On a Friday in early February 1990, the first news reached Perrier executive suites that traces of benzene had been found in its bottled water. Ronald Davis, president of the Perrier Group of America, ordered a sweeping recall of all bottles in North America. Just a few days later, Source Perrier S.A., the French parent, expanded the recall to the rest of the world while the company sought to identify the source of the problem and correct it.

Although at first view such a reaction to an unexpected crisis seems zealous and the ultimate in customer concern and social responsibility, a deeper study reveals marketing mistakes of major proportions.

BEFORE

In late 1989, Ronald Davis, 43-year-old president of Perrier’s U.S. operations, had reason to be pleased. During his 10-year tenure, Perrier’s U.S. sales had risen from $40 million to more than $800 million at retail, which was a significant 25 percent of the company’s worldwide sales. He was also proud of his firm being depicted in a May 1989 issue of Fortune as one of six companies that compete best. Fortune captions: “These are companies you don’t want to come up against in your worst nightmare. In the businesses they’re in, they amass crushing market share.”

A company report in 1987 described the French source, a spring in Vergeze, as follows:

One of Perrier’s identifying qualities is its low mineral (particularly sodium) content. This is because the water spends only a short time filtering through minerals. While flowing underground, the water meets gas flowing vertically through porous volcanic rocks. This is how Perrier gets its fizz ... the company assured us that production has never been limited by the source output. The company sells approximately one billion bottles of which 600 million are exported.

Davis recognized that he was in two businesses, albeit both involved bottled water: (1) sparkling water, in the famous green bottle, which he had been successful in positioning as an adult soft drink with a French mystique, an alternative to soft drinks or alcohol; and (2) still water, a tap-water replacement, with the product delivered to homes and offices and dispensed through water coolers. This latter business he saw as more resembling package delivery such as UPS and Federal Express, and less akin to pushing soft drinks. Accordingly, he emphasized quality of professional service for his route drivers. While best known for the green-bottled Perrier, a mainstay of most restaurants and bars, the company owned nine other brands of bottled water, including Poland Spring, Great Bear, Calistoga, and Ozarka.

At a price of 300 to 1,200 times that of tap water, bottled water was the fastest growing segment of the U.S. beverage industry (see Table 11.1). Perrier controlled 24 percent of the total U.S. bottled-water business. Of the imported bottled water sector, the green bottle dominated with almost 50 percent of the market, although this market share had fallen when more competitors attempted to push into the rapidly growing market. In the 1980s more than 20 firms had taken a run at the green bottle, but without notable success; these included such behemoths as Coca-Cola, PepsiCo, and Anheuser-Busch. Now Davis was more concerned with expanding the category and was trying to shift the brand’s image from chic to healthy, so as to make the brand more acceptable to the “masses.”

THE CRISIS

The North American Recall

Davis, as he prepared his five-year plan in early 1990, wrote that competing in the 1990s would require not strategic planning, but “flexibility planning.” In retrospect, he seemed to be prophetic.

<table>
<thead>
<tr>
<th>Beverage Type</th>
<th>Percent of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottled water</td>
<td>+11.1</td>
</tr>
<tr>
<td>Soft drinks</td>
<td>+3.2</td>
</tr>
<tr>
<td>Milk</td>
<td>+1.5</td>
</tr>
<tr>
<td>Tea</td>
<td>+1.2</td>
</tr>
<tr>
<td>Beer</td>
<td>+0.4</td>
</tr>
<tr>
<td>Coffee</td>
<td>-0.4</td>
</tr>
<tr>
<td>Wine</td>
<td>-2.0</td>
</tr>
<tr>
<td>Distilled spirits</td>
<td>-2.6</td>
</tr>
</tbody>
</table>

Source: Beverage Marketing Corporation, as reported in Fortune, 23 April 1990, p. 277.

As he was fine-tuning his plan, the first news trickled in that a lab in North Carolina had discovered traces of benzene, a carcinogen, in some of the bottles. That same day, February 9, he ordered Perrier removed from distribution in North America.

Source Perrier officials were soon to inform reporters that the company believed the contamination occurred because an employee had mistakenly used cleaning fluid containing benzene to clean the production-line machinery that fills bottles for North America. Frederik Zimmer, managing director of Source Perrier, said that the machinery in question had been cleaned and repaired over the weekend. But in another news conference, Davis announced that he expected Perrier to be off the market for 2 to 3 months.

