

Move Over Coke

How a small beverage maker managed to win shelf space

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One morning in the late 1990s, Joe Doria Jr. glanced out the window of his family's upscale Manhattan grocery, Grace's Marketplace, to see one of his regular patrons pull up in a Porsche Carrera. It was J. Darius Bikoff, owner of a fledgling local beverage company, and Mr. Bikoff was loading cases of his bottled water onto the sidewalk.

"I'll never forget it," says Mr. Doria, who has been in the grocery business for two decades. "Darius comes in and says, 'Hey Joe, will you sell this for me?' He was just a customer of the store, but it impressed me that he was delivering the product himself and pushing it. You've got to respect that."

Today Mr. Doria devotes 12 linear feet of cold space to Mr. Bikoff's most popular drink, vitaminwater; by comparison, industry giant Poland Spring gets one foot. Grace's carries every vitaminwater flavor as well as two other Bikoff beverage lines called fruitwater and smartwater. What's more, Mr. Doria says he won't sell any other brand of enhanced health water—even PepsiCo Inc.'s Propel, the nation's top seller. "Darius was the first, and I have an allegiance to him."

When it comes to making an entrepreneurial dent in markets dominated by big giants, the nonalcoholic-beverage category where Mr. Bikoff and his company, Glacéau, competes is among the toughest, and costliest, to crack. For starters, many mainstream chain restaurants as well as schools, sports stadiums, airports and other outlets strike exclusive contracts with the biggest suppliers—namely Pepsi or Coca-Cola Co.—that preclude them from selling most competing beverages; in return, they typically get lump-sum payments, discounts, coolers or other marketing support. Meantime, shelf space is at such a premium at most major supermarkets that the chains charge newcomers prohibitively expensive "slotting fees" to mitigate the supermarkets' risk of pulling an established product to make room for something untried. That leaves a network of smaller outlets such as Grace's Marketplace that are often game to experiment, but have less foot traffic.

Yet the story of Glacéau's vitaminwater offers insight into how inroads can be made in even the most saturated of industries, from food and toys to office supplies and cosmetics. In seven years, the brand has grown from a no-name upstart whose charismatic founder, Mr. Bikoff, delivered sample bottles from a cooler bag to become the cornerstone of a \$350 million mini-empire that has won shelf space in 50,000 outlets, including Albertson's, Safeway, Jewel-Osco and Whole Foods. Once-skeptical stores and distributors now credit Glacéau with bringing them the Holy Grail of retail—an entirely new product category to push on consumers, in this case one dubbed enhanced water.

Today vitaminwater comes in 13 flavors fortified with everything from folic acid and vitamin B-12 to magnesium and zinc, including a grape variety co-created by the popular, and always enterprising, rapper 50 Cent.

What got Whitestone, N.Y.-based Glacéau to this point is a multipronged strategy that first involved building demand under the radar, particularly in smaller retailers, and then bolstering the drink's chances of survival once it managed to get into larger ones. That ranged from giving away millions of bottles from a fleet of music-blasting vans to designing unconventional packaging that stood out on a congested water shelf. Even the company's marketing verbiage isn't standard corporate fare; it explains pronunciation of the Glacéau name this way on company missives—"hint, hint: rhymes with lasso and el paso, but not with johnny cash-o." And as much as anything, the tale of what exactly vitaminwater is—that's to say, how it differs from other products—was one of the most valuable marketing tools of all.

"The goal with products is to give people a great story to tell, so they can tell two friends, and they tell two friends, and so on," says Mark Hughes, author of "Buzzmarketing." "Being new is a great advantage on this front. Would you go tell a friend about Pepsi? No, because they've been around too long. That's the advantage of being David in the David and Goliath story."

Vitaminwater's yarn began in February 1998, when Mr. Bikoff was standing in his kitchen sipping bottled water. Feeling run down, he slipped a vitamin C wafer into his mouth, and the citrus flavor combined with the clean water registered on his taste buds, and in his entrepreneurial mind. At the time, Mr. Bikoff, who had made some money in a family metal-importing business, had already started to dabble in the beverage category with two products: smartwater, a plain bottled water, and fruitwater, a flavored version of the former. His next thought was simple: Why not add vitamins to water?

