

## Dynamics of Georgian mineral water market

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### Abstract

The purpose of this research paper is to determine the volume of the production and market demand for Georgian mineral water, to identify competitiveness between producers, awareness among consumers and their demands on packaging and pricing. Also to study export climate and effects of political decisions on the Georgian mineral water market. The paper examines overall situation on Georgian mineral water market by survey and interviews. The analyzed results presented in this paper demonstrate that, Georgian mineral water market can be described as competitive, with variety of products, high quality and low prices. Mineral water is produced by both - low and high income consumers and identification of one brand to another, affects the way consumers behave in choosing drinks. Georgian Mineral water is highly demanded product in foreign markets as well, because of the competitive advantages it has. According to the study, Georgian mineral water market can be evaluated as fast growing sector of the country's economy. Thus, the given industry creates many jobs that result in domestic economic growth.

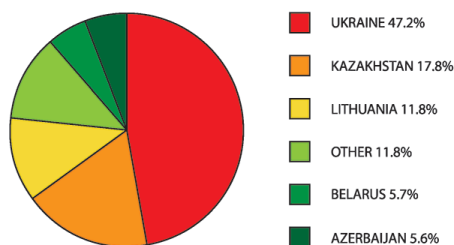
**Keywords:** brand, competition, consumer, domestic market, export, mineral water

### Introduction

Maisuradze, D. stated that, Georgia is home to over two thousand mineral water springs but there are only several types in commercial production. Two-thirds are located in western Georgia at 10 to 15 meters depth. Georgian mineral waters have exceptional and interesting tastes - very different from French and Italian varieties. The mineral springs were discovered over one thousand years ago in the country and the use of Georgian mineral waters has been suggested by the Georgian and Russian researchers for complex treatment of several digestive diseases and diabetes mellitus. (Khakhutashvili & Maisuradze, 2008)

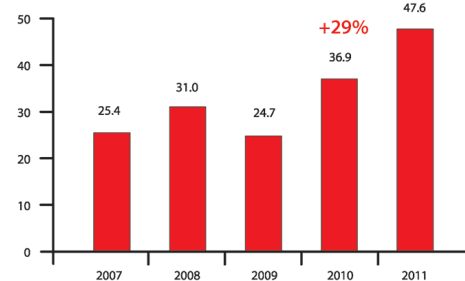
Despite the loss of the Russian market (Embargo in 2006) there is the steady growth of the export of sparkling mineral and still water. (Business New Europe Publication, 2013)

The mineral water sector in Georgia had an approximately GEL 126 million output in 2010, 40% of which was exported. (National Investment Agency, 2013)



\*Waters, natural or artificial mineral and aerated waters, not containing added sugar

Georgian Water & Mineral Water Export by Years, USD mln ('07-11)



Source:Geostat

Khargelia, R. explained that mineral water production is one of the leading sectors in the country that greatly contributes the economic development of Georgia. Economic potential of the mentioned sector is much higher than that of any other agricultural sector and furthermore several times larger than the leading sectors of agro-industrial complexes: Tea-growing, viticulture and wine-making potentials together. (Khargelia, 2007)

Mineral water has some health benefits and they are supported by scientific proofs to the levels of varying degrees. Bottled mineral water is the fastest growing section of overall non-alcoholic beverage market all over the world. The main reasons due to which consumers prefer mineral drinking water over tap water are health, taste and sight. Health beliefs are the driving force for choosing mineral drinking water. These health beliefs have

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contribution in making bottled drinking water popular, thus, leading to profound increase in the growth of the market concerned.

