



JOHN DEIGHTON

The Brita Products Company

In 1987 when Charlie Couric saw his first Brita pitcher he thought, "A homemade alternative to bottled water!" Here was a product that, with the right marketing support, could be very successful. Couric, a marketing executive with the Clorox Company charged with finding new business ideas, had been browsing health food stores in California when he came across the quirky home water pitcher-and-filter system made by a small German company, Brita GmbH. He proposed that Clorox acquire the right to market Brita in the USA, and in 1988 they did so. Couric reflected:

In the early years we had to beg the corporation to invest. Some of my colleagues viewed the pitcher as another waffle iron - used once and then tossed into the basement. We saw it differently. We looked at the repeat purchasing of filters, and to us the strategy was obvious. This was a race to put a pitcher on every kitchen countertop, at a loss if necessary.

Clorox supported Couric's deficit-spending proposal, and a decade later Brita had grown to become one of Clorox's biggest brands. It had rewarded Couric's faith, spearheading the growth of a home water filtration industry in the United States. More than 17 million Brita pitchers had been sold, and each pitcher sale started a stream of filter sales. The Brita brand was generating close to \$200 million revenues a year.

Now, in 1999, Couric was keeping an eye on a different water purification product launched by a small competitor, PUR. It was a filter that screwed onto kitchen faucets.¹ Clorox had its own version of the faucet-mounted filter ready for launch, and again a debate had developed over whether to deficit-spend. Some counseled that the faucet-mount had the power to disrupt the pitcher product, and Brita had no choice but to pour money into another race to build another installed base, this time in faucet-mounted products. Others argued that faucet-mounts served a different niche of the water purification market from pitchers, and the two could live side-by-side. A third group argued that Brita should do nothing to foster faucet-mounts. Its priority, they argued, was to invest to defend its installed base of pitchers and the associated filter revenue stream. Money spent on promoting a faucet-mount would only erode the pitcher base and interrupt its stream of filter revenues. They pointed out that PUR was a small, loss-making firm, too weak to succeed at creating a new category, particularly when the early adopters of home water filtration all had pitchers in their homes.

¹ Faucet-mounted filters were not themselves a new product—Teledyne had sold one since the 1960s without much success. However, the introduction of solid carbon block technology in 1995 improved performance and increased consumer interest.

Professor John Deighton prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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The Clorox Company

The Clorox Company was a major manufacturer and marketer of laundry additives, household cleaners, charcoal, auto care products, cat litter and home water purifiers. In January 1999, Clorox bought First Brands, a \$1.2 billion manufacturer of plastic wraps and bags, auto care products, cat litter and home fireplace products. Revenues of the two companies combined would have been \$3.9 billion in 1998. Some of the well-known U.S. consumer brands that would come under common ownership following the merger were:

Clorox	First Brands
Armor All car care products	STP automotive products
Fresh Step cat litter	Scoop Away cat litter
S.O.S. steel wool pads	Ever Clean cat litter
Hidden Valley salad dressing	Johnny Cat cat litter
Kingsford charcoal	StarterLogg fire starters
Clorox laundry bleach	HearthLogg fire logs
Soft Scrub cleaners	Glad plastic wraps and bags
Brita water filtration systems	
Formula 409 spray cleaner	
Tilex cleaners	
Pine-Sol cleaner	
Liquid Plumr	

Under Chairman and CEO G. Craig Sullivan, Clorox followed a strategy of building dominant brands, pursuing international expansion and acquiring promising businesses. Some 85% of Clorox brands were first or second in their categories. Sales beyond the United States would reach 20% of revenues after the First Brands merger, up from 18% for Clorox alone.

The Brita Products Company

Brita GmbH, a family-owned corporation headquartered in Tanusstein, Germany, made a variety of industrial and consumer water filtration products. Before Couric called, it had struggled without much success to sell its home water filtration system in the United States, most recently through a Canadian agent. After vigorous negotiation, in September 1988 it agreed to let Clorox form a subsidiary, Brita USA, to be the sole U.S. distributor of Brita products. Clorox would buy filters from Brita GmbH and design and make its own pitchers. Couric became President and General Manager of Brita USA.

For four years, Brita USA struggled. The costs of building distribution, designing products, and promoting the concept dwarfed the small base of sales. Couric persevered, however, because early surveys of users suggested to him that a Brita customer would have a remarkable lifetime value. Each pitcher sale would start a flow of filter sales. Over 80% of pitcher buyers were still using the product a year later and many were telling friends to try it and were giving it as gifts. In the 1990s, the product took hold like crabgrass. By 1999, an estimated 13% to 15% of the 103 million households in the United States were using a Brita pitcher. Brita had created a home water purification industry worth \$350 million at retail, and held a 70% revenue share.

The Product

The Brita pour-through filtration system comprised a two-compartment pitcher and a replaceable filter (Exhibit 1). Tap water, poured into the upper compartment, flowed under gravity through the filter into the lower compartment, filling it in about five minutes.

