



PACKAGED WITH POTENTIAL

Understanding the opportunities
in the growing water category

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Introduction

Water currently accounts for 41% of the global drinks market. It is the biggest selling beverage and also the fastest growing area with a global compound annual growth rate (CAGR) of approximately 4.2% and 2.2% in Europe (2020-2024)¹. It is a thriving category, driven by the continued growth of the health and wellness trend as well as wider macro considerations such as the introduction of sugar taxes in many regions and labelling changes. However, while there are undoubtedly opportunities to be had in this category, there are challenges too.

Water is a competitive market. Just take one look at the bottled water aisle of any retailer and the sameness of the products on offer is apparent. A pressing challenge for operators in this market is finding means of differentiating their product while creating genuine shelf- and brand-appeal that will capture consumers' imaginations.

Alongside this, there is a global environmental movement which favours sustainable packaging solutions and is gathering momentum. In the space of just two years, consumer attitudes have shifted significantly in this regard which, in turn, is having a considerable impact on their purchasing decisions.

This report identifies how the packaged water market is evolving, where the opportunities exist and, critically, explores how to develop and deliver a concept that both reflects consumer needs and is commercially viable.



Water, water everywhere

Rising Levels of Demand

Global consumer demand for water is growing, with still water volumes on the rise in different parts of the world and flavoured water showing positive growth in every territory. In 2020, 237.5 billion litres of still water was sold globally, with Western Europe accounting for 42.7 billion litres, Eastern Europe 20.8 billion litres and North America 45.4 billion litres². Global flavoured water sales in the same period reached 8.4 billion litres³. While this figure is significantly lower than still water sales, this segment's 3.7% CAGR (2020-2024)⁴ represents a larger relative increase than still water.

Within Europe, water makes up around 18% of the drinks category, the largest market share after hot beverages. With an expected global CAGR of approximately 4.2% and a European CAGR of 2.2% between (2020-2024), this is a sector enjoying steady growth – particularly compared to +0.7% CAGR for carbonated soft drinks and +0.2% for juices and nectars (2018-2021)⁵. Based on strong demand for easily-consumed, water-based beverages, the outlook for innovative, trend-fulfilling products in this area is positive.

Health and Wellness

In 2020, consumers bought 237 billion litres of packaged water globally⁶. There are a number of factors driving this demand. In addition to a rising global population and the need for safe, clean water are influences such as new consumer trends and behaviours. The growing health and wellness megatrend is key. Over the last decade, there has been a sea change around consumer perception of natural food and drinks. Today's manufacturers have to cater to a new generation of savvy consumers who scrutinise everything from ingredients lists, packaging and production methods, while also having expectations around innovative functionality which must be satisfied.

Rising obesity levels, the increasing prevalence of diabetes and the recognition of the need for, and adoption of, healthier lifestyles have also had a huge impact. More and more, sugary and carbonated drinks are falling out of favour and governments around the world are taking action in this area in response to public health concerns. As of 2019, 41 countries have sugar taxes in place.

We can see clearly that consumers no longer perceive still drinks as being healthy and the water category is benefitting as a result.

Shifting Demographics

Coupled with lifestyle changes and improved hydration awareness are demographic influences which are impacting not only the overall demand for water-based beverages, but also their method of consumption and preferred health claims. Millennials consume differently and have different priorities. The environment really matters to them but so does hydration and on-the-go hydration that helps them fulfill their lifestyles. 73% of consumers in developed markets drink bottled plain water on-the-go, 60% at home. On this point, it is worth underlining however that during COVID, out of home consumption of water was severely impacted. In Europe alone, it suffered a drop of 8% in 2020 but assuming that normality returns and despite this setback, out of home consumption is actually set to rise overall by 5% (2020-25) which makes the opportunity still a really interesting one.⁷

Today's time-poor consumers need flexible consumption options that are convenient enough to fit in with their lives, but they also want the option of smaller portion sizes so they don't feel over faced. This is creating a need for new packaging alternatives that are functional, to meet lifestyle choices, but sustainable too.

The expected CAGR of water between 2020 and 2024 is approximately 4.2% globally and 2.2% in Europe.

E-commerce

Also partly as a result of COVID-19, the-commerce channel experienced a 6% increase in packaged water sales in 2020 and is expected to grow further over the coming years. To fit this channel, brands need to think about space efficiency and robustness of packaging. Consumers are getting used to shopping online which is why brands should consider being present in the channel if they are not already. And on the digital shelf, carton exposure can be outstanding with the right choice of package and design.

