



# Bottom Line

# on the Bottling Line

**F**or many water treatment dealerships, adding bottled water to the inventory of products and services may seem like a natural progression. After all, it is the fastest growing sector in an industry that includes the omnipresent Coke/Pepsi carbonated beverages, as well as the lucrative beer market. In 2003, the consumption of bottled water in the United States rose to 22.6 gallons per capita. Impressive growth like that might make the temptation to enter this area of business overwhelming. After all, the technologies used to purify water are employed routinely by most dealerships and the route deliveries of bottled water are not much different than delivering salt.

Why not then? There are many factors that must be taken into consideration in today's market that can improve the time line for success, or lead to potential failure. Careful consideration of certain factors can help assure a share in this growing market.

## **Market sector**

The sector that holds the greatest potential for water treatment dealers is the five-gallon market. However, the majority of the 7.5 percent increase in bottled water sales from 2002 to 2003 is in the small bottled sector. This "shelf" water represents gigantic potential, but look at the competition. Attempting to compete for coveted supermarket shelf space against the likes of Pepsi and Coke or Perrier/Nestlé is not only the story of David and Goliath, but a real Herculean task. The competition for shelf space in retail establishments is so fierce that often the bottled water, whose cost of production is so much lower than soda pop beverages (no sugar, no carbonation, no secret flavor formula) is bargained and bartered to get space for other products. I know of some other-than-mythological successes in this market, mostly with small run, private

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labeling, but it is tough competition for growth. If you are too successful, the competition has the ability to eliminate you at will.

It also involves the in-house production of polycarbonate plastic bottles, (0.5 liter to 1.5 liter) or polyethylene (one gallon) complicating the amount of equipment that must be purchased and more importantly, must be maintained. In this sector, "pennies make dollars", and "the numbers game" is always the rule. There is some growth in the small bottle market sector but most of this is in emerging markets overseas, where the multinational rules are yet to be written and the water is not potable from the tap.

## **Understanding your market**

The key to this section is the word *your*. It is important to consider not only the potential of your market but how much of that market you can conceivably hope to take on. I met one bottled water dealer from Manhattan at this year's Water Quality Association/International Bottled Water Association (WQA/IBWA) joint meeting in Chicago. His market area was mostly one building, but that building happened to be the Empire State Building in New York City. It provided the majority of his market reach. In my company's case, we have to go five counties to reach a population density of 150,000. This is a limiting factor on the potential of the market available to us because of the effective costs of providing service.

It is important to do market research. I'm not talking about hiring a consulting firm. Just take a look at who is providing bottled water in the area you hope to penetrate. What type of water are they providing? What size containers, and at what selling price? As a water treatment

professional, you have a business with liabilities and a reputation to protect. You, of course, will do it right, but you must still consider what's out there and at what cost. The bottled water industry is regulated by the U.S. Food and Drug Administration (FDA) as a packaged food product and has stringent standards for safety, quality, production, labeling and identity. However, most enforcement falls under state government inspections that can be surprisingly weak. This allows many levels of entry into this market that may also force downward pressure on pricing to an uneducated consumer (i.e. the provider that fills bottles from a garden hose in his garage). These people can certainly provide a cheaper product and service than a provider committed to the highest standards set by FDA, state government or the more stringent IBWA model code.

An observance of current and heralded regulations must also be considered. As an example, the coming arsenic standards may cause an increase in awareness that may help to increase the market potential.

## **Doing your homework**

Federal, state and industry standards help ensure product and consumer safety, quality and good taste. "Along with the FDA's Good Manufacturing Practices (GMPs), required of all foods, bottled water has several other applicable regulations including Standards of Identity, Standards of Quality and additional, specific bottled water GMPs. Being a packaged food product, bottled water is also bound by the Nutritional Labeling Regulation Act and the full range of FDA protective measures designed to enforce product safety and protect consumers. States may also mandate additional bottled water standards and also serve to inspect, sample, analyze and approve bottled water sources".<sup>1</sup>

The International Bottled Water Association upholds additional standards through the IBWA Model Code. IBWA is an industry trade association that functions much like our Water Quality Association. Like WQA, IBWA serves as a clearinghouse for information and a networking opportunity to gather with others in the industry to help meet group goals. The Model Code also subjects IBWA members to annual, unannounced plant inspections by nationally recognized third-party organizations.<sup>2</sup> The IBWA can be reached at [www.bottledwater.org](http://www.bottledwater.org). I recommend that when considering entering the bottled water business you should, at minimum, know and understand the IBWA Model Code and build your facility to conform to these standards. By doing so, you assure the GMPs necessary to protect your product, the consumer and your business. Talk to a good insurance provider about the liabilities associated with producing and distributing a food.