The timing was right. In terms of volume growth, water was drowning every other major beverage category from milk to soda to beer. The word "organic" had crept into popular lexicon, and consumers increasingly sought more-healthy alternatives to their diets, both at home and out. And drinks with a function—those that did more than just hydrate—were starting to take off.

What's more, at the time, Mr. Bikoff was going through his own health awakening, trying to shed and keep off 30 pounds.

"What I realized during that period of time was that all the food eaten during the day had nutrients stripped out through processing and preserving," says Mr. Bikoff, 44 years old, who now stands 5 feet 8 inches tall and weighs 153 pounds. "If I put these back in, I figured I'd feel better and have more energy."

He hired a team of experts, including a food scientist,

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flavorist, microbiologist and dietitian, to help him devise his vitaminwater formulas. Though water sales were booming nationwide, the notion of enhancing the beverage with nutrients was something different—and this distinction registered early on with consumers and retailers. To drive the point home, Mr. Bikoff chose a name that specifically highlighted what set his drink apart from other waters.

“I thought it couldn’t be too terrible if it was called vitaminwater,” says Barbara Norman, a Manhattan photographer whose children Sam, 6, and Nora, 9, now drink it by the case at home.

Moreover, Mr. Bikoff insisted that vitaminwater be stocked alongside other bottled water, because he didn’t think consumers would understand the product if it was lumped in the soda or sports-beverage sections. It was just a hunch, but it paid off in ways even Mr. Bikoff didn’t foresee, namely how the colorful bottles looked amid plain clear competitors.

“Darius said, ‘We are a water and want to be with the waters,’” says Ken Ditty, the San Francisco branch manager for 7 UP Bottling Co., which distributes vitaminwater. “The visual makes it stand out. We pushed that. If you put it in with the Gatorade and Snapple, it doesn’t sell as well.”

The novelty also gave retailers the potential for incremental sales. As the category manager for beverage products at Wild Oats Markets Inc., Bob Richardson sifts through thousands of new items a year looking for what might work at his company’s hundred-plus organic-minded stores that operate under the names Wild Oats, Henry’s and Sun Harvest. “Not a day goes by that I don’t see something new,” Mr. Richardson says. “I don’t need the same product with a different label. [Glacéau] created a new water category.” Vitaminwater is currently in all of his company’s stores and has averaged 27% to 28% annual growth in sales volume over the past four years.

In the early days, Mr. Bikoff himself delivered the gospel of his vitaminwater to anyone who would listen. He held off entering bigger, mainstream supermarkets until his company could afford the slotting fees typically charged to first-timers; he says Glacéau has since had to pay anywhere from \$10,000 to \$100,000 in those outlets depending on the number of stores in a chain. First, though, Mr. Bikoff concentrated on smaller mom-and-pop outlets, primarily those with a health-food bent. As he aimed bigger, he initially targeted chains that embraced organic lifestyles and those that would test small vendors on a regional basis, such as Whole Foods Market Inc. There again, being “first” paid off.

“We’ve only got a limited amount of shelf space,” says Perry Abbenante, national grocery buyer for Whole Foods. “If you show me another soy milk, I’ve got plenty of them. There’s got to be a unique slant to their product.”

A skilled promoter of both his beverages and himself, Mr. Bikoff pounded the streets of New York, dropping in on independent shops and cajoling owners to give his vitaminwater a

try—a strategy he’d successfully employed with smartwater and fruitwater and still does today from the back of a mammoth Cadillac Escalade he’s outfitted with a cooler. This personal touch earned loyalty among the smaller retailers who gave him an early presence in the marketplace.

These are lessons for any newcomer trying to break through big-industry juggernauts, and compete with deeper-pocketed rivals. “They can’t compete on price, so it’s crucial that they develop a different proposition and build demand from there,” says Gary Hemphill, managing director of Beverage Marketing Corp., a New York-based research and consulting firm. “That’s what Glacéau has done.”

Of course, being different won’t take you to \$350 million in wholesale revenue. For that, a brand needs distribution—a way to get into retailers’ shelves and ultimately consumers’ hands. In the beverage industry, this is no small feat. Coke and Pepsi hold an enormous advantage because both have bottling and distribution operations (known respectively as the “red” and “blue” networks) devoted almost solely to delivering those companies’ products. The rest of the beverage world must rely on a pool of independent distributors—the “white” network—that divide their attention between dozens of brands. And even that is shrinking, as Cadbury Schweppes PLC, owner of 7 UP, Dr Pepper and others, has been consolidating this third-tier system under its umbrella.