The filter had two elements. Activated carbon reduced chlorine, sediment and odors, and an ion-exchange resin removed any heavy metals such as lead, copper, mercury and cadmium, as well as temporary water hardness (calcium and magnesium). The benefits were threefold. Filtered water tasted better, it did not deposit scale when boiled, and, to the extent that it might have contained harmful heavy metals, they were extracted. The filter did not screen out microorganisms such as cryptosporidium and giardia, two sources of gastro-intestinal illness that were potentially fatal to people with compromised immune systems.

The pitcher system was sold with a single filter in place. Filters required replacement every two months or after filtering 40 gallons of water. Brita supplied calendar stickers to help users track when a filter needed replacement. Filters were sold in packs of one, three and five.

Consumer Attitudes and Behavior

Over the decade of the 1990s, the safety of tap water became a topic of growing concern to U.S. households. In one well-publicized case, two wells supplying the drinking water for the Boston suburb of East Woburn, MA were found to be contaminated with industrial solvents, coincident with a number of cases of leukemia. The incident was the subject of a book and a 1998 motion picture, 'A Civil Action.' In that year the U.S. Environmental Protection Agency declared that about 10% of the sediment under U.S. surface waters is "sufficiently contaminated" with toxic pollutants to pose a health threat to humans and wildlife. Later that year, Congress began requiring municipal water authorities to say when contaminant levels exceeded federal regulations. In Milwaukee in 1993, 403,000 people were made sick and 111 died when the parasite cryptosporidium entered the municipal water supply. By the end of the decade, a poll by USA TODAY, CNN and Gallup found that 47% of respondents preferred not to drink water straight from the tap.²

Sales of bottled water from U.S. supermarkets and home delivery services grew rapidly during the decade. By 1997, bottled water made up 8% of all the liquids that people paid to drink and was the industry's fastest growing category (Exhibit 2). In that year, 45% of households bought still (non-carbonated) water in supermarkets and 27% bought carbonated water. The average price paid for still water was about a dollar per 128-ounce container, and carbonated brands averaged about three dollars (Exhibit 3).

A 1998 survey³ found that two-thirds of Americans claimed to be familiar with the expert recommendation to drink eight, eight-ounce servings of water a day, yet only one in five drank that quantity of water and 44 percent drank three or fewer water servings daily.

² Eisler, Peter, Barbara Hansen and Aaron Davis. "Lax oversight raises tap water risks." *USA TODAY*, October 21, 1998, p. 15A.

³ Yankelovich Partners conducted a survey of 3,003 Americans for the Nutrition Information Center at The New York Hospital - Cornell Medical Center and the International Bottled Water Association. The study is described at <http://www.bottledwaterweb.com/news/news3.html>.

A 1999 survey⁴ found that 72% of all respondents, and 89% of young adults, voiced some concern about the quality of their household's water supply. A majority of households used either bottled water or some water purification system to limit their exposure to public water supplies. The number taking no precautions declined from 47% in 1995 to 35% in 1999 (Exhibit 4).

Market Performance

Brita used the term 'systems' to refer to pitchers and faucet-mounted units, and 'filters' for the replacement filters. System sales were sluggish for the first four years after launch, but filter-sales grew more rapidly (Exhibit 5). In the early years Couric compared performance in the United States to the first years of the product's life under other Brita distributors in Canada and the United Kingdom, and the similarity of the profiles gave him, as early as 1991, the confidence to persevere:

We saw that trial in the United States in the early 1990s was running between the Canadian and the U.K. levels. Close to 25% of buyers told us that they had given a Brita pitcher as a gift. Another reassuring sign was that surveys were finding that more than 80% of those who had tried the pitcher were still using it a year later. The same surveys reported that they were buying 2 or 3 filters a year. Each year we tried to relate filter sales to past pitcher sales. We found that when we estimated our installed base at 80% of those who had bought a system in the previous five years, and assumed that the installed base bought 2.5 filters a year, the resulting forecasts of filter sales each year were close to reality.

Management tracked system market share in units and filter share in dollars (Exhibit 6). Brita's share of combined system and filter market revenues had been steady in the range of 65% to 75% from 1995 to 1999. System unit shares were far more volatile. In July 1998, for example, system sales doubled over the previous year and Brita's share increased ten points in response to a so-called 'bogo' (buy one, get one free) promotion on pitchers, intended to pre-empt a PUR competitive launch. Filter sales had been less responsive to sales promotion activity by manufacturers.

Brita bought pitchers from contract manufacturers at a cost per unit of \$7.80. Filters were purchased from a manufacturing plant owned jointly by Clorox and Brita GmbH for \$2.05 per unit, inclusive of a 3% royalty to Brita GmbH. (Profits from this plant were not material.) At the prices Brita charged retailers in 1999, pitchers earned a contribution to fixed costs of 48.6% of Brita's net revenue, and filters earned 50.0%. After advertising and trade promotions, Brita USA earned a net return on sales of 24%, the highest of all Clorox business units. Although advertising spending worked to the benefit of both pitchers and filters, trade promotions were