Other than health beliefs, other factors that play a critical role in framing positive opinions about bottled drinking water among consumers are taste, convenience and cost. Therefore, if cost is adequate, taste and good and the product is conveniently available, people prefer to buy mineral drinking water. (FAOLEX, 2003)

Competitive advantages of Georgian mineral water, over other country's productions are as follows:

- High Water quality
- Room for expansion (capacity can more than double)
- National pride, part of the Georgian culture, tradition
- Certified curative properties
- Well protected from forgery
- Vast export experience
- High recognition in former Soviet countries and rising popularity in US, UAE, EU. (National Investment Agency, 2013)

International Company "Euromonitor International" defined, that Georgian mineral water industry has big and as well as small market payers. Georgian company IDS Borjomi Georgia with its brands Borjomi, Likani, Bakuriani and Aqua Viva, Healthy Water with the brands Nabeghlavi and Bakhmaro, and the company Igrika-97 with the Sairme brand led bottled water in 2012 with 42%, 40% and 10% shares of sales respectively in 2012. IDS Borjomi Georgia and Healthy Water are giant unconditional leaders in Georgia; their brand names are recognized by everyone everywhere. As for the Sairme brand, it modernized and renewed its factory, changed image, expanded pack size line and also introduced new springs. Thus, with such active and aggressive marketing, it managed to account for a 10% share in volume terms in 2012, whilst in 2011 its share was only 1%. (Euromonitor International, 2014)

Bottled water was regulated by the government in the early historic period via issuing special licenses. At the end of the review period, with the change of government the redistribution of shares amongst existing players is expected, due to the liberalization of issuing licenses. In general, the review of license policy may lead to the appearance of new players. Therefore, bottled water may see quite a number of changes in the forecast period. (Ministry of Environment and Natural Resources Protection of Georgia, 2013)

As the magazine of American chamber of commerce in Georgia "Investor.ge" argued in recent years, however, the mineral water industry has revived with the "Borjomi" and "Nabeghlavi" labels leading the way with some minor competition from other smaller brands. (Magazine of American chamber of commerce in Georgia "Investor.ge", 2012)

Khargelia, R. (2006) identified, Borjomi is a brand of naturally carbonated mineral water from springs in the Borjomi Gorge of central Georgia. The artesian springs in the valley are fed by water that filters from glaciers covering the peaks of the Bakuriani mountains at altitudes of up to 2,300 m. The Borjomi springs were discovered by the Imperial Russian military in the 1820s. By the 1890s, Borjomi was bottled in the Georgian estates of Grand Duke Mikhail of Russia. After the Russian Revolution of 1917 and subsequent Soviet takeover of Georgia the Borjomi enterprise was nationalized and the water was made into a top

Soviet export. Borjomi is Georgia's third largest export and is exported to over 40 countries. Since 1995 Borjomi has been trademarked and produced by the Georgian Glass and Mineral Water Company (GG&MW) belonging to the Russian Alfa Group Consortium. (ხარგელაია, 2005)

Georgian-Swiss joint stock company "Healthy Water" produces famous mineral water "Nabeghlavi" and spring water "Bakhmaro." The company was founded in 1997 and by now is a leader of the local mineral water market. The source of mineral water is located on the territory of health resort Nabeghlavi in Western Georgia, hence the name of the water. The source was discovered in 1905. Fundamental exploration of the mineral water deposit was conducted during the first half of the 20th century by famous Georgian and foreign researchers. Initial study of the chemical composition of the water was performed in 1921 by Latvian scientist Robert Kuptsis. Later, hydro-geological research was led by famous Georgian and foreign scientists during the 1930's. Bottling of Nabeghlavi mineral water was initiated in 1958. By that time water production output was small and the distribution area was rather limited.

Since JSC Healthy Water obtained license and took over the business, product quality and the output increased significantly and it became popular country-wide, gained appreciation of Georgian consumers and gradually a leading position on the market. Nabeghlavi water is naturally sparkling as it is infused with natural carbon dioxide (CO<sub>2</sub>) at the aquifer; though it is fortified with additional amount of natural CO<sub>2</sub> prior to bottling. (Georgian National Investments Agency, 2013)