Such a long absence was seen by some marketing observers as potentially devastating to Perrier, despite it being the front-runner of the industry. Al Ries, chairman of a consulting firm and well-known business writer, was quoted in the Wall Street Journal article as saying: “If I were Perrier, I would make a desperate effort to reduce that time as much as possible, even if I had to fly it in on 747s from France.”

Without doubt, competitors were salivating at a chance to pick up market share of the $2.2 billion annual U.S. sales. Major competitors included Evian and Saratoga, both owned by BSN of France, and San Pellegrino, an Italian import. In 1989 PepsiCo had begun test marketing H2OHI, and in January 1990, Adolph Coors Company introduced Coors Rocky Mountain Sparkling Water. The Perrier absence was expected to accelerate their market entry.

Despite competitive glee at the misfortune of Perrier, some in the industry were concerned. They feared that consumers would forsake bottle water altogether, with its purity now being questioned. Would the public be as willing to pay a substantial premium for any bottled brand? See the Information Box: Is Quality Best Judged by Price? for a discussion of the relationship between price and quality.

Worldwide Recall

A few days later, the other shoe fell. After reports of benzene being found in Perrier bottles in Holland and Denmark, Source Perrier expanded its North American recall to the rest of the world on February 14 and acknowledged that all production lines for its sparkling water had been contaminated in recent months by tiny amounts of benzene.

At a news conference in Paris, company officials acknowledged for the first time that benzene occurs naturally in Perrier water and that the current problem came about because workers failed to replace filters designed to remove it. This was a critical reversal of previous statements that the water was tainted only because an employee mistakenly used cleaning fluid containing benzene to clean machinery. Zimmer even went further, revealing that Perrier water naturally contains several gases, including benzene, that have to be filtered out.

The company insisted that its famous spring was unpolluted. But now questions were being raised about this and other contradictory statements made about

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INFORMATION BOX

IS QUALITY BEST JUDGED BY PRICE?

We as consumers have difficulty in judging the quality of competing products. With their complex characteristics and hidden ingredients, we cannot rely on our own expertise to determine the best. So what sources of information can we use? We can rely on our past experiences with the brand; we can be swayed by our friends and neighbors, we might be influenced by advertising and salespeople (but more and more we become skeptical of their claims); we can study Consumer Reports and other consumer information publications. But all of these sources are flawed in that the experience and information usually is dated, and is a limited sample—usually of one—so that we can seriously question how representative the experience is.

Most people judge quality by price: the higher the price, the better the quality. But such a price/quality perception sets us up. While it may be valid, it also may not be. With the publicity about the impurity of Perrier, we are brought to the realization that paying many times the price of tap water gives us no assurance of better quality, as measured by purity.

Is a price/quality misperception limited mostly to bottled water, do you think? How about liquor? Designer clothes? Perfume?

the problem. For example, how widespread was the contamination? Was benzene a naturally occurring phenomenon, or does it represent man-made pollution? Suspicions were tending toward the man-made origin. While benzene occurs naturally in certain foods, it is more commonly found as a petroleum-based distillate used in many manufacturing processes.

Particularly surprising was the rather nonchalant attitude of Perrier executives. Zimmer, the president, even suggested that “all this publicity helps build the brand’s renown.”

Ronald Davis was quick to point out that the company did not have to recall its entire 70-million-bottle U.S. inventory. After all, health officials both in the U.S. and France had noted that the benzene levels found in Perrier did not pose any significant health risk. The major risk really was to the image of Perrier: it had gone to great lengths to establish its water as naturally pure. And while not particularly dangerous, it was certainly not naturally pure—as all the world was finding out from the publicity about it. Add to this the undermining of the major attraction of bottled water that it was safer than ordinary tap water, and the recall and subsequent publicity assumed more ominous proportions.

THE COMEBACK

It took until mid-July before Perrier was again widely available in the United States; this was 5 months after the recall rather than the expected 3 months. Still, Davis was confident that Perrier’s sales would return to 85 percent of normal by the end of 1991. Actually, he was more worried about short supply than demand. He was not sure the spring in Vergeze, France, would be able to replace the world’s supply before the beginning of 1991.

