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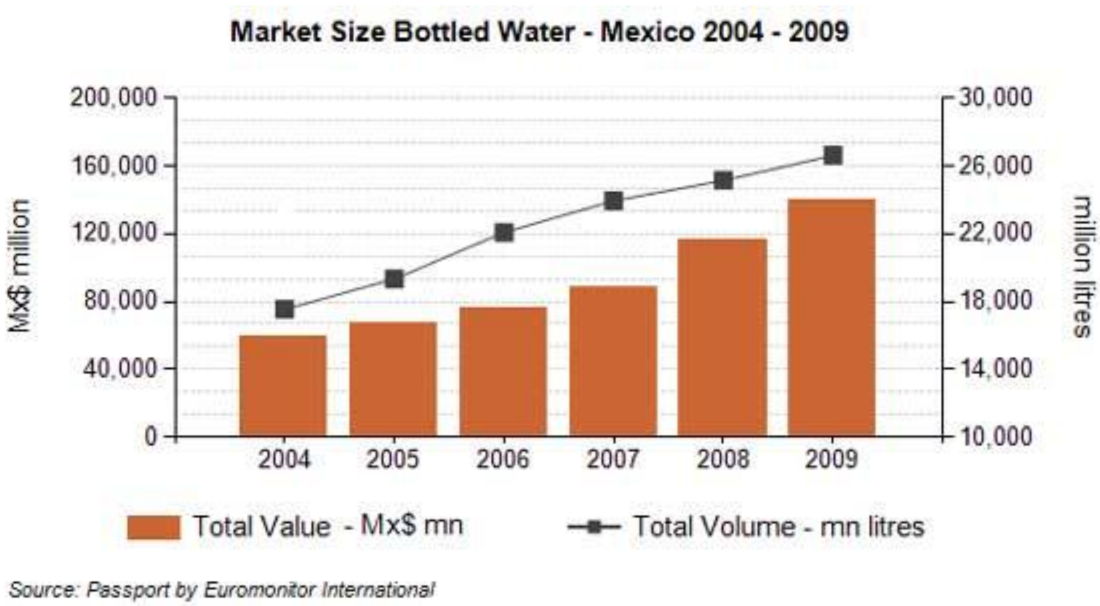
MEXICO WATER REPORT

Lga Consulting

Bottled Water in Mexico: Second & Growing

In 2009, Mexican bottled water volumes grew 6% and current sales revenues grew by 8.6%, making the market third highest in the world behind China and the United States. As a result, Mexico produced 26,000 billion liters of bottled water and $140 billion pesos (US$10.7 billion) in revenue. The graph below demonstrates the enormous revenue growth in the sector, with revenue having doubled since 2004 and having increased by 1/3 since 2006.



The low quality of the tap water in Mexico due to the hazards of the microorganisms and bacteria as well as odor and sediment problems, have helped strengthen the demand for bottled water. Advertising campaigns exhorting the health benefits of purified water plus a very effective distribution system by the major players have also been crucial for this industry. While most of the rest of the world seems to be moving away from bottled water and toward tap water purification solutions for environmental and cost reasons, the continued skepticism on the part of most Mexican consumers for home tap water purification systems keeps the already maturing Mexican bottled water market vibrant.

According to a study done by the Mexican National Water Commission (Conagua), the quality of the superficial water in Mexico is:

- Not contaminated (6%)
- Acceptable (20%)
- Lightly contaminated (51%)
- Contaminated (16%)
- Very contaminated or contains toxic substances (7%)

Mexico is among the top countries in the world for the consumption of bottled water. Consumption statistics for 2004 in the first table below show that Mexico is the second largest market behind the United States. In fact, 2009 figures show that Mexico (8.6% increase) was third in overall bottled water revenue growth behind only China (71.5%) and right with the second place U.S. market (8.8%). Some industry sources have reported that Mexican revenues for bottled water could be close to equaling those of the United States. Considering that Mexico has only 33-40% of the population of the United States, these consumption and revenue figures are even more noteworthy.