## Methodology

The research method was investigative in nature, since there is no prior academic research about Georgian Mineral Market. For the most part quantitative research methods were applied, but qualitative research method was used as well. Data were collected from different sources: online survey, One-on-One Interviews with different experts, self-administrated questionnaires and statistical information provided by Georgia's statistical department and Georgian Mineral Water producers. Online survey was chosen in order to identify customer's options and choices. Inquiry conducted by online survey that participants could take at [www.survey-monkey.com](http://www.survey-monkey.com). It included 7 close-ended questions and totally 86 person responded it out of 120 distributed questionnaire. Response rate is 71%. The method was preferred because it allows collection of information quickly. Also just persons interested in the research topic participated in survey, answered all questions and it provided with more exact results. For interviews two ways were used: Email and Face-to-face. The benefits of an email survey include the speed of distribution, lower costs, the quick response time, and flexibility. Since face-to-face interview allows discussion about the topic more deeply, in order to get proper answers. Interviews were conducted with expert of Marketing Prof. Dr. Kakhaber Djakeli, Young Expert in the field of International Trade - Giorgi Kikaleishvili (NGO), Ministry of Economics and Sustainable Development of Georgia, Head of the Division of Trade Policy and Regional Economic Relations - Marine Macharashvili. Open-ended questions were used. The original versions of the interviews were developed on Georgian language, after were translated into English language.

For better exploring of Georgian mineral water market, survey was conducted in different cafes, restaurants and

shops in Tbilisi (Totally 18). The aim was to investigate how frequently they fill the mineral water reserves and to identify which Georgian mineral water is preferred by consumers. The indicated survey provided with interesting information and showings.

The research results were analyzed via MS Excel 2003 and SPSS 18.0 for Windows.

### Findings

In the interview with young expert in the field of International Trade - Giorgi Kikaleishvili issues about Georgian mineral water market was discussed in detail. He explained that the high demand for Georgian mineral water is determined by several factors, such as water has high quality, certified curative properties, protection from forgery that is guarantee of safety for foreign customers. Mr. Giorgi mentioned that the given market is quite competitive. He considers "Borjomi" and "Nabeglavi" to be leader companies on the market with market share 58% and 38% respectively. Furthermore Georgian Mineral waters are exported in many different countries; the biggest portion is exported on the former Soviet Union countries' territory. Comparative advantage of Georgian mineral water over other country's ones, are price and quality. Head of the division of Trade Policy and Regional Economic Relations (Ministry of Economics of Georgia) Marine Macharashvili explained the impact of Russian embargo in 2006 on the market of Georgina mineral water. It declined the rate of exports showings. After 2006 the main goal for mineral water producers becomes the sale's geography diversification. On the one hand Russian embargo created a lot of problems for Georgian mineral water companies, but on the other hand, it increased the motivation among companies to work on new export markets. M. Macharashvili reckons, that the share of markets that Georgian water producers have on the USA and Europe markets is the positive result of Russian embargo. She evaluated the export movements of Georgian mineral water as very positive. According to official statistics in the last year the total output of mineral water exported amounted 47 million. U.S. dollar. M. Macharashvili expects this numbers to be higher at the end of 2013 year. Prof. Dr. Kakhaber Djakeli explained the main advertising and marketing strategies of the leading companies. "Borjomi" actively promotes its products with good quality advertising, charitable promotions, by offering new products (Likani) or improving old ones. This company captured the market share (25%) via producing "Likani" af-

ter Russian embargo. K.Djakeli reckons, that this marketing strategy worked the best compared to other ones. He highlighted that sometimes Georgian producers apply aggressive advertising forms. Nabeglavi had a pretty aggressive slogan: Nabeglavi is better. It was kind of a never-ending phrase which must have caused an association among consumers that Nabeglavi was better than Borjomi. There was also aggressive answer from Borjomi: be free from excessive. This slogan had double meaning - be free from negative emotions and from Nabeglavi and other mineral waters. He explained that this kind of marketing movement did not have positive impact on the company's sale rate.

In the survey, totally 86 respondents participated. This section deals with the statistical analysis of the data gathered from the research sample using the statistical techniques included in the Statistical Program for Social Science (SPSS). 58 % of respondents were women and 42 % men.

