.6                          | Postobon:<br>Cristal, Vitality,<br>Oasis,<br>H2Oh! (license)<br>MS=46.4   | Ajeper:<br>Cielo*<br>MS=42.2                  | Servagua:<br>Zenda*<br>MS=6.1                     |
| National<br>Champion | CIMES ChP: Cimes*<br>MS=4.8  | Sadia and Aguas<br>Ouro Fino:<br>Ouro Fino*,<br>Acqua Sadia<br>MS=2.8                     | Envasador de Agua:<br>Pureza Aga<br>MS=9                           | T-Company:<br>Basic*<br>MS=0.3                       | Almacenes El Exito:<br>Exito*<br>MS=4.5                                   | Lindley:<br>San Luis*,<br>Aquarius<br>MS=42.6 | Agua Mineral Los<br>Alpes:<br>Los Alpes<br>MS=5.7 |

Source: Authors' elaboration based on data from Euromonitor International (2015 a-g)

Note: \* Leading brand. MS = Market share %

In the Latin American market, Danone enjoys a dominant position in Mexico. The company also has a moderate presence in Argentina, Brazil, and Uruguay. The company faces strong competition from PepsiCo and Coca Cola. PepsiCo is primarily present in the water jug and flavored drinks market, while Coca Cola has embarked on a head on battle to take the dominant position in the bottled water segment.

National champions present stiff competition to global players. In some markets, these national companies are the market leaders (see Table 4). National champions have an extensive portfolio of products in the carbonated and non-carbonated categories. Postobon in Colombia and Ajeper (Aje) and Lindley in Peru are examples of this type of player. These companies have a strong presence in the soft drink categories (colas) and strong brands in bottled water. Peruvian Ajeper has presence in Latin America and Asia with its Big Cola and Kola Real brands, but mostly domestic sales for its bottled water brand Cielo (Euromonitor International, 2014b).

**Table 4. Competition concentration in the Latin American bottled water market**

| Top three competitors | (Market Share %) |                 |                    |                |                        |                      |                  |
|-----------------------|------------------|-----------------|--------------------|----------------|------------------------|----------------------|------------------|
|                       | Argentina        | Brazil          | Mexico             | Chile          | Colombia               | Peru                 | Venezuela        |
| Market leader         | Danone (21)      | Indaia (8.4)    | Danone (30.7)      | Nestle (43)    | Postobon (46.4)        | Ajeper (42.2)        | Pepsi Cola (9.7) |
| Second                | IVESS (6.8)      | Ouro Fino (2.8) | Coca Cola (25)     | Coca Cola (39) | FEMSA-Coca Cola (41.7) | Lindley (42.2)       | Coca Cola (6.9)  |
| Third                 | Nestle (6.5)     | Minalba (2.7)   | Electropura (15.9) | Soprole (4.6)  | Exitto (4.5)           | Backus & Johnson (3) | Servagua (6.1)   |
| Market share of top 3 | 34.3%            | 13.9%           | 71.6%              | 86.6%          | 92.6%                  | 87.4%                | 22.7%            |

Source: Authors' elaboration based on data from Euromonitor International (2015 a-g).

The degree of market concentration varies by country. The market share of the top three players is very high in Mexico, Chile, Colombia, and Peru. Such high levels of concentration make it very difficult for other companies to make inroads given the market leaders' share of shelf space and large distribution networks. In Colombia and Peru, the top leaders are national champions. Global players share the market leadership with national champions in Mexico and Chile. The markets are fragmented (less concentrated) in Argentina, Brazil, and Venezuela. The potential to increase market share is better in more fragmented markets.

### **Danone in the bottled water market in Mexico**

The Mexican market is a good example of a country with an unreliable and unsafe water supply. As a result, Mexicans have the largest per capita bottled-water consumption in the region, consuming 19.4 billion liters in 2014 (Euromonitor International, 2014a). The market shows signs of reaching maturity, with the markets for still and bottled water experiencing stagnation during the 2009-2014 period. Despite the low price of bulk water, the impact of the 2008 recession has affected the sale of water and there are no indications of further growth. Other categories of water, particularly flavored water, also show low growth. One major reason for the stagnation is the tax on all sugary drinks (flavored water in this case) imposed by the government to deal with high levels of obesity among Mexicans; the resulting price increases have lowered consumption.