### **Doing it right**

Our company has provided bottled water service for more than 23 years. I always believed it to be a good fit with other aspects of the water treatment business. In our early years, the home distillers and emerging reverse osmosis systems were relatively expensive and involved a great deal of consumer education. The bottled water industry was born, for the most part, as a convenience. More recently that industry has answered the quest for purity demanded by a more educated and concerned public. It is common practice to get an existing bottled water manufacturer to fill bottles for you, which is what we did. The difficulty in doing so is that few bottlers are willing to help a competitor get into the business. This means finding a provider that is not directly in your target market area. This can put "wheels" on your bottled water that lead to higher costs and less profit.

As an example, we had a major bottler provide our water. This led to a stock sale that resulted in a partnership that lasted many years. However, our water was produced in an IBWA facility in the Detroit area, put into 30-bottle racks, and loaded by lift trucks onto a semi that transited the 280 miles to our Traverse City warehouse. We unloaded the racks and placed them, as needed, on to our eight bay delivery truck for distribution to our customer base. We estimated that this added as much as \$1.75 to the cost per bottle. When we parted company in

a stock buy-back nearly two years ago we were delivering more than 36,000 bottles per year. Capitalizing to build our own facility was a no-brainer. The pay-back on investment, including down payment on the building, top of the line bottles, racks and state-of-the-art washer/ bottler was less than two years. By this time, we also had the information on the size of our market potential that allowed us to buy the proper equipment to meet our demands without over- or under-buying. In making my decisions I called on my experience (we have built water systems in support of seven bottled water facilities) and information from people in the industry. Chuck Swartzle of Besco Water gave me great advice when he told me, "Don't buy cheap and don't buy too small." Your washer/bottler is the heart and soul of your operation. Trouble here causes ripples through the entire operation. There are major suppliers of automated washing/filling/capping machines that are supplying good machines in the 150- to 300-gallons per hour range that were not available in years past. These can really ease your entry into the bottled water market. Ours has a multi-stage wash, multi-stage rinse with final product water/ozone rinse. It flips and fills the bottles and caps them with an ozone cap rinse. The entire fill is done with filtered positive air displacement. (This can function as a "clean-room" to lessen some of the build out requirements. However, the IBWA model code does not accept this and insists on a separate fill room with positive air displacement.) The bottle wash port and exit conveyer are right next to each other for one-man operation. There is some entry level equipment that uses chemical washes, with hand filling and capping, but all the handling can increase the risk of cross-contamination.

Lastly, testing of product water along with proper date coding is a very important requirement. We are fortunate enough to have a State Certified laboratory as part of our operation. We perform our daily sampling for coliform/fecal *e coli* in house. Our yearly product/source water testing is outsourced to a national laboratory. It is only good business to have enough (quality) racks and bottles to hold until they can be cleared for testing. This lessens the potential of having to recall water from the field.

### **The bottom line**

Bottled water can make a profitable addition to a water treatment dealership.

Independent dealerships have an easier time entering the market than franchises that may have prohibitions against it unless you buy from an authorized supplier or become one. Over the years it certainly has been good to me, but nowadays there are a lot of competitors, so beware. I would be remiss if I did not mention the pressure on cooler rentals from big box stores. We have many requests lately to buy out their rental coolers, sparked by a "why rent" promotion at a large retail home store, that has put some serious pressure on this once rock-solid part of the business. There are many varieties of coolers and from overseas (China in particular) are very cheap with recognizable brand names. Good quality coolers are a very important piece of the puzzle. The one I favor has double overflow protection that is becoming more important with the emerging mold and mildew issues. My insurance provider has just informed me that they will not cover claims for mold or mildew.

With some planning and consideration, your profits can come quickly. As interest rates are still quite low, lease with buy-out makes it reasonable to buy the proper equipment that will facilitate your growth and help assure a quality product.

As a side note it is important for all to remember that more than 6,000 children die each day from treatable water related disease. Stewardship with the most precious of Earth's natural resources is that important.<sup>3</sup>

### **References**

1. <http://www.bottledwater.org/public/2004>
2. [http://www.bottledwater.org/public/pdf/IBWA\\_MODEL\\_CODE\\_2004\\_rev\\_Oct03.pdf](http://www.bottledwater.org/public/pdf/IBWA_MODEL_CODE_2004_rev_Oct03.pdf)
3. <http://www.WorldHealthNews.harvard.edu>

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