On the second question, which mineral waters do consumers prefer - 50 % of consumers said that they are consuming "Likani", 30 % - "Borjomi" and 20 % - "Nabeglavi". According to official statistics, Borjomi is the leader of the market as well. (Table 1, 2)

It turned out that consumers very well remember the advertising of "Likani" - 68% of respondents recalled the famous advertising "Rest for 1 GEL". As Prof. Dr. Kakhaber Djakeli stated negative advertisings did not worked and that is why nobody recalled negative slogans used by companies. Just 22% remember the advertisings of "Borjomi", nobody recalled the ad of "Nabeglavi" and 5% of respondents could not recall any ads of mineral water. (Table 3, 4)

On the 4th question, what kind of bottles do you prefer, the answers were distributed by following: 30% prefers glass bottles, while 70 % buys mineral water bottled in polyethylene. This result can be explained by the fact that majority prefers "Likani", that is just bottled in polyethylene.

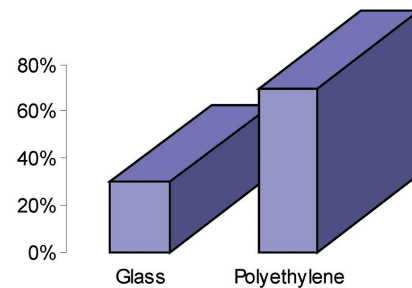


Figure 1. What kind of bottles do you prefer?

Table 1, 2. Which mineral water do you prefer? / Descriptive Statistics

Which mineral water do you prefer ?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Borjomi	26	30.2	30.2	30.2
	Likani	43	50.0	50.0	80.2
	Nabeglavi	17	19.8	19.8	100.0
	Total	86	100.0	100.0	

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Which mineral water do you prefer ?	86	1.10	1.30	1.1895	.07034
Valid N (listwise)	86				

Source: Author's Calculation

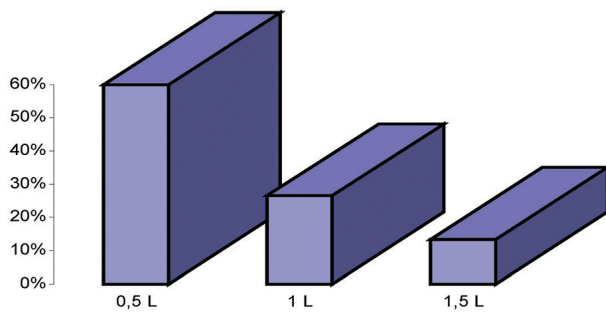
**Table 3, 4.** Which mineral water advertising do you remember ? / Descriptive Statistics

Which mineral water's advertising do you remember?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Borjomi	19	22.1	22.1	22.1
	Likani	59	68.6	68.6	90.7
	None of them	8	9.3	9.3	100.0
Total		86	100.0	100.0	

Descriptive Statistics						
		N	Minimum	Maximum	Mean	Std. Deviation
Which mineral water's advertising do you remember?		86	2.10	2.50	2.2058	.10330
Valid N (listwise)		86				

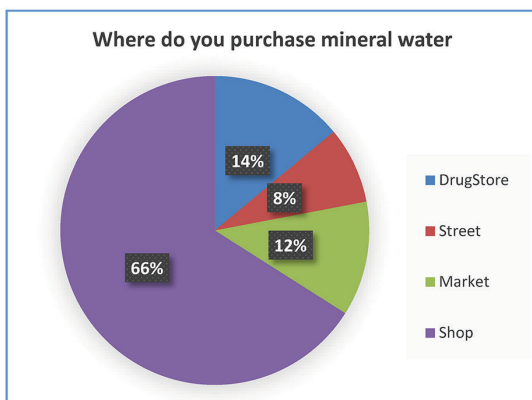
Source: Author's Calculation



**Figure 2.** Which volume of bottles do you prefer?

On the fifth question, which volume of bottles do consumers prefer, the answers were following: 0.5 L – 60%, 1 L – 26.5 % and 1.5 L – 13.5 %.