“If in the real-estate business it’s all about location, location, location, then in the beverage business it’s all about distribution, distribution, distribution,” says John Sicher, editor and publisher of Beverage Digest. “Coke, Pepsi and Cadbury with their bottling networks can get into almost every venue in the country.”

The upshot is that smaller players must do whatever they can to land on distributors’ radars—and stay there. Tony Haralambos is the third-generation co-owner of Haralambos Beverage Co., a beverage distributor in City of Industry, Calif. He recalls sitting down in the summer of 2002 to draft his annual “hit list”—the fated roster of drinks his distributorship would quit delivering the following year because they weren’t selling briskly at retail. At that point, vitaminwater was on the list.

Then came an unexpected phone call from the borough of Queens, N.Y. It was the headquarters of Glacéau, and top brass there wanted Mr. Haralambos to fly to New York to discuss business. He grudgingly agreed, figuring they could unwind their relationship face-to-face, and began scoping out affordable airline reservations three weeks out. That wasn’t soon enough for the Glacéau folks, however, who insisted Mr. Haralambos jump on a plane the next day.

“Do you realize how much that will cost me?” “Mr. Haralambos recalls replying, noting that he typically pays travel expenses for supplier meetings. “And they said, ‘No, no, we are paying. We have a hotel. Just come.’”

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The hotel happened to be the Four Seasons, and the Glacéau folks encouraged Mr. Haralambos and his head of sales to visit retailers of their choice to get a true sense of vitaminwater's market saturation in the New York area. Manhattan, Mr. Bikoff of Glacéau explained to his guest during the tour, was just the first piece of the company's game plan. It was the market Mr. Bikoff knew best, so they'd started there. California, he told Mr. Haralambos, was next.

"I'm in my head, I'm comparing my market and their market and picturing what I could be doing," Mr. Haralambos says. "The dollar signs started becoming visible."

Still, the distributor was unconvinced; after all he was only moving a few hundred cases of vitaminwater a month and didn't see how he could grow fast enough to make it worth his while. He expressed his reservations at dinner that night to Mr. Bikoff, who smiled and told him that they planned to sever relationships with all other distributors in Mr. Haralambos's area. What's more, Glacéau would pay all the fees associated with terminating those contracts and simply give the incremental business to Mr. Haralambos.

"Well, that's about the height of flattery," says Mr. Haralambos. "We made the deal that night at dinner."

Months later, Mr. Bikoff flew a team out to Haralambos headquarters, hired a top Beverly Hills caterer and staged a mock wedding with Mr. Haralambos where the two marched into a conference room to greet the distributor's sales force. (Mr. Haralambos wore a top hat, Mr. Bikoff a veil.)

Mr. Bikoff addressed the room and explained his strategy: start with territories near the beach where consumers led active outdoor lifestyles, and expand from there. "Ladies and gentleman," he said grandly, "if this does not work and we are unsuccessful in making it a big brand, we will take full responsibility at Glacéau."

The presentation wowed a cynical sales team accustomed to pizza and pat speeches from suppliers who then blamed them if things went wrong. "I've never had anyone do something like this," Mr. Haralambos says.

After that day, his company backed Glacéau 100%; Glacéau's strategy worked, and soon paparazzi were photographing Hollywood celebrities, including Britney Spears, Madonna and Nicole Kidman, clutching vitaminwater. Mr. Bikoff says he hand-delivered a case to Paris Hilton's home himself. (She came to the door too, he says. "Nice girl; nothing like what the media shows.") The buzz built from there.

"Darius is a pretty flashy guy," says Mr. Haralambos. "He's so enthusiastic about his product that you are immediately on guard. But you can only fool people for a short period of time. We're now seeing the real effect of his personality and how much he believes in himself and his product." Last year, Haralambos Beverage sold "well over a million" cases of vitaminwater, which accounted for about 10% of the distributor's total

volume and 20% of its revenue. This year, he says, vitaminwater will be his No. 1 supplier.