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Tata Tea-PepsiCo JV may look at low-cost beverages

Alliance, Likely To Be A 50:50 JV, May Initially Consider Wellness Packaged Water

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THE proposed Tata Tea-PepsiCo joint venture for non-carbonated, health and wellness beverages is believed to be exploring the low-cost, bottom-of-pyramid segment of beverages.

Two officials close to the development told ET that the JV is considering leveraging the Tata brand and expertise in low-cost consumer products and coupling it with PepsiCo's distribution muscle, go-to-market expertise and R&D strength in beverages.

"Launching beverages in the low-cost, bottom-of-pyramid segment is under consideration," one of the officials said, requesting not to be named. The alliance is likely to be a 50:50 joint venture floated as a special

purpose vehicle, another official said. "But talks are at a very preliminary stage and it will take two-three months to finalise plans," the official added. Officials of both Tata Tea and PepsiCo refused to comment on this story.

The proposed joint venture may consider wellness packaged water initially, followed by other beverages.

Its likely focus on the lower end of the market will ensure that PepsiCo's existing global alliance with Unilever to sell Lipton ice tea, which focuses on the mid- to-premium segment, will not be impacted. The new tieup will give PepsiCo the opportunity to be perceived as a wholesome beverages company, not just as a company making fizzy drinks. Tata Tea will get a larger foothold in the wellness beverages segment after an earlier attempt to foray in the category had to be aborted within a year.

Tata Tea, through its indirect UK subsidiary, Tata Tea (GB) Investments, had picked up 30% stake in the US-based maker of vitamin water Glaceau in mid-'06 for \$677 million. But in 2007, Tata Tea had to sell off its 30% stake in Energy Brands Inc — which owns Glaceau — to beverage giant Coca-Cola for \$1.2 billion, less than a year after it acquired the stake.

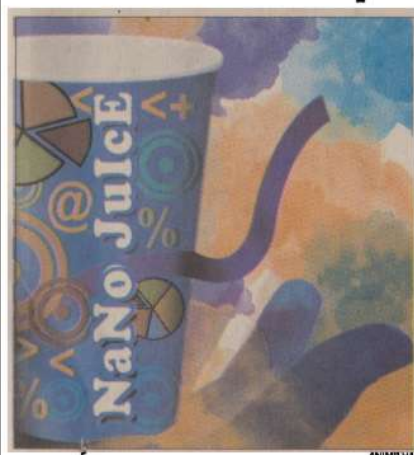
And though Tata Tea has been aggressive in acquiring companies in the beverages sector including Tetley, Eight O'clock Coffee and Good Earth, its wellness and health beverages portfolio in India so far is limited to Himalayan packaged water and THON, an energy drink made from fruit juice and tea extracts. THON is not a national brand yet.

It must be pointed out here that PepsiCo's partnership with Hindustan

Unilever for distributing Lipton iced tea in India did not take off in the way both companies expected to.

In a joint statement released last Friday, both PepsiCo and Tata Tea maintained: "The proposed joint venture is not intended to conflict with any existing arrangements of either party." Though the Rs 7,000-crore aerated soft drink market has been growing at a healthy 20%-plus in India, PepsiCo has been expanding its portfolio in the health and wellness space aggressively globally as well as in the domestic market, in line with its ambition of being a global leader in the 'good for you' beverages segment.

PepsiCo's existing health and wellness brands include packaged water Aquafina, Tropicana juices, Nimbooz nimbu pani and sports drink Gatorade.



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