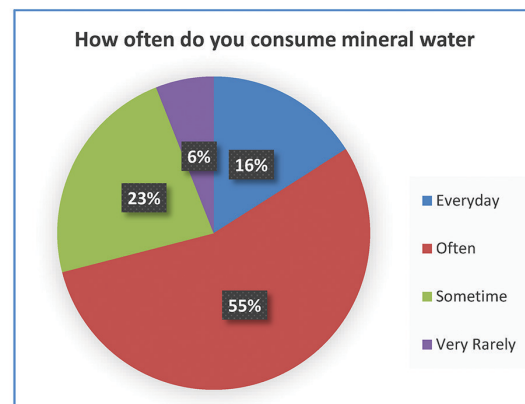
On the sixth question (where do you purchase mineral water), the survey showed the following results: 66 % of respondents purchase mineral water in the shops/markets. Just 13.5 % purchase the given products in the drugstores, because when they buy mineral water with the purpose of treatment they believe that in drugstores they are protected from falsification. 12 % of consumers buy mineral water in the market where prices are relatively lower. And just 8 % purchase mineral water in a street.



**Figure 3.** Where do you purchase mineral water?

On the last question, how often do you consume mineral water, the results were following: 16 % consumes it every day, 55 % - often, 23 % of customers consume mineral water just sometimes and 6 % consumes it very rarely.

Survey was also conducted in different cafes, restaurants and shops in Tbilisi. (Totally 18) The aim was to investigate how frequently they fill the mineral water reserves and to identify which Georgian mineral water is preferred by consumers. In restaurants/cafes results were different: according to the owners Nebglavi is a higher consumed sparkling water than the other ones. The reasons are the comfortable packaging and price. The survey showed that from every ten consume, every seven order mineral water. The majority of stores (65%) fill their stock once a week, 30% - fill in every two weeks, while 5% did not have exact answer. Stores state that consumers prefer Likani. By their observations, people consume Borjomi and Nabeglavi with treatment purpose, while Liakni is used as cooling drink for everyday consumption. Comparative advantage of Likani is its price - it is the cheapest sparkling water among others.



**Figure 4.** How often do you consume mineral water ?

## Conclusion

As the research demonstrated, Georgian Mineral Water Market is described as competitive. While Georgian mineral waters are one most consumed bottled drinks within the territory of Georgia, the demand for it is also high in foreign markets. According to expert's evaluation, the high demand for Georgian mineral water is determined by several factors; first of all Georgian mineral water has high quality and certified curative properties as well. Also there is room for expansion, in other words, capacity can more than double. Another very important issue is that, it is well protected from forgery that is guarantee of safety for foreign customers. Georgian market is rich with different kind of mineral waters, but survey showed, that consumers prefer "Likani". Since the Borjomi company has lost 65 % of its share (in 2006), they created new product - "Likani" which has been very popular on the Georgian market. Soon new product gained 25% of Georgian market share which was a new record for the popularization of mineral water on the market. Consumers prefer Likani because of it low price and good quality.

In Georgia, production of mineral water is essential part of economy and export as well. Thus, the given industry creates many jobs that result in domestic economic growth. It is exported in more than fifty countries. The biggest portion is exported on the former Soviet Union countries' territory. Hence, Russian market was very important for Georgian producers till 2006 year. Russian embargo 2006 played crucial role for Georgian Mineral water producers. From the very beginning the rate of export in the given field declined and companies were suffered loses. But embargo increased the motivation among companies to work on new export markets. As a result, in recent years, mineral water export rate began growth. Georgian producers entered USA and European markets. In the year 2012 the total output of mineral water exported amounted 47 million. U.S. dollar. Local mineral water producer companies began the modernization of their manufacturing capacities and switched to modern techniques. This movement resulted in increasing their output, cutting costs and in rising profit. The activity of local players was high in 2012; they improved and reframed their covering and provided strong advertising support, and therefore increased the development of mineral bottled water in Georgia.

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