1996

Cadbury 's Schweppes - Case Study

In 1783 Jean Jacob Schweppe, a German - born, Swiss entrepreneur, quit his jewellery business to start commercial production of artificial carbonated water, based on a method devised by an English scientist. In 1792, Schweppe shifted his "fizzy water" business to England, little knowing that the unique onomatopoeic quality of his name (the first three letters of which sound like a bottle being uncapped) would soon come to embody the very vivacity of the brand's personality. J. Schweppe Co. aerated water was an instant success with the British consumer. In 1798 the company unveiled a new product - a soda water. It was aerated water with soda as a medicine ingredient. The next launch came in 1835, when the company began marketing Schweppes aerated lemonade. In the 1850's Schweppes launched its Indian tonic water - a drink used as a diluting agent for gin & vodka. In the next few decades Schweppes expanded geographically, while in the UK, the brand gave up its elitist snobbery and widened its target audience to include mass-market consumers as well.

Over the next decade, J. Schweppes & Co. began setting up subsidiaries and bottling plants in Africa, Australia, New Zealand, North America and mainland Europe. But the big merger came in 1969 when the company merged with the UK - based confectionery major, Cadbury plc. It was a company founded in the 1870's by John Cadbury, a Birmingham cocoa retailer, who started his first chocolate factory in a town called Bournville.

In synergy Cadbury and Schweppes could use their combined might to ward off competition and harness their resources to target impulse purchase goodies at the consumer.

Beverages currently account for 55% of the company 's turnover, with sales of 2.2 billion (Rs. 6820 crores) in 1994, up 7% from the year before.

Cadbury Schweppes Beverages in India :

Cadbury Schweppes Beverages India Ltd. (CSBIL) reports to beverage stream of Cadbury Schweppes Plc. Cadbury India Ltd. also belongs to the same group, reporting into the confectionery stream. Cadbury India had an excellent year in the liberalised economy. Meanwhile, CSBIL signed an agreement with Pure Drinks (New Delhi) Pvt. Ltd. in October '94 and Pure Drinks is now its bottler and franchisee for Delhi. Its other franchisees are the Mongas in Meerut, the Jaipurias in Jaipur, the Hazoori's in Surat and ICFA in Jammu.

CSBIL regards India as an exciting market and will introduce most of its famous brands in a phased manner throughout the country. CSBIL has already launched five famous brands in the city of Delhi. The first brand to be launched was orange flavoured "Crush" in March '95 which was followed by "Canada Dry", a unique "Champagne - looking" drink with a distinctive flavour. In July this year Cadbury Schweppes also launched its Schweppes range which at present includes Schweppes Tonic Water, Schweppes Bitter Lemon and Schweppes Soda in Delhi. With the launch of these five internationally acclaimed brands in India CSBIL's basket of offerings to the Indian Consumer has increased substantially.

Currently CSBIL is contemplating the launch of a product in the mineral water segment.

MINERAL WATER

Market

In India, the first branded mineral water, Bisleri, was introduced by Parle in 1968, followed by Mohan Meakins in 1977. For almost two and a half decades the market was dominated by Bisleri with no sizable players in the market. In 1993 Parle Agro launched their Bailleys mineral water followed by spate of other brands fighting for a share of the erstwhile growing market. Bisleri enjoys a 50 percent market share and has become almost generic with the category. While the fact that the brand's success is to a large extent due to its first mover advantage, what has also helped is the company's policy of offering incentives to retailers stocking the brand and locating plants across the country to ensure a national presence. Currently there are about 158 mineral water manufacturers in the country with the numbers on the rise.

The phenomenal increase in demand for mineral water from just 3.5 million cases in 1992-93 to 8.5 million cases at present has been propelled in no small measure by the rising concern for health and safe drinking water. Changing lifestyles have also resulted in an upswing in usage occasions when people are neither at office or at home, thus creating the need for easily available bottled drinking water.

Not only corporates but even smaller players are entering the market. The latter are being given benefits by the government as incentive to setup shop. However, the concessions have not been sufficient to sustain them. The reasons are not hard to find. What is remarkable about the category is that while the actual cost of the product is negligible, packaging costs accounts for up to 50 percent of the selling price of the product. Besides, transportation and distribution costs are high a well, making it difficult for small scale players to compete with bigger players in the markets. In a typical scenario, a regional manufacturer remains regional.

There is also the added problem of a lack of quality control made worse by the fact that there are practically no government - set standards to ensure quality. According to an analytical study done by the Delhi-based Sriram Institute for Industrial Research, 65 percent of the mineral water industry does not comply with one or more determined values prescribed for drinking water standards. In fact, the study goes on to state that of the 14 prominent brands in the country, six practically make no mention of the composition except as a general statement.

What then are the dynamics that govern this product category. The key determinant for success is a efficient distribution system and building brand loyalty. However, the concept of buying water is a relatively new concept in the country and efforts have to be made to boost consumption patterns. The majority of purchases are impulsive and the surest way to grab market share is to ensure high visibility at retail outlets through the product and point-of-sale material.

