Bottled water emerged as the second largest commercial beverage category by volume in the United States in 2003, and, despite its significant stature, it continued to grow at a rapid pace in 2004. The category is growing even more forcefully on a global scale. In recent years, U.S. volume has been increasing more rapidly than dollar sales, but on both fronts, the industry's performance is unparalleled.

The qualities spurring bottled water's growth are clear. Many consumers recognize it to be healthy, safe and, in some instances, of superior purity to alternative sources of water. It's a versatile product, suitable for consumption at any time of day and need not be kept cold (like soft drinks or juice) or warm (like coffee or tea). As far as ready-to-drink commercial beverages go, it's relatively inexpensive. And as the difference between growth rates for volume and dollars indicate, it is becoming increasingly affordable. Various packaging types, ranging from bulk to single-serve, facilitate a variety of uses. Consumers' growing interest in healthy, low-calorie products that confer benefits above and beyond refreshment also contributes to the quintessential hydrating beverage's performance in recent years. As concern about obesity grows more widespread and intense, bottled water's calorie-free contents appear that much more attractive to consumers.

Domestic non-sparkling water, especially the retail premium PET segment, is the star of the U.S. packaged water industry, consistently outperforming other segments. Indeed, it is primarily the single-serve PET segment that is driving overall category enlargement, and leading companies have forged new distribution arrangements in order to thrive in the growing PET segment while also attempting to revive other segments. Recently, imports and sparkling waters have returned to growth. Bulk and direct delivery volumes have not enjoyed the levels of expansion that characterize the PET water. Outside the United States, home and office delivery (HOD) is a vigorously growing segment.

The U.S. Numbers

In 2004, total U.S. category volume surpassed 6.8 billion gallons, an 8.6% advance over 2003's volume level, according to the latest edition of Beverage Marketing's comprehensive study of the market, Bottled Water in the U.S. That translates into 24.0 gallons per person, which means U.S. residents now drink more bottled water annually than any other beverage other than carbonated soft drinks (CSDs).

While CSDs still have volume and average intake levels more than twice as high as bottled water, the soft drink market has been stagnant lately, in no small part due to competition from bottled water. Per capita consumption of bottled water has been growing by at least one gallon annually, thereby more than doubling in a decade. Average intake of CSDs has dipped slightly for several consecutive years. The diet segment has been the strongest part of the CSD business. However, bottled water volume was almost 2.2 billion gallons larger than diet CSDs' 4.6 billion gallons, and bottled water grew at a faster clip than diet CSDs' 6.2% growth rate in 2004.

The U.S. bottled water market reached new highs not only in volume but also in wholesale dollar sales, which approached $9.2 billion in 2004. However, not only did sales growth slow compared with the previous year, which was not the case with volume, but sales also grew at a lower rate than volume for the second year in a row. This reflects the impact of price promotions, especially on PET multipacks, which are increasingly the focus of such promotions as well central to volume growth. Once primarily a tactic used on the West Coast, lowering prices to attract buyers is being seen with greater frequency throughout the United States.

Based on historical trends and the latest developments, Beverage Marketing expects bottled water volume to approach 7.4 billion gallons on growth of 8.1% in 2005. Wholesale dollar sales are expected to slow again but still advance at a solid 6.9% to reach $9.8 billion.

U.S. Category Developments

Domestic non-sparkling water is by far the largest component of the U.S. bottled water market. Its 6.4 billion gallons represented 94.2% of total volume in 2004. While the segment increased at a slightly slower rate than the overall market, it comprises diverse components with very different performances.

The most vital piece of the non-sparkling segment is the retail PET segment, which account for almost half of total bottled water volume in the U.S. in 2004 and is projected to exceed 50% in 2005. PET volume increased from 1.3 billion gallons in 2000 to almost 3.6 billion gallons in 2004, boosting its share of volume from 29.0% to 47.8%.

As consumers increasingly opt for convenient PET multipacks in large format retail channels instead of larger (1 to 2.5 gallon) sizes, retail bulk volume has slowed. Its share eroded from nearly one-quarter of category volume in 2000 to less than one-fifth by 2004, largely as a result of competition from PET.

HOD volume declined in 2003 and 2004 but losses are beginning to moderate. The segment accounted for 19.7% of bottled water volume in 2004.

Domestic sparkling water has revived, with market beating 9.3% volume growth in 2004. Imported water achieved its third consecutive year of double-digit volume growth, enlarging by 18.3%. Even with this strong showing, imports grew less quickly than the muscular PET segment, which swelled by 20.4%. Moreover, imports are not expected to grow nearly as fast in 2005 as they did in 2004, while retail PET is poised to extend its streak of double-digit annual volume growth.