Marketing the glacier: evian assignment

Art & Culture

Although widely considered a global success, sales growth and market share have been dwindling in the U. S. for Danone's popular Evian bottled water brand. With the emergence of cola giants Coke and Pepsi's bottled water brands, Dasani and Aquafina, the U. S. market share of Danone's Evian brand has decreased by 50%. With only a 3. 5% market share in 2001, CEO Franck Riboud was faced with making the strategic decisions for boosting the market presence on Evian in the U. S. In implementing a strategy for Evian's future in the U.

S. , Riboud looked at one of its most formidable opponents in the unique U. S. bottled water market ??? Coca-Cola. In the first of two dramatic agreements with one of its primary competitors, Danone announced an agreement in April 2002, for the cola giant to take over the Evian brand in North America. According to analysts at J. P. Morgan, under this agreement Coke will have a master distribution rights to Evian, and will handle all promotional and customer marketing, in-store merchandising, bottler sales, and food service sales.

Danone will still manage sourcing, retain control of Evian's brand image and advertising strategy. Although financial details of the agreement were not disclosed, Bloomberg reported that there the agreement includes incentives for Coke's efforts to boost demand and is based on a target of five percent to ten percent annual sales growth. (We estimate that this translates into a potential return of $8. 5 to $17 million annually given that Evian accounted for about twenty-two percent of Danone's U. S. water sales of approximately $780 million in 2001. If the incentives produce an average increase in sales of $12 million, it would represent an increase of less than one percent of total sales for Danone. Danone's second major agreement came in June 2002, again with Coke. Danone and Coke announced a joint venture for the production, marketing and distribution of Danone's local and regional branded retail bottled spring and sourced water from within the U. S. (for example, Danone's Dannon brand spring water is sourced in the U. S.) The terms of the complex agreement are as follows: ??? Danone contributes the assets of its retail bottled spring and source water business in the U.

S. , including five production facilities, a license for the use of the Dannon and Sparkletts brands as well as ownership of several value brands. ??? Coke paid Danone $128 million cash 51% ownership interest and will provide marketing, distribution and brand management. Most importantly, the agreement contains volume and profit guarantees from Coke requiring sales volumes to grow in line with the large brands in the market (currently 20% annually) to maintain a stable market share while achieving a guaranteed level of profitability. However, it is unclear what penalty Coke faces if it fails to secure this level of growth.

According to J. P. Morgan, the amount of volume involved is 135 million cases and they estimate that revenues for the joint venture could be in the $200 million dollar range. The indifference in the types of water that a U. S. consumer drinks, the difficulties in entering the cola-controlled distribution systems and the extreme price-sensitivity to bottled water have the three biggest obstacles facing Danone in its quest to gain market share in the U. S. In Europe, consumers are more knowledgeable of the types of bottled water and accept the premium on the Evian brand. This premium, of course, is required due to the costly transportation costs of bringing water from the

French Alps to the states.) According to equity analyst estimates, Evian's average price per case is about 80% higher than that of Aquafina or Dasani. In the U. S. , customers place little value on this premium and simply choose the less expensive bottled water. It has been debated by Wall Street analysts that the deals with Coke represent either an alliance that will translate into growth for Danone and Evian or these agreements mark Danone's unofficial withdrawal from the U. S. bottled water market.

Certainly the Coke joint venture, though completed, remained an uncertain guarantee in Evian's gain for market share in the U. S. So many questions remained for Riboud to ponder. How does a CEO disclaim the need for the U. S. market and then complete a mega-deal in the same market a few months later? Will the joint venture with Coke assure success for Danone and Evian? Was this deal a desperate move ??? could Danone have invested in a U. S. market strategy on its own? How does a CEO deal with the rumors of future mergers with U. S. food giants, suck as Kraft, to create a truly global food services company?

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