Competition

The competition is foreseen from three broad segments -

- Aerated soft drinks
- Non aerated soft drinks
- Other Mineral water

In the mineral water segment main competition is from Bisleri and Bailley. The sizable players in the market for bottled mineral water are :

Company	Brand	Market Share
Parle Exports	Bisleri	50 %
Parle Agro	Bailley	25%
Mohan Meakins	Golden Eagle	4 %
SKN Brewerie	Penguin	4 %
NEPC Agro	Trupti	5 %
Kothari	YES	2 %
SM Foods	Peppy Minerilli	1 %
Others		9 %

Consumer

Traditionally, the most important user segment has been the 'floating population' or the people on the move. According to a research conducted, this segment accounts for 76 percent of the market. This includes sales at railway stations, railway restaurants, hotels, airports and flights. There are indications that the market structure is changing. In the next five years, with increasing demand, institutional sales will comprise only about 40 percent of the market. This can also be judged from the increasing availability of mineral water at grocery stores and cigarette kiosks. General stores, restaurants, bars and weddings are also seen as areas of growth by industry leaders.

A decline in the quality of tap water in cities (due to urbanisation), changing lifestyles (greater occasions when one is neither at home nor at office) and the ability to pay for safe water have combined to propel the consumer. The market no longer thrives on foreigners. As Indians are getting more health-conscious, they are becoming aware that mineral water is an insurance for safety. Also, there is the prestige element in that some people think of it as a status symbol.

Marketing Mix

Product

Internationally the term mineral water refers to water fortified with minerals. There is also table water (treated water) and spring water (water procured from natural springs and then processed). However there is no such differentiation between the various products offered in the Indian market. No manufacturers mentions the contents, title and usage. The Indian Bureau of standards has not laid down any such specifications.

Packaging

This category stands apart from others as the cost of the actual product is negligible. Packaging works out to 50 % of selling price the amount covering the bottle, the cap and the secondary packaging (cartons). Because the packaging component in high marketeers are moving towards making them inhouse to cut cost, improve margins and keep a check on their quality and availability. Currently the most widely form of packaging is the PVC bottles which cost less. However some companies are shifting towards PET bottles which though costly are more hygienic. Innovation in packaging like serving in plastic cups, polybags and cubi packs for one time use is also resorted to. Offering water in convenient pack sizes is another tack that is being followed to boost sales. Bailley was the first to introduce the 500 ml bottle targeted at office goers who would rather drink water than a soft drink. On the other hand, Bisleri is available in two litre, one litre and 500 ml bottles. Till now no manufacturer has been able to work out an effective recycling mechanism for used bottles.

Price :

The pricing is in the range of Rs. 10-12 per litre.

Distribution :

With hardly any distinguishing USPs, there is very little to differentiate between different brands. In this scenario, all major players in the product category are hard pressed to push sales. Bisleri went about developing the market in a systematic manner.

The company already has 14 units across the country and it is in the process of setting up a major plant in Goa. On the other hand, the makers of Bailley have taken full advantage of the distribution network that was set up to market the hugely successful mango drink Frooti. It has 18 operational units and all but two of them manufacture bottles as well.

Bisleri and Bailley have used the franchising route to ensure wider geographical coverage and to augment capacities. Bailley has 16 franchisees and it plans to add another six soon. Some companies, however, do not consider franchising a good way to grow. It is felt that franchisees do not maintain quality, nor are they interested in long-term benefits.

The distribution network of Bisleri with 7200 outlets and Parle Agro using the same distribution network of Frooti is the most extensive.

The market operates on high retail margins. The distributor's margin is about 5 percent. On the other hand, the retailer's margin is 25 percent, which can almost double in tourist spots where the floating population is large.

Communication

At this point in time no high profile advertising is resorted to nor has any company undertaken the responsibility of selling the generic benefits of mineral water. Though health remains the major positioning platform there is no clear positioning differences between brands. Besides small traditional advertising the companies resort to extensive use of POP's to ensure high visibility.

Annexure 1

Year	Sales Volume
1992-93	3.5 mln cases
1993-94	6.0 mln cases
1994-95	8.5 mln cases (est.)

* 1 case has 12 nos 1 litre bottles

Annexure 2

Cost Breakup

Operating cost	17 %
(manufacturing, transportation, salesforce)	
Packaging	35 %
Profit margin	18 %
Distributor margin	5 %
Retailer margin	25 %
MRP	100 %

Annexure 3

Press/TV spends for Aerated and Non aerated drinks (Jan - Dec '94)

Soft Drinks Aerated

TV spends in Rs. 1000's

Category	154573
Thums Up (Brindavan)	26767
Coca Cola	60662
Dukes Cola	95
Dukes Lemonade	880
Dukes Orange	50
Gold Spot	1110
Limca	4590
Leher Pepsi	26524
Leher Teem	17948
Leher Fountain	1618
Leher Pepsi Series	11528
Others	2801

Press spends in Rs. 1000's

Category	41895
Pepsi	11331
Thums Up	9855
Coca Cola	9768
Limca	4081
Pepsi Range	2084
Others	4776

Soft Drinks Non Aerated

TV spends in Rs. 1000's

Category	58063
Dukes Mangola	1540
Godrej Jumpin	12149
Appy	288
Frooti	11677
Rasna	2531.5
Rasna Coca Cola	236
Rasna Lemon Up	1075
Rasna Powder	2250
Others	26316.5

Press spends in Rs. 000's

Blue Riband Lime Juice	1519.5