Food Safety

At the same time and also as a result of COVID-19, research published in the Tetra Pak Index 2020 report reveals that food safety is considered a major issue for society, according to more than two-thirds of the respondents. It also reveals that in their minds, consumers try to balance the critical priorities of human existence through safe food and sustainability of the planet we live on.

Powerful and positive trends like these will continue to drive growth in the water category. Market insights play a critical role in ensuring that beverage companies are able to identify the trends that offer their business the most potential to optimise their investment and improve their chances of success.



The same but different

Sustainability

The environment and climate change are rarely out of today's headlines and levels of concern for our planet's sustainability have risen dramatically in a short space of time. Interest in the environment is growing and the conversation is getting louder. Tetra Pak research reveals that in 2018 alone, the conversation around sustainability generated nearly 13.8 million mentions in social and online news media – a rise of 48% versus the previous year⁸. It is a conversation that continues today even throughout the global pandemic.

One of the most widely discussed topics was sustainable developments and corporate social responsibility. As a result, minimising environmental impact is now reflected in sustainability initiatives across many businesses, from packaging and production to delivery and recycling. Tetra Pak's 2019 research shows that 86% of consumers expect the focus on environmental issues to increase over the next five years and 2 in 3 consumers believe that our planet is heading for environmental disaster unless we make changes to our daily habits quickly⁹.

But what does this mean for the water category, where packaging is critical? Currently, the overwhelming majority of the bottled water market is currently plastic, but with 86% of European consumers saying they believe that food and beverage packaging with a low environmental impact will be important in the near future¹⁰, it seems that the tide is turning.

Our 2019 research shows that among a growing number of consumers, environmental concern is translating into action when making purchasing decisions. In 2019, 21% of consumers purchased an environmentally sound product even if it costed more (a 6% increase since our 2017 study)¹¹.

Similarly, 20% avoided a particular product or brand for environmental reasons (a 2% increase), while 21%

avoided a beverage in a plastic container for environmental reasons, compared to 16% in 2017¹².

In this industry, there is an opportunity to develop new, sustainable packaging that works alongside conventional solutions, and to educate consumers on alternative packaging options that have a lower environmental impact.

Trust and transparency are part of this equation and beverage companies need to clearly communicate their sustainability credentials. Consumers are acting on their beliefs – with lack of information on environmentally sound products a top 3 barrier to purchase (up 9% in 2019 compared to 2017)¹³.

Differentiation

Alongside sustainability credentials, the need for differentiation in this market is a key factor in successful product development. This is a competitive and commoditised market with, certainly in the plain water category, limited differences between products. It means packaging and brand values and identifiers, such as colour and shape, are often the only tangible differences. This is a challenge for the water category and beverage producers who want to succeed here must find new ways to differentiate themselves, in order to tell their brand story and realise the opportunity of growing consumer demand.

Carton packaging is one such way to differentiate, working alongside existing packaging solutions as an alternative that can be used to add value. For instance, carton packaging enables manufacturers to take advantage of short production runs that aren't possible with conventional plastic packaging. Producers can develop a series of prototypes and test different versions of their product in the market to discover what resonates with consumers. Offering seasonal variations or limited runs differentiates your offering and lets your brand truly stand out.

And this approach works for new entrants and more established players alike. For those producers looking to dive into the packaged water category for the first time, carton packages let you have a strong impact when delivering your message. While experienced packaged water manufacturers have the option of diversifying their portfolio in a way that complements and leverages existing water products and any brand equity in packaging shape and design. Product lines can be extended into new areas, for example functional waters or limited editions, without impacting established brand equity.

86%

of European consumers believe food and beverage packaging with a low environmental impact will be important in the near future

Effective New Product Development

In the global food and drink industry, effective new product development (NPD) is a must for producers looking to stay ahead of the competition and create new revenue streams. Developing exciting new products that customers love isn't easy or cheap, but while innovation can be expensive, inertia can prove even more costly. If beverage companies want to realise the opportunities the water category presents, they must leverage evolving consumer trends while also adding value to the business.

The high levels of investment required to develop and launch a new food and beverage product means that in an industry built on tight margins, product failure can have a strong business impact for manufacturers. Exploring new ways to create operational efficiencies – for example, cost effective small production runs that don't require scaling up straightaway – as well as prototyping and concept development which optimises speed to market, reduces NPD risk and enhances return on investment.

Partnering with an industry expert is a way to access opportunities of scale and benefit from production, co-packing and logistics efficiencies for



both new entrants and larger beverage companies trialling new initiatives in the water category.