Davis’s confidence in the durability of the demand stemmed from his clout with retailers, where the brand does a majority of its business. He believed the brand’s good reputation, coupled with the other brands marketed by Perrier that had replaced some of the supermarket space relinquished by Perrier, would bring quick renewal. To help this, he wrote letters to 550 CEOs of retail firms, pledging heavy promotional spending. The marketing budget was increased from $6 million to $25 million for 1990, with $16 million going into advertising and the rest into promotions and special events. A highly visible discount strategy was instituted, which included a buy-two, get-one-free offer. Supermarket prices had dropped, with bottles now going for $0.89 to $0.99, down from $1.09 to $1.19. To win back restaurant business, a new 52-member sales force supplemented distributor efforts. However, a setback of sorts was the Food and Drug Administration order to drop the words “naturally sparkling” from Perrier labels.

Still, a recent consumer survey indicated that 84 percent of Perrier’s U.S. drinkers intended to buy the product again. Davis could also take heart from the less-than-aggressive actions of his competitors during the hiatus. None appeared to have strongly reacted, although most improved their sales considerably. The smaller competitors proved to be short of marketing money and bottling capacity and apparently were fearful that a beleaguered Perrier would negatively affect the overall market. Big competitors, such as PepsiCo and Coors, who were introducing other bottled waters, somehow also appeared reluctant to move in aggressively.

CONSEQUENCES

By the end of 1990, however, it was clear that Perrier was not regaining market position as quickly and completely as Davis had hoped. Now more aggressive competitors were emerging. Some, such as Saratoga, La Croix, and Quibell, had experienced major windfalls in the wake of the recall. Evian, in particular, a nonsparkling water produced by the French firm BSN S.A., was the biggest winner. Through aggressive marketing and advertising it had replaced Perrier by the end of 1990 as the top-selling imported bottled water.

Perrier’s sales had reached only 60 percent of prerecall levels, and its share of the imported bottled-water market had sunk to 20.7 percent from the 44.8 percent of one year earlier. While the Perrier Group of America expected to report a sales gain

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6 Sellers, p. 278.
for 1990 of 3.7 percent, this was largely because of the strong performance of such domestic brands as Calistoga and Poland Spring.

Particularly worrisome for Davis was the slow return of Perrier to bars and restaurants, which had formerly accounted for about 35 percent of its sales. A sampling of comments of restaurant managers, as reported in such prestigious papers as the Wall Street Journal and Washington Post, were far from encouraging. For example:

The manager of the notable Four Seasons restaurant in New York City said his patrons had begun to shift to San Pellegrino: “I think Perrier is finished,” he said. “We can write it off.”

The general manager of Spago Restaurant in Los Angeles said: “Now consumers have decided that other brands are better or at least as good, so Perrier no longer holds the monopoly on water.” And Spago no longer carries Perrier.

Le Pavillon restaurant in Washington, D.C., switched to Quibell during the recall, and has not gone back to Perrier. “Customers still ask for Perrier, but it’s a generic term like Kleenex, and customers aren’t unhappy to get a substitute.”

Evian

David Daniel, 34, was Evian’s U.S. CEO since June 1988. He joined the company in 1987 as the first director of marketing at a time when the American subsidiary was a two-person operation. By 1990 there were 100 employees.

Daniel came from PepsiCo, and his background was marketing. He saw Evian’s sphere to be portable water that is good for you, a position well situated to capitalize on the health movement. He was particularly interested in broadening the distribution of Evian, and he sought out soft-drink and beer distributors, showing them that their basic industries were only growing at 1 to 3 percent a year, while bottled water was growing at over 10 percent per year. In 1989, Evian sales doubled to $65 million, with $100 million in sight for 1990. The attractiveness of such growth to these distributors was of no small moment.

Daniel made Evian the most expensive water on the market. He saw the price as helping Evian occupy a certain slot in the consumer’s mind—remember the price/quality perception discussed earlier. For example, at a fancy grocery in New York’s West Village, a 1-liter bottle of Evian sold for $2.50; the city charges a fraction of a penny for a gallon of tap water—a lot of perceived quality in that. This type of pricing along with the packaging that made Evian portable—plastic nonbreakable bottles and reusable caps—were seen as keys in the selling of bottled water.