Mexico is an important market for Danone, as the country is considered the largest bottled water market in the world based on per capita consumption (Castaño, 2012; Lobstein, 2014). Danone de Mexico, SA de CV has a leading position in the bottled water market in Mexico. In 2013, Danone held the number one position in the health and wellness (HW) beverages, HW bottled water, and naturally healthy (NH) beverages categories, with 20.8%, 61.9%, and 55.3% shares, respectively (Euromonitor International, 2014a). In the bottled water market, Danone was the market leader with 30.7% in 2014 and Bonafont was the number one brand with 27.6% share in volume sales. Coca-Cola is the second major player with 25% market volume share in 2014 and its Ciel brand capturing 24.5% brand market volume share (Euromonitor International, 2015h).

The Danone Bonafont brand was first introduced in Mexico in 1992 by Mexican private investors with acclaimed market success. Danone acquired the brand in 1996 and kept the brand slogan of “agua ligera” or light water. The brand icon is a stylized figure of a slender and fit person. In Mexico, Bonafont is available in three formulations. Under the Bonafont brand name, Danone offers still water and carbonated water. Under the Levité brand name, the company offers a variety of naturally flavored bottled water. In 2012, the company introduced Bonafont con Jugo as an additional flavored water alternative (see Figure 1). Still water comes in two options: Individual clear plastic bottles and large water jugs for home consumption, which is distributed directly to homes and small vendors. All the products under the Bonafont and Levité brands are priced in the mid-range. The company is also the exclusive distributor of the imported Evian brand, which is sold as a premium product.

In Mexico, Danone operates three beverage manufacturing plants (Toluca, Guadalajara, and Monterrey), with all production of the drinks division dedicated to the local market.

These plants are outfitted with advance bottling machinery and equipment that allow Danone to preserve spring water quality, have flexible packaging options, and increase overall efficiency (Euromonitor International, 2015e)

In Mexico, Bonafont targets female consumers with hectic lifestyles interested in losing weight and staying healthy. For instance, the company hosts annual marathons for women, and one of its marketing campaigns claimed that a diet of two liters of water per day for 15 days could help women lose weight. Bonafont has also introduced eco-friendly packaging to respond to environmental concerns among its target market.

Future prospects for the company in the Mexico market remain positive. First, it is expected that single-serve sales will overtake sales of water jugs, which will lead to higher value sales (Castaño, 2012). Second, the company's expansion of its flavored water portfolio (e.g., Bonafont con Jugo) indicates the company is aligning its strategy to meet emerging consumer preferences. Finally, Danone is likely to benefit from the recently enacted tax on sugary beverages in Mexico and bans on soft drinks at schools—responses to increasing concerns over obesity and the trend towards healthier lifestyles.

However, declining sales in the largest carbonated soft drinks market in the world, at 745 portions per person, per year (Lobstein, 2014), has brought with it a competitive threat from the giant firm Coca Cola. In the last five years, Coca Cola has focused on the young and active segment, and has invested in an aggressive marketing campaign to support its bottled water brand Ciel. It has also introduced easier to recycle packaging, new flavors, and new product presentations (Castaño, 2012).

**Figure 1. Bonafont brands in the Mexico market****Danone in the bottled water market in Brazil**

The Brazilian market is small relative to its population. The Mexican market is 2.8 times larger, although it has half of Brazil's population. Until recently, Brazilians have experienced constant increases in disposable income. An increase in buying power and a greater interest in healthier lifestyles has resulted in greater demand for bottled water in general and functional water in particular. Brazilians interest in value added ingredients such as minerals, vitamins and hydration properties of water offer a good potential market opportunity (Euromonitor International, 2015b).

Brazil is a key country market for the French corporation and accounts for a quarter of the group's global revenues. It has had a presence in Brazil since 1970, with dairy products under the Actimel, Activia, Densia, Paulista, Danito, and Danone brand names; water under the Bonafont brand name; infant nutrition under the Aptamil brand name; and general nutrition products under the Nutricia brand name. The company has established a strong corporate presence and in 2012 had a respectable 38% market share in the fresh dairy products market and 39% of the nutrition market segment (Danone, 2013). In the bottled water segment, Danone ranks six in market share with 2.1% of market volume. The top

leader is Indaia, a national champion, with 8.4% market share. Coca-Cola ranks fourth with 3.5% market share. Nestle is another global player in this market with 2.8% market share (Euromonitor International, 2015b).