The right partner can support and enhance your concept creation and development. Fast prototyping and testing, can transform your ideas into a reality, fast; reducing time to market and empowering you to realise opportunities quickly. And this means you can create limited editions and short runs, enabling you to dynamically respond to consumer demand as new trends emerge and ultimately increase your sales.

Tell your own story

Developing a standout product in the water category

Creating Brand-Appeal

Are you working in a commoditised market and looking for ways to overcome sameness of the products? How to be different? How to attract consumers? Your product becomes an important tool to engage with consumers to create added value and deliver your message effectively to the market. This means packaging is critical. One of the advantages our carton packages can provide you is flexibility. With carton packaging, you can have a strong visual impact, with 360° printing options and multiple shapes and finishes that let your brand shine.

Utilising our adaptable manufacturing processes, you can use short production runs and develop a range of prototypes, quickly and cost effectively. Leveraging the different printing options and effects means you can test a number different versions of your product in the market to see what makes the biggest impact, ultimately giving you confidence that your product has the brand-appeal needed to deliver the business returns you want.

Carton packages provide a large printable surface area you can use to create a “360 degree billboard

effect” that connects with consumers and tells your brand story in a unique way. In addition to the billboard effect, the caps are also printable, allowing you to create awareness for your product from top to bottom.

And with our consumer insights and marketing expertise, you can be sure that concepts are developed and tested to effectively meet an audience’s need. Tetra Pak don’t just provide you with packaged water but a range of services from concept and ideation to design and branding, as well as production and delivery through our network of trusted partners – all of this to get your branded water to your customers quickly. We can help you tap into new revenue streams, develop products that complement your existing range or meet the growing demands on e-commerce channels. We can also help beverage producers specialising in plain water extend their range into the increasingly popular flavoured or functional water category. This approach leverages your existing brand collateral that consumers recognise and trust, while providing them with a visibly different product on the shelf to pique their interest.



And of course, our selection of different materials, shapes and finishes offers an effective route for new players in this sector to make their brand statement too. And with low capital expenditure and flexible production processes in terms of volume and design, launching products in multiple territories with packaging that features different languages is achievable and affordable.

We can help you tap into new revenue streams, develop products that complement your existing range or meet growing demands on e-commerce channels

We are working hard to reduce our environmental impact by bringing greater recyclability and renewability into our product portfolio and accelerating partnerships with relevant players further down the value chain to help increase recycling. We believe in sourcing responsibly and using accredited raw materials in our products. But we're also committed to our customers and to never compromising on food safety requirements. Through innovations like our Bio-based caps that

are derived from sugar cane, a renewable material, we're able to deliver for our customers, consumers and the environment.

Engaging Consumers

In this competitive market, you need to extract the most value out of every aspect of your operation and that includes your packaging. We believe that digitalisation is transforming the role of food and beverage packaging into more than product protection – it's about connecting you to your customers and unlocking new possibilities.