Then, late in 1990, Evian benefited greatly from the Persian Gulf War, with free publicity from several newspapers and from all three national TV networks: GIs were shown gulping water from Evian bottles.

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10 Seth Lubove, “Perched Between Perrier and Tap,” Forbes, 14 May 1990, p. 120.
ANALYSIS

Was the massive recall overkill, or was it a prudent necessity? Did it show a concerned corporate citizen, or rather a panicked executive? Were consumers impressed with the responsibleness of the company, or were they more focused on its carelessness? These questions are all directed at the basic impact of the recall and the subsequent actions and admissions: Was it to have favorable, neutral, or unfavorable public reactions?

Perrier did not have to recall its product. It was a North Carolina county laboratory that first noticed the excessive amounts of benzene in Perrier and reported its findings to the state authorities. The state agriculture and health departments did not believe that a recall was necessary, but they did insist on issuing a health advisory, warning that Perrier should not be consumed until further tests could be made. It was the state’s plan to issue the health advisory that was reported to Davis on the afternoon of the critical day, February 9. He announced the recall later that same day.

ISSUE BOX

ARE BOTTLED WATER CLAIMS BUNK?¹¹

The bottled water industry came under serious attack in April 1991. As if the Perrier massive recall was not enough, now a congressional panel with wide media coverage accused the Food and Drug Administration of “inexcusably negligent and complacent oversight of the bottled-water industry.” Despite its high price, the panel said, bottled water may be less safe than tap water. The panel noted that although consumers pay 300 to 1,200 times more for bottled water than for tap water, 25 percent of all bottled water comes from public drinking water sources. For example:

Lithia Springs Water Company touts its “world’s finest” bottled mineral water as “naturally pure” and recommends its special Love Water as an “invigorator” before bedtime. Yet, it was found to be tainted with bacteria.

Artisia Waters, Inc., promotes its “100% pure sparkling Texas Natural Water.” But it comes from the same underground source that San Antonio uses for its municipal water supply.

Furthermore, the FDA released a list of 22 bottled-water recalls because of contaminants such as kerosene and mold. For the most part, these went unnoticed by consumers, being overshadowed by the Perrier recall.

At issue: Are we being hoodwinked? Debate two positions: (1) the bottled-water industry really is a throwback to the snake-oil charlatans of the last century; and (2) a few unscrupulous or careless bottlers are denigrating the image of the entire industry, an industry that is primarily focused on health and purity.

We are left to wonder: Perhaps a full and complete recall was not needed. Perhaps things could have been worked out entirely satisfactorily with less drastic measures. Given that a recall meant a 3- to 5-month absence from the marketplace, should it not have been the action of last resort?

But let us consider Davis's thought process on that ill-fated afternoon in February. He did not know the source of the problem; he certainly had no reason to suspect that it emanated from the spring in southern France or that it was a worldwide problem. He probably considered it of less magnitude. Perhaps he thought of the total North American recall as a gesture showing the concerned thinking of the management of this product that had developed such a reputation of health and purity and, yes, status. Only with the experience after the fact do we know the error of this decision: that it was to result in a 5-month absence from the hotly competitive market; that it was to result in revelations of far more serious implications than a simple employee error or even a natural occurrence largely beyond the company's control.

So, perhaps Davis's drastic decision was fully justified and prudent. But it turned out to be confounded by circumstances he did not envision.

A lengthy complete absence from the marketplace is a catastrophe of rather monumental proportions—all the more so for a product that is habitually and frequently consumed, in Perrier's case, sometimes several times daily. Such an absence forces even the most loyal customers to establish new patterns of behavior, in this case switching brands. Once behavior becomes habituated, at least for some people, a change back becomes less likely. This is especially true if the competitive offerings are reasonably similar and acceptable. Anything that Perrier could have done to lessen the time away from the market would have been desirable—regardless of expense.

Perhaps the biggest problem for Perrier concerned the false impressions, and even outright deception, that the company had conveyed regarding the purity of its product. Now, in the wake of this total recall and the accompanying publicity, all was laid bare. Company officials in France had to own up that the contamination had occurred “in recent months,” and not suddenly and unexpectedly on February 9.