One reason for Danone's success in Brazil is their emphasis on developing new products that appeal to the Brazilian consumer. In 2012, Danone introduced 18 new Activia flavors with fruits that Brazilians appreciate such as passion fruit and morango (strawberries).

The children market is another important segment where Danone offers a number of options under the danoninho brand name. Beyond product consumption, Danone also focuses on infant nutrition and celebrates the triumphs of disadvantaged children. For instance, *Danone tells a story* (Danone conta uma historia) is about stories of hospitalized infant patients and their happy moments in their delicate situation.

To keep prices attractive, Danone puts a lot of emphasis on productivity increases. The company reported an increase of 50% in productivity in the Activia line in Brazil in 2008. To make this product affordable, Activia is available in at least three different size formats from individual to family servings.

In 2008, Danone introduced the Bonafont brand in Brazil replicating the marketing strategy and slogan "agua leve" or light water it had used in Mexico. The Brazilian bottled water market offers great market potential, as water consumption is low, 52 liters per capita compared to 145 in Mexico.

A commodity product with very low participation in the general Brazilian beverages market—which is dominated by carbonated soft drinks—the bottled water category received little attention in terms of investment in advertising and store shelf space. With the state of Sao Paulo accounting for 40% of the market, Danone launched a replication of the Mexican market approach for both individual bottled water and residential delivery of water in large jugs. The market performance has been extremely successful with a 55% CAGR from 2008 to 2012 (Danone Brazil Investor Seminar, 2012).

In a global study by Havas of top meaningful brands, consumers identified Danone as the top brand in Brazil. A meaningful brand was defined as one that makes a difference in consumers' lives. The study revealed that 76% of Brazilians agree with the statement that companies and brands play an important role in the quality of life and well-being. The study also found that 65% of Brazilians consider the impact of a brand on the environment when they decide to buy. About 45% of Brazilians also think that brands communicate honestly about their commitments and promises, and 50% trust the brands they consume. In contrast,

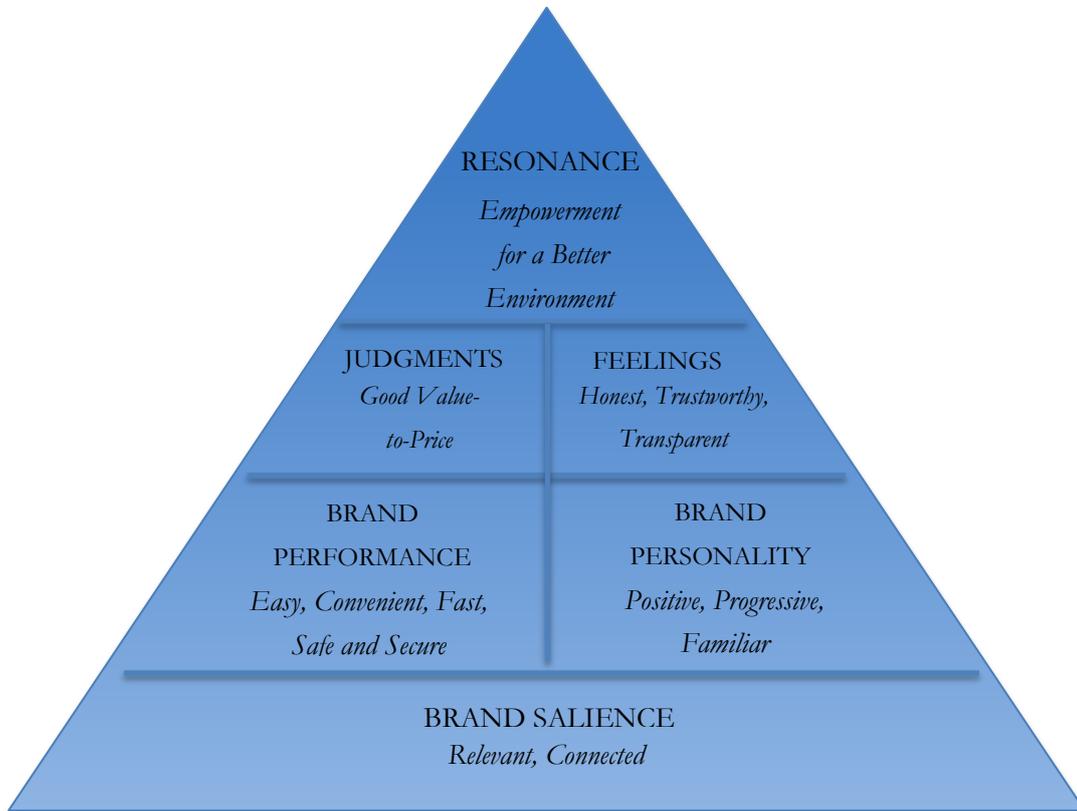
the average for Latin America on perception of brands honestly communicating promises was only 36% (Havas, 2012).

