

It's business as usual on a Wednesday morning in suburban Mumbai, with the Western Expressway highway choc-a-bloc with traffic. But, just off the highway, there seems to be an unusual buzz at Bisleri International's sprawling bottling plant. It's been around a month since the bottled water major launched its new energy drink, Urzza. And there clearly seems to be an overstated intent of making the launch highly visible. A printout of Urzza's sales pitch to retailers is glued right next to the security guard's cabin, even as employees sporting Urzza t-shirts zip past in a hurry. An army of delivery trucks plastered in the navy blue and golden colours of Urzza are lined up outside the main gate. For 75-year-old 'Cola King' Ramesh Chauhan, the launch marks his comeback in the beverages business, one that he had exited in 1993, after selling the rights of marquee brands such as Thums-up, Limca, Gold Spot and Maaza to soft drinks giant Coca-Cola. But Chauhan, the indefatigable entrepreneur, proceeded to create an entirely new segment out of the only business that he was left with, even as everybody questioned the wisdom of selling water. Today, Bisleri is synonymous with bottled water in the country.

Feeling the chill

Bisleri has been losing share in the retail bottled water segment



Note: Off-trade market comprises retail shops, supermarkets and kirana shops; Source: Euromonitor
 But from a monopolistic position, Bisleri has witnessed a steady erosion in market share in recent years. According to a Euromonitor report, Bisleri's market share by value in the off-trade (shops, supermarkets and *kirana* stores) bottled water market has declined from 39% in 2009 to 33% in 2013. Over the same period, PepsiCo's Aquafina has increased its share from 14% to 17%, while that of Kinley from Coca-Cola is up from 10% to 13%. Further, the low-margin nature of the bottled water business is also driving

Chauhan to diversify into the energy drinks business that delivers much higher returns and provides some measure of cross-subsidisation. “It is a simple calculation,” says a long-time distributor of mineral water based in Mumbai. “Currently, Bisleri is the only company in India that exclusively sells mineral water. Consider this: you pay only ₹20 to buy a 1 litre bottle of Bisleri while you pay around ₹40 for the same bottle of Coca-Cola. The input costs for both are roughly the same, you can add ₹1-2 for Coca-Cola’s costs to account for the additional flavor and soda, while the margins are more than double that for Coca-Cola. It is natural for a company such as Bisleri to diversify.” Given Bisleri’s slender profit margin of 3% in 2013 in the mineral water business, it becomes difficult to counter such unassailable logic.

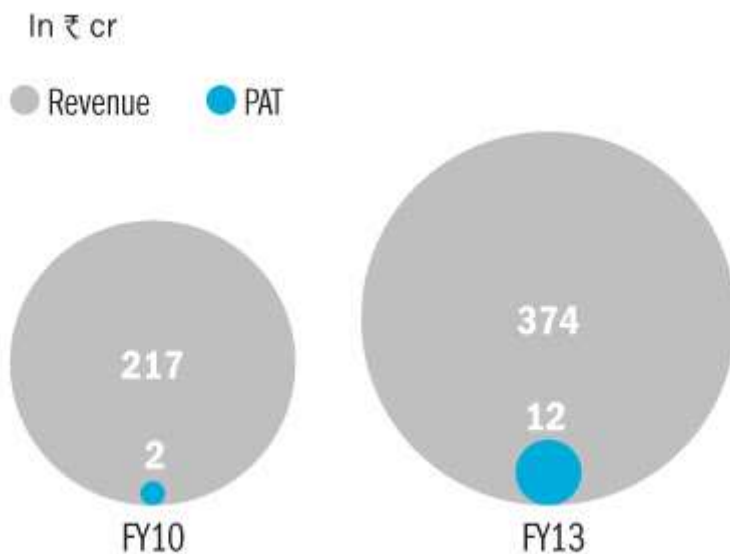
Hence, after a 22-year-long hiatus from carbonated beverages, Chauhan is focusing all his energies on Urzza, a non-caffeinated carbonated energy drink, priced at ₹50 for a 250 ml can or a 300 ml PET bottle. With this, Chauhan is targeting a nascent segment — the fortified functional (FF) beverages segment that includes energy drinks, sports drinks and everything in between that is not a carbonated soft drink. Will Urzza then provide the fizz that Chauhan is looking for?

Free-for-all

The eleven-year-old Indian energy drinks market, valued at around ₹800 crore and growing by 25% a year, is a drooling toddler about to get on its feet compared with the established carbonated drinks market, which is estimated to be around ₹20,000 crore. While the FF beverage market is more diversified in international markets such as the US, the UK and Japan, it is divided into two broad segments in India — energy drinks and sports drinks — which are dominated by Red Bull and Gatorade, respectively, and a smattering of smaller players such as Tzinga, promoted by Hector Beverages, and Cloud 9 by Goldwin Healthcare.