But more than this, under intense pressure from the media to explain what caused the problem, Source Perrier ultimately conceded that its water does not bubble up pure, already carbonated and ready to drink, from its renowned spring in southern France. Instead, contrary to the image that it had spent tens of millions of dollars to promote, the company extracts the water and carbon dioxide gas separately, and must pipe the gas through charcoal filters before combining it mechanically with the water to give the fizz. Without the filters, Perrier water would contain benzene and, even worse, would taste like rotten eggs.

Finally, the public relations efforts were flawed. Source Perrier officials issued a confusing series of public statements and clarifications. Early on, the company tried to maintain the mystique of Perrier by concealing information about the cause of the contamination and by blaming it on a mistake by cleaning personnel in using an oily rag, which could have contained some benzene, to wipe equipment used for bottles to be shipped to the United States. But the spokespeople knew the problem was more fundamental than that.

An aura of nonchalance was conveyed by corporate executives and reported in the press. This was hardly in keeping with a serious problem having to do with the
possible safety of customers. Furthermore, Source Perrier relied mainly on media reports to convey information to consumers. Misinformation and rumors are more likely with this approach to public relations than in a more proactive strategy of direct company advertisement and statements.

The reputation of Perrier was on the ropes. And top management seemed unconcerned about the probability of severe public image damage. The Information Box: Ignoring Possible Negative Image Consequences discusses the topic of ignoring possible image damage.

**UPDATE—2001**

Despite occasional publicity about the rip-off accomplished by the bottled-water industry—charging exorbitant prices for water little better than tap water—public demand has continued to grow. In 2001 soft-drink sales were flat; but bottled-water sales were up 11.5 percent, continuing the double-digit rate of the preceding decade. Bottled water was a $5.2 billion industry in 2001, in line to surpass coffee and tea and become second only to soft drinks in liquid consumption sales. More than nine hundred brands of bottled water were on the market. With the marketing clout of major firms, Pepsi's Aquafina and Coke's Dasani were becoming U.S. market leaders. This boom reflected a remarkable turnaround from 1980, when sales of Perrier fizzy water were limited mostly to upscale restaurants.

**INFORMATION BOX**

**IGNORING POSSIBLE NEGATIVE IMAGE CONSEQUENCES**

We can identify several factors that induce a firm to ignore public image considerations until sometimes too late. First, a firm's public image often makes a nonspecific impact on company performance. The cause-and-effect relationship of a deteriorating image is virtually impossible to assess, at least until and unless image problems worsen. Image consequences may be downplayed because management is unable to single out the specific profit impact.

Second, an organization's image is not easily and definitively measured. Although some tools are available for tracking public opinion, they tend to be imprecise and of uncertain validity. Consequently, image studies are often spurned or given short shrift relative to more quantitative measures of performance.

Third, it is difficult to determine the effectiveness of image-building efforts. While firms may spend thousands, and even millions, of dollars for institutional and image-building advertising, measures of the effectiveness of such expenditures are inexact and also of questionable validity. For example, a survey may be taken of attitudes of a group of people before and after the image-building campaign is run. Presumably if a few more people profess to be favorably disposed toward the company after the campaign than before, this is an indication of its success. But an executive can question how much this really translates into sales and profits.

Given the near impossibility of measuring the effectiveness of image-enhancing promotion, how do you account for the prevalence of institutional advertising, even among firms that have no image problems?
Critical studies still found the product no cleaner or safer than big-city tap water; a third of the bottles sampled were contaminated by synthetic chemicals, bacteria, and arsenic. Out of the average $1.50 spent for a bottle of water, 90 percent went for bottling, packaging, marketing, retailing, and other expenses. The industry in defense claimed that the federal Centers for Disease Control had never found a U.S. outbreak of disease or illness linked to bottled water.


WHAT CAN BE LEARNED?

Exiting a Market for Several Months or More Poses Critical Risks, Particularly for a Habitually Consumed Product

To allow new habits to be established and new loyalties to be created not only among consumers but also dealers may be impossible to fully recover from. This is especially true if competing products are comparable, and if competitors are aggressive in seizing the proffered opportunity. Since a front-runner is a target anyway, abandoning the battlefield simply invites competitive takeover.