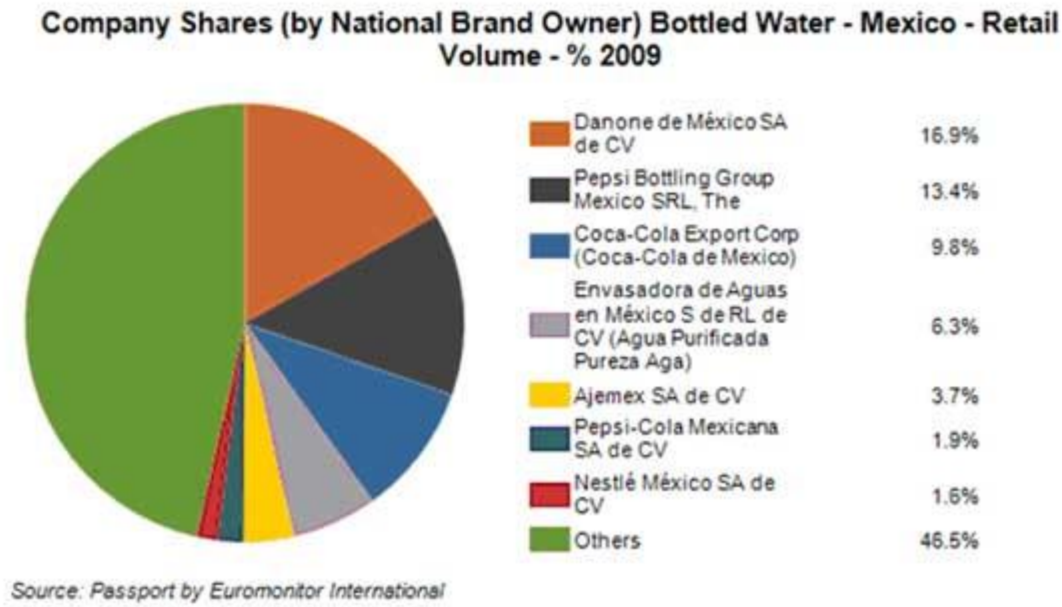
The second table below shows that Mexico also was the second largest consumer of bottled water per capita, well ahead of the United States and other countries and only behind Italy. The Trade Office sees no significant trends that have occurred since 2004 that would suggest that the nature of these indicators and figures would be dramatically different today.

Top Countries Bottled water consumption in liters in 2004
USA - 26,000 million
Mexico - 18,000 million
China - 12,000 million
Brazil - 12,000 million

Top Countries Bottled water consumption per capita in 2004
Italy - 184 liters
Mexico - 169 liters
Belgium - 145 liters
France - 145 liters
Spain - 137 liters

Major Bottled Water Players in the Mexican Market

The retail bottled water market in Mexico is dominated by multinationals but there is considerable competition. Unlike the U.S. market where Nestle (>50% of the market) and D&S Waters (25-33% of the market) control the majority of the market, the three major competitors in the Mexican retail market (Danone, PepsiCo, and Coca-Cola) account for only 40% of total sales. Surprisingly, Nestle, the U.S. bottled water leader appears to have less than 2% of the Mexican market. In 2006, Coca Cola reported that 20% of its revenue came from bottled water sales, and there is every reason to believe that that figure today represents as high as 25%, if not 30%, of its sales today.



There are almost 6,000 bottled water manufacturers in Mexico, with 10 large consortiums, 150 large companies, 300 medium companies, 600 small companies, and 5,000 micro-companies in the mix. The National Association of Purified Water Distributors estimates that close to 85% of bottled water comes from small/micro bottlers. The lead companies have strong national distribution and sales support thanks to other major channel synergies, and they count on extensive promotional and advertising campaigns to position their brands. Smaller companies have strong regional components that help them compete in some market segments, especially with 20 Liter containers known as garrafones, which is the standard way to go to market for household drinking water use for upper, middle, and even lower class consumers although some lower class consumers simply drink water from the tap. Many of these local, micro companies, perhaps even 50%, do not currently meet Mexican minimum quality standards yet find a way to avoid regulations and government or sector oversight and standard implementation.

Although Mexico has traditionally been, and continues to be, one of the most important consumers of soft drinks, bottled water volumes have surpassed those of carbonated water, milk and beer since 2003. Bottled water's revenue share among beverages (alcoholic and non-alcoholic) went from 19.7% in 2002 to 28.2% in 2007.

Costs and Prices

Bottled water is relatively cheap in comparison with other beverages. However, it is interesting to note that 1,000 liters of tap water in Mexico would cost between 1.70 and 2.50 pesos (15-20 U.S. cents) to deliver to the end-user while the same amount of bottled water could have a retail price of 2,500 pesos, or close to US$200. One day, the reality that purifying tap water is much less expensive than bottled water options will impact the viability of this industry but this might not happen for decades, or more, considering the current Mexican water "culture". However, as bottling prices go up, the need for adapting to this option will begin to change and perhaps faster than we can imagine under the current national water reality.

In Mexico, bottled water represents a third of the cost of carbonated waters and soft drinks. A recent study from the Mexican Institute of Consumer Protection shows that the price of soft drinks and carbonated waters is 67% above that of bottled water (does not include garrafones). Nonetheless, in 2009, bottled water prices increased 13-14%. Therefore, while one liter of soft drinks costs 7.12 pesos (US$0.55) to produce, bottled water costs only 4.27 pesos (US$0.33). It is interesting to note that in the United States, one gallon of bottled water costs almost 1/3 less than in Mexico, or about US$0.13. Nonetheless, Mexicans still consume considerably more soft drinks than bottled water. The average Mexican family spends 211 pesos (US$16) per month on soft drinks vs 135 pesos on bottled water (US$10).

Bottled water consumption is expected to grow by 5% annually between now and 2014. If this 5% growth figure is met, it should mean annual production equal to 33,000 million liters and annual sales of $169 billion pesos or US$13 billion by 2014.

FORECAST

Market Size Bottled Water - Mexico 2009 - 2014

Source: Passport by Euromonitor International