Not sparkling enough

Bisler's topline is growing steadily but profitability has improved



Source: Ace Equity

“There are no rules here. All the companies are working in an experimental mode to open up this market,” says Ankur Bisen, senior vice-president, retail, Technopak. Take the case of Urzza: Bisleri is positioning it as a liquid charger — a product that can be had by anyone, anytime — for a quick infusion of energy. Its price tag of ₹50 for a 250ml can is at a premium to soft drinks but lesser than energy drinks such as Red Bull and Monster, which are priced at around ₹100 for a 350ml can.

Chauhan claims he is trying to create a new category. “I don’t want it to be branded as an energy drink. The energy drinks market is very small. We are aiming for bigger things. We want a product that tastes good, is refreshing and works as a pick-me-up. Urzza is not an energy drink but a power drink,” he says. Chauhan claims he spent two years developing a taste that is ‘interesting and intriguing’. “In India, drinking a soft drink is an experience, unlike in America, where it is looked upon as a washdown because their food is so dry. They’re not conscious of brand or taste,” he says.

In 2012, the Food Safety and Standards Authority of India (FSSAI) mandated that beverages such as Red Bull, Monster and Burn that contain more caffeine than the permissible limit of 145 parts per million should be named as caffeinated beverages.

FSSAI also ordered these beverages to display statutory warnings that the products are not recommended for “children, pregnant or lactating women, persons sensitive to caffeine and sportspersons”.

By excluding caffeine, Chauhan intends to target a wider base of customers including both “children and grandmothers” and integrate his product into the lifestyle of “upwardly mobile” consumers. “Just like people have tea the first thing in the morning, we want this product to be consumed all the time. That’s why we kept caffeine out since there are objections against it,” says Chauhan. He says that he intends to conduct promotional campaigns in schools and colleges to promote daily consumption of Urzza. But, for now, Bisleri is targeting the upwardly mobile in the age bracket of 16-25 years through its marketing campaign.

All charged up

More than taste, Bisleri is hoping that pricing will do the trick

					
Bisleri International	JK Ansell	Hector Beverages	Monster Beverages	Red Bull GmbH	Goldwin Healthcare
50	95	30	95	95	95

Source: Retail trade

This sentiment is echoed by Mohit Ahuja, senior vice-president, Soho Square, which handles Urzza’s ad campaign. “We want to target consumers of both soft drinks and energy drinks. That is one of the reasons why we deviated from the norm and launched Urzza in PET bottles and cans. This gives us shelf placement near both soft drinks and energy drinks. We want to massify the energy drinks segment,” he says.

While the advertisements are targeted at young adults, the consumer target encompasses all age groups, clarifies Chauhan. He adds that the reason they’ve also launched Urzza in a PET bottle is to facilitate mobility. “The customer can just cap the bottle and take it away. Also, he can see the drink. We’ve launched it in a can as well because the image

of an energy drink requires us to sell it in a can. Otherwise, bottles are more functional,” he says.

Most energy drinks advertise that the consumer derives energy not from the calories contained in them but from a carefully concocted combination of caffeine, vitamins and herbs. Urzza carries no such disclaimer. “The notion that energy is only derived from caffeine has been falsely perpetuated. Colas contain caffeine too. In reality, the key energy is derived from the sucrose. We have to change the way energy drinks are perceived,” says Ahuja. Sharmila Sandeep, marketing head at Bisleri, says that caffeine is a stimulant and not a source of energy. “As mentioned in the ingredients, our product contains vitamin groups B and C as well as tartaric acid, which aids in digestion,” she says. Clearly, the fact that caffeine is equated with energy in the Indian consumer’s mind is not lost on Bisleri.

However, Bisen feels that the energy drinks consumer is too young to make such mature choices and believes that Bisleri is not too late to the party. “The market has only grown over the past two to three years. Right now, the reference point for any energy drinks consumer is Red Bull, which had a first-mover advantage. They think energy drinks are supposed to taste like that. But there are many people who have not tasted energy drinks yet,” says Bisen. Bisleri can target this segment and achieve traction through a two-pronged strategy — a strong push along its well-established distribution network and an aggressive marketing campaign that emphasizes its key differentiator — an agreeable taste.

Push and pull

Bisleri’s formidable distribution clout, with 13 owned plants, 34 co-packers and 16 packers covering a retail base of around 5 lakh outlets, is a key advantage that the company has over its competitors. “Wherever Bisleri goes, Urzza will follow,” says Chauhan. This includes both off-trade outlets such as supermarkets and kirana stores as well as on-trade sales outlets such as restaurants, pubs and cafes. According to a Euromonitor report dated July 2013, 13% of all energy drinks sales in 2012 were through the on-trade segment. Bisleri has also launched a 360-degree marketing

campaign encompassing all key mediums — TV, print, radio, digital and outdoor. The product is positioned as a premium drink for youngsters but Ahuja says they might target other age groups in future TVCs.



“We need to justify the price. That is where the taste and imagery comes in. We have chosen international locations and international models in order to create a premium image and buy into the aspirational zone,” says Ahuja. “Gold is a premium colour, which is why we decided to use it on the can,” says Sandeep. But if taste is a key differentiator, why has Bisleri not advertised the same? Ahuja says that they haven’t made taste the pivot of the TVCs, because taste needs to be discovered. “However, in print and outdoor advertising, we have positioned it as an ‘awesome-tasting’ drink,” he says.