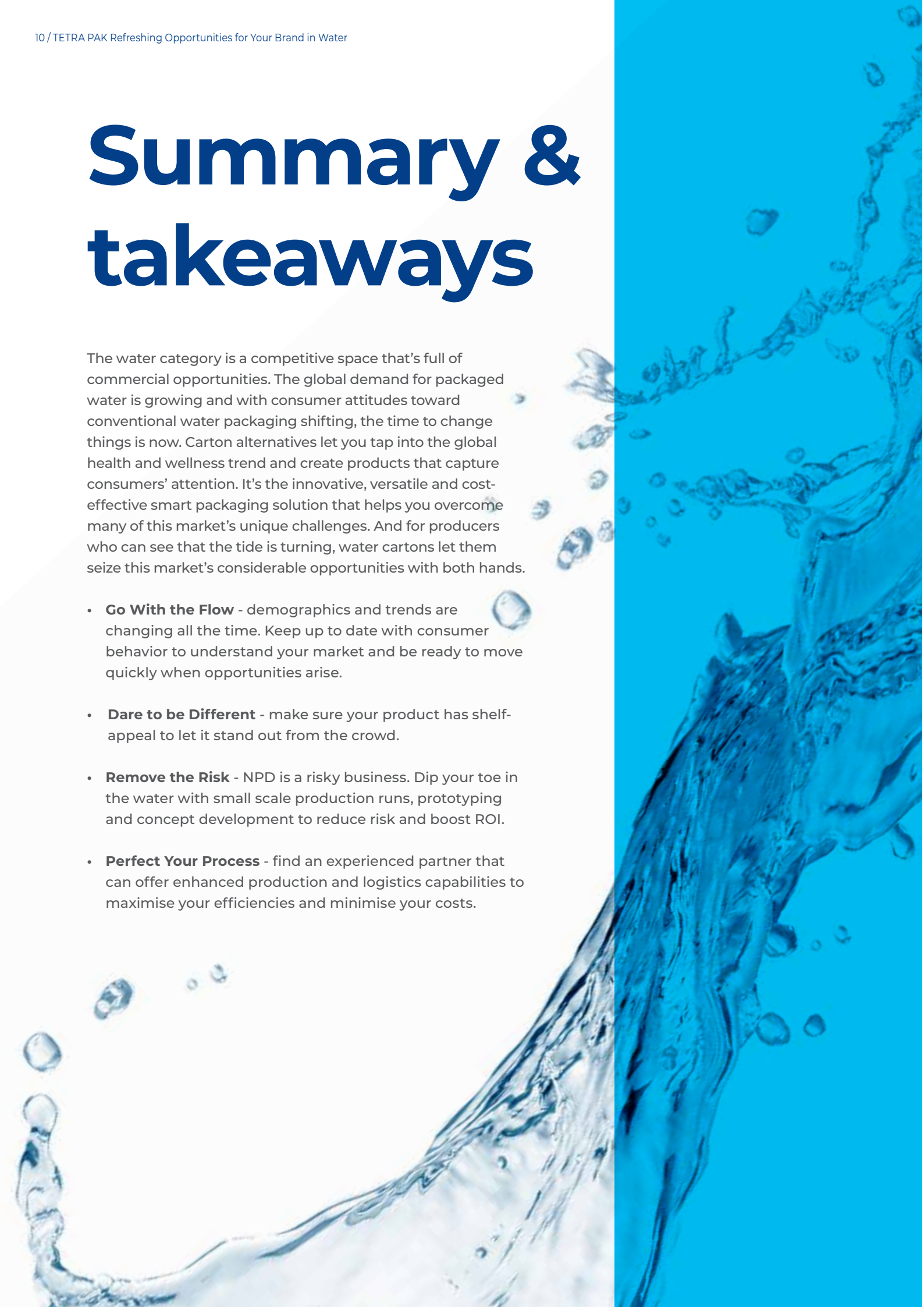
With Tetra Pak's carton packaging for water, you can create tangible touchpoints in the market with the possibility for promotional and consumer engagement solutions.

This transforms packaging into full-scale data carriers with the ability to provide access to information such as where the product was made, the farm that the ingredients came from and where the package can be recycled. This can be extended to marketing activities and brand engagement through on pack games, promotions, apps and online experiences with the chance for consumers to interact with your brand and provide feedback.

Summary & takeaways

The water category is a competitive space that's full of commercial opportunities. The global demand for packaged water is growing and with consumer attitudes toward conventional water packaging shifting, the time to change things is now. Carton alternatives let you tap into the global health and wellness trend and create products that capture consumers' attention. It's the innovative, versatile and cost-effective smart packaging solution that helps you overcome many of this market's unique challenges. And for producers who can see that the tide is turning, water cartons let them seize this market's considerable opportunities with both hands.

- **Go With the Flow** - demographics and trends are changing all the time. Keep up to date with consumer behavior to understand your market and be ready to move quickly when opportunities arise.
- **Dare to be Different** - make sure your product has shelf-appeal to let it stand out from the crowd.
- **Remove the Risk** - NPD is a risky business. Dip your toe in the water with small scale production runs, prototyping and concept development to reduce risk and boost ROI.
- **Perfect Your Process** - find an experienced partner that can offer enhanced production and logistics capabilities to maximise your efficiencies and minimise your costs.



About Tetra Pak

Tetra Pak is a market leader in carton packaging. We have innovative and market leading food processing and packaging solutions – making food safe and available, everywhere together with our customers.

We have a vast experience and expertise in the technicality of packaging water into cartons, designing effective packaging and successfully launching a product into market.

We are a highly qualified partner to help companies take advantage of the opportunity provided by carton packaging for water.

More than a supplier, we're an end-to-end partner, with an unrivalled range of products, expertise and resources to help you thrive in this sector. We are ready to support you to optimise operationality and production, and we can help deliver everything from formulation to prototyping and beyond.

Get in touch

<https://www.tetrapak.com/en-gb/campaigns/water-in-carton/contact-us>



[linkedin.com/company/tetra-pak](https://www.linkedin.com/company/tetra-pak)



[youtube.com/user/tetrapak](https://www.youtube.com/user/tetrapak)



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