In an environment characterized by trust in brands and environmental concern, how does Danone score at the top of meaningful brands among Brazilians? The Danone-Bonafont bottled-water brand in Brazil tells the story of well-orchestrated brand architecture.

### **Bonafont brand architecture in Brazil**

The target segment for Bonafont is the very active, pressured, and multitasking Brazilian woman between 28-34 years old who does not have much time to take care of herself. As a result, this target group faces the conflict of showing professional success by being fit and well-presented and the lack of time required to achieve a balanced life. The outcome of this conflict is, on the one hand, the rationality that long days of work are tasking their health through the accumulation of toxins. On the other hand, Brazilian women feel the emotional demand to be at their best in front of family, friends, and co-workers. Thus, Bonafont's basic argument is that water is a purifier of toxins and a cleanser of the internal body system. As the quality and safety of public water systems is suspect, purified water such as Bonafont provide the appeal of purity and convenience (e.g., their home delivery system offers the convenience of having water at home in addition to individual packaging). In particular, Bonafont argues that its water is light on other components such as minerals or additives. In addition, a water break is perceived to be like a pause in a busy day of activities that may help relieve stress. Bonafont addresses the brand building blocks of Salience and Performance through their arguments that the brand offers rational benefits (the elimination of toxins) and emotional benefits (regaining control over a stressful day and feeling well) (see Figure 2).

**Figure 2. Brand architecture of Danone-Bonafont in the Brazil market**



Source: Robles et al. (2015)

The third building block of ‘brand personality’ is about gaining preference and relating to the human side of the consumer. Facing a commodity market in Brazil where water is frequently not branded, Bonafont has the advantage of the name, the association with Danone, and a clear and distinctive package (See Figure 3). The personality side of the brand is accomplished by appealing to the feminine values of intuition and concern for external beauty and health among Brazilian women. In addition, Bonafont stresses that its brand is positive and energetic.

The last block appeals to the most altruistic values of consumers. In this case, Bonafont makes it clear that one is at its best when one is honest, confronts the dilemmas in life, and appreciates the value of a ‘water break’ during the day to reflect on larger problems. To capture this moment, Bonafont offers a value proposition in Brazil with a statement that

the world could be better if women could make independent decisions to feel fulfilled and free of social pressures.

**Figure 3. Bonafont brands in the Brazil market**



### **Danone in the bottled water market in Argentina**

The most mature market in the region is Argentina. The country's bottled water market shows a modest growth of CAGR 13% in 2009-2014. At 4.7 billion liters in 2014, the prospects for further growth are limited due to price inflation pressures in the Argentinian economy and shifting preferences for carbonated soda water (Euromonitor International, 2015a).

Aguas Danone de Argentina has been present in the Argentinian market since 1996, when Danone acquired the two largest mineral water producers in the country, Villa del Sur and Villavicencio. In Argentina, Danone's bottled water brands include natural water under the Villa del Sur and Villavicencio brands, and flavored waters under the Villa del Sur Levite and Ser brands (see Figure 4). The company operates plants in Mendoza and Chascomus.

Danone is clearly the market leader with 21% market share in volume in 2014. The closest competitor is IVESS, a national champion with 6.8%. Nestle and Coca-Cola, with a number of bottled water brands are close behind with 6.5% and 5% market shares, respectively (Euromonitor International, 2015a).