Also, why the double z? Chauhan says he doesn’t like four-letter words since most of them bring to mind swear words. He says that’s the reason he added the double a in Maaza. “Five-letter words are wholesome. Also, the pronunciation of the letter z varies within Indian languages. To make the pronunciation very clear to consumers, we made it a double z,” says Chauhan.

When asked about why he chose a brand name derived from Hindi when his target consumers are yuppies, Chauhan retorts that people will soon forget it as a desi name after two to three months of advertising. “Maaza, which also has a desi name, has done really well internationally in the European and American markets. Instead of the name, it

is the image you create around it that matters. The important thing is that it should be simple, easy to remember and should sound good,” he says.

Numbers game

Chauhan has invested ₹100 crore in five manufacturing facilities of Urzza at Bengaluru, Rudrapur, Kolkata, Mumbai and Ludhiana. Four of these are new factories, while one Bisleri factory has been equipped to manufacture Urzza. The company will source from two third-party manufacturers based in Pune and Indore. He has put in a further ₹100 crore for marketing. Chauhan says he entered the beverages market after realising that the buzz around the energy drinks market did not match up to the sales. He finds it to be a latent market, one that is both a challenge and an opportunity.

A consultant commented “India is not a very fitness-oriented country and we are mostly water drinkers. In fact, the upwardly mobile segment is such that it needs to burn calories. I want to know what research companies do in order to arrive at the conclusion that the Indian market is ripe for energy drinks,” he says.

Chauhan reasons, “People go in for new products because existing products are not doing well. But Bisleri is growing at a good 25%. I could have let it continue. But Bisleri has a logistics problem. It is costly to transport to far-off places. With Urzza, the logistical expense will be lower since unit size is lower and revenue much higher.” With the cost of an Urzza can coming to ₹6.25, and the estimated capital costs (electricity, land, machinery) for producing one can amounting to around ₹10-12, the input cost of producing is not more than ₹20-21, says another Bisleri distributor. Currently, Bisleri derives revenue of ₹35 per Urzza can, excluding excise and sales tax, thus netting a cool ₹12-15 per can of Urzza. The product is pushed to the retailer packaged as a six-pack at an average price of ₹40, leaving him a neat ₹10 spread. Competitors such as Red Bull offer a 15-20% margin along with attractive package deals; Bisleri will need to match these levels. In comparison, with Ebitda margins hovering around 10% in the last three years, it can be estimated that a 1-litre bottle of Bisleri water sold to retailers at ₹20 fetches the company around ₹2 per bottle. Keeping these figures in mind, it is not difficult to guess why Chauhan is looking to diversify.

Bisleri also may be suffering thanks to aggressive competition. A retailer based in Santa Cruz in suburban Mumbai says, “During the summer season, my shop is filled with Aquafina bottles that Pepsi provides me free of cost along with bottles of Pepsi and Mirinda. I don’t need to buy any Bisleri at all.” However, Chauhan strongly denies any decline in market share. “The data showed by Euromonitor only covers retailers. It doesn’t include the direct distribution that Bisleri does to homes, corporates and the horeca (hotels, restaurants and canteens) segment,” he says.

Keeping it cool

Urzza is looking at a sweet spot between carbonated and energy drinks

	TOTAL	2013-18 CAGR (in %)
Carbonates	20,103	5
Concentrates	695	2
Juice	8,423	18
RTD Tea	106	2
Sports and energy drinks	767	9
Total soft drink market	30,094	14

In ₹ crore

Source: Euromonitor

But what is very clear is that though revenue is growing 20% every year, with ₹12 crore PAT on revenue of ₹373 crore, the water business is not impressive enough.

With a balance sheet size of ₹142 crore in 2013, it is certainly bold on Chauhan’s part to invest ₹200 crore into Urzza. Chauhan aims to garner 10% of Bisleri’s volume sales by the end of one year. “We aim to sell 24 crore cans of Urzza within one year and garner around ₹800 crore of revenue,” says Chauhan.

While it’s too early to comment on the product’s commercial success, the very fact that Urzza lacks a clear competitor, doesn’t conveniently fit into any pre-existing product category and doesn’t advertise its source of energy, might go against the beverage.

“Presently, market reviews are 50% good and 50% bad. The 50% bad reviews are because consumers are accustomed to the taste of Red Bull and Monster. It’ll take time

for Bisleri to make inroads,” says a Mumbai-based retailer. However, another retailer says that customers have started asking for Urzza after the TVC has aired.

Chuahan, a brand veteran, is convinced that his product’s taste and pricing will click with consumers. “They have the money and they want something extra. Urzza is a premium luxury drink that fits the bill,” he says. What about the other players who are targeting the same customer segment? “We do not have any competitors,” he reiterates. Only time will tell if this brand veteran, indeed, has got the Midas touch.