Deception Discovered and Grudgingly Admitted Destroys a Mystique

No mystique is forever. Consumer preferences change, competitors become more skilled at countering, or perhaps a firm becomes complacent in its quality control or innovative technology. These conditions act to nibble away at a mystique and eventually destroy it. As in the case of Perrier, where long-believed images of a product, its healthfulness and purity, are suddenly revealed to be false—that the advertising was less than candid and was even deceptive—then any mystique comes tumbling down and is unlikely to ever be regained. This scenario can only be avoided if the publicity about the deception or misdeed is not widespread. But, with a popular product such as Perrier, publicity reaches beyond business journals to the popular press. Such is the fate of large, well-known firms.

A Price/Quality Misperception Strongly Exists

Without doubt, most consumers judge quality by price: the higher the price, the higher the quality. Is a $2.50 liter of Evian better quality than a gallon of tap water costing a fraction of a cent? Perhaps. But is it a hundred times better? And yet many people embrace the misconception that price is the key indicator of quality, and are consequently taken advantage of every day.

An Industry Catering to Health Is Particularly Vulnerable to a Few Unscrupulous Operators

We, the general public, are particularly vulnerable to claims for better health, beauty, and youthfulness. It is human nature to reach out, hopefully, for the false
promises that can be made about such important personal concerns. We become
victims of quacks and snake-oil charmers through the ages. Governmental agencies
try to exercise strong monitoring in these areas, but budgets are limited, and all
claims cannot be investigated. As recent congressional scrutiny has revealed, the
bottled-water industry had long been overlooked by governmental watchdogs. Now
this is changing, thanks at least partly to the Perrier recall.

Should an Organization Have a Crisis-Management Team?

Perrier did a poor job in its crisis management. Would a more formal organiza-
tional unit devoted to this have handled things better, instead of leaving it to top
executives unskilled in handling catastrophes? The issue can hardly be answered
simply and all-inclusively. Crises occur rarely; and a serious crisis may never hap-
pen to a particular organization. A crisis team then would have to be composed of
executives and staff who have other primary responsibilities. And their decisions
and actions under fire may be no better than a less formal arrangement. For severe
crises—and Perrier’s was certainly that—top executives who bear the ultimate
responsibility therefore have to be the final decision makers. Some will be cooler
under fire than others, but this usually cannot be fully ascertained until the crisis
occurs. More desirable for most organizations would seem to be contingency
plans, with plans formulated for various occurrences, including the worst scenar-
ios. With such action plans drawn up under more normal conditions, better judg-
ments are likely to result.

CONSIDER

Can you think of other learning insights from this case?

QUESTIONS

1. How could the public relations efforts of Perrier have been better handled?
2. Discuss the desirability of Perrier’s price-cutting during its comeback.
3. Whom do you see as the primary customers for Perrier? For Evian? For
other bottled waters? Are these segments likely to be enduring in their com-
mmitment to bottled water?
4. Why do you think the big firms, such as Coca-Cola, PepsiCo, and Coors,
have been so slow and unaggressive in entering the bottled-water market?
5. Are we being hoodwinked by bottled-water claims and images?
6. “The success of bottled water in the United States, unlike the situation in
many countries of the world where bottled water is often essential for good
health, attests to the power of advertising.” Evaluate this statement.
7. Is the consumer appeal of bottled water largely attributable to an image
developed of sophistication and status?
HANDS-ON EXERCISES

1. Put yourself in the position of Ronald Davis on the afternoon of February 9, 1990. The first report of benzene found by a Carolina lab has just come in. What would you do? Be as specific as you can, and describe the logic behind your decisions.

2. How would you attempt to build up or resurrect the mystique of Perrier after the recall?

TEAM DEBATE EXERCISE

Debate the issue of extreme measures (a massive recall) undertaken in a product safety situation versus more moderate reactions (a modest recall). Consider as many aspects of this issue as you can, and make educated judgments of various probable consumer and governmental reactions.

INVITATION TO RESEARCH

What is the popularity of bottled water today? Has it increased or lessened since the events described? Has Perrier regained market position? Where are the biggest markets for bottled water?