Danone's strategy in Argentina is very similar to that used in the Mexico and Brazil markets, with the company focusing its brands' messaging on the health benefits of water. For instance, the Villavicencio brand emphasizes the health benefits of its mineral water, communicating to consumers the quality and purity of the water (i.e., originating from a mountain reserve); the benefits of hydration (e.g., facilitates the functioning of stomach, kidneys, and liver, and keeps tissue and bones healthy); and the nutritional benefits delivered by various minerals the water contains (e.g., fluoride, calcium, magnesium, sodium). The company also emphasizes its environmental practices, specifically through the responsible use of water in production and its recycled and recyclable packaging. Danone's actions towards environmental stewardship appeal to consumers' more altruistic values. Finally, the company is vocal about its corporate values of *integrity and authenticity* which directly deliver on the need for trust common among Latin American consumers (Villavicencio, 2015).

The Villa del Sur brand follows a similar strategy, with the brand slogan "*Pura y liviana*" (pure and light), reinforcing Danone's brand positioning as a brand that delivers a product that helps consumers achieve a healthy lifestyle (Danone, 2014).

The strategic focus and values discussed above are illustrated in the company's Health Inside Program, which is meant to create a strong association between the company's brands and concepts of health and nutrition, while simultaneously demonstrating its authenticity. The Health Inside Program, which is directed to employees, incorporates personalized nutritionist advice, including an emphasis on proper hydration; health ambassadors; healthy menus in the company's cafeterias; company-sponsored health and fitness activities such as walks, indoor gyms, and spa benefits; the *Danone World Cup*; and flu vaccination campaigns (Eikon, 2012).

**Figure 4. Danone's water brands in the Argentina market**

### **The middle markets**

Chile, Colombia, Peru, and Venezuela are the middle size bottled water markets in Latin America, ranging from 420-910 million liters of consumption in 2014 (see Table 2). Poor access and potentially unsafe tap water are the fundamental drivers in these markets.

Chile stands apart in this group, with growth in all categories of bottled water. The presence of a large number of competitors is responsible for the large choice of brands and value added formulations. The plentiful choices stimulate the market and Chilean consumers have responded favorably. Growth is particularly strong in flavored waters. An additional factor driving growth is higher temperatures due to global climate change. The country has experienced hotter summers and milder winters in the last five years (Euromonitor International, 2015d). Competitors innovate constantly through the introduction of new formats (larger bottles) and flavors (Pomegranate), and functional waters (vitamin- fortified). Competition is intense between global players (Nestle, Coca-Cola) and national champions (Soprole, Embotelladoras Unidas). The global players are the clear market leaders with about 82% of the market in volume. These two global companies

have a long presence in the country and their commitment to the country has paid off (Euromonitor International, 2015d).

The Peruvian economy has had a long run of economic growth. With increasing disposable income, Peruvians are focusing more on quality of life. Consumers are shifting to healthier foods, and water fits well in this new need category. Peruvians, although still large consumers of carbonated drinks, are shifting to bottled water also due to the unreliability of tap water.

National champions dominate the bottled water market with two Peruvian companies, Ajeper and Lindley accounting for 83% market share. Ajeper in particular has been very successful in challenging the dominance of global players in Peru. The company follows a vertically integrated strategy with a focus on the low-income market segment and carbonated soft drinks and waters. With explosive growth in the 1990s, the Ajeper group has expanded quickly in other markets targeting low-income consumers in Asia and Latin America. This growth has catapulted the company to 15<sup>th</sup> place among the global soft drink producers. Another reason for Ajeper's success is its effort to develop a strong network of independent retailers and avoid modern large food retailers. Ajeper's Cielo capitalizes on these strengths and delivers bottled water value to the low income consumer in Peru. Cielo is the market leader with 42.2% of the market. Ajeper innovates constantly and has recently introduced a functional water Cielo brand with a cell regenerator ingredient. This indicates that lower income consumers are also interested in health benefits (Euromonitor International, 2015f).

Colombia is an expanding market. After a long period of internal violence, the country has seen more social stability and sustained economic growth. The middle class is solidifying and distribution is efficiently reaching the largest metropolitan markets. A similar trend in health to that observed in other Latin American markets has produced a migration from carbonated sugary drinks to water. The market for bottled water reached 910 million liters in 2014. There is increased interest in carbonated (particularly mineral water) and flavored waters. FEMSA (Coca-Cola) and Postobon (a national champion) control 90% of the volume market. FEMSA offers Coca-Cola's global brand (Dasani) and a number of local brands (Brisa, Manantial, Aguas Alpina, and Santa Clara). Postobon is a Colombian group with long presence in the soft-drinks and bottled water markets, including water brands Cristal, Oasis and Vitality, and H2O! under license from Pepsi Cola (Euromonitor International, 2015c).

Venezuela is a market in distress. Venezuelans consume bottled water for the same reasons that impact other countries: unreliable water supply and unsafe water. With a shrinking economy and social unrest, all companies suffer from shortages of supply and reliable services. Price controls do not allow companies to increase prices to real levels and therefore there is little incentive to produce. These challenges impact the bottled water industry as well. Despite these negative factors, the bottled water market reached 622 million liters in 2014 but has been stagnant since 2009 (Euromonitor International, 2015g).

### **CHALLENGES FOR THE FUTURE**

For Danone, the challenges for the future will come from various fronts. First, Danone might need to diversify its product portfolio to meet consumer demand for different types of bottled water. Although the company dominates the global market for still water in individual servings, its offerings in flavored waters and functional or enhanced waters offer market development opportunities in countries where these categories are growing. Euromonitor International (2011) forecasts that the fruit/vegetable juice sub-category will grow to about US\$20 billion by the end of 2015, surpassing the forecasted growth of the bottled water segment (US\$ 16 billion). Opportunities exist to offer blends of juice and carbonated water as some competitors have done. Developing this segment further will also bring with it operational challenges related to the sourcing of juice concentrates and other raw materials, and further category segmentation and brand positioning.

Second, increasing competition from Coca Cola, niche competitors, and private label brands will put pressure on price, efficiency, and market positioning. For instance, Coca Cola aims to double its global revenues by 2020 and plans to do so, partially, through growing its bottled water sales. Private label brands are particularly strong in developed markets such as the United States and Germany. As developed markets continue to face economic challenges, consumers will continue to seek lower-price alternatives.

Third, in Latin America, the company will need to diversify its market base to reduce its overdependence on Mexico for continued growth. As the Mexican market reaches a point of saturation and more intense competition, especially from Coca Cola's Ciel, further developing the Brazilian market and exploring growth opportunities in other markets such as Colombia, Chile, and Peru will be advisable. Danone should carefully assess the intensity and type of competition environment in these countries. Some markets are competitive but fragmented such as Chile. In others, the market is dominated by two players. Another aspect

of the competitive environment is the type of competition. National champions have different competitive strengths than global players.

Fourth, Danone, similar to other bottled water manufacturers, will need to be more proactive in responding to consumers' environmental concerns regarding responsible use of water resources and packaging waste. Lastly, as the Latin American market becomes more integrated to global trends, the potential for exporting the success and marketing experience of national brands offers Danone a significant opportunity to shift gears and develop more integrated regional strategies. Should Danone capitalize on its success in the Mexican market and replicate this strategy in other Latin American countries? If so, what should Danone do with its successful national brands in these countries to avoid cannibalization? How should it adapt its current strategies to respond to emerging global and regional trends in the beverages market?

### **QUESTIONS FOR ANALYSIS**

1. What are the drivers of growth in the bottled water markets in Latin America? Which product categories and countries offer the best opportunities? What are the threats?
2. What types of companies compete for the bottled water market? What are the strengths and weaknesses of different types of competitors? Which competitors are closer to Danone and represent the most significant threat to its current position in the various Latin American markets?
3. What are Danone's strengths and weaknesses in the Latin America bottled water market? How do these strengths and weaknesses match with the opportunities and threats? Perform a SWOT analysis of Danone in Latin America using your answers to questions #1 & 2.
4. Should Danone expand to other countries in the region, or should it focus its efforts to compete better in the three largest markets in the region? Provide an analysis of the pros and cons of regional expansion versus a regional concentration strategy? If an expansion strategy is recommended, which country(ies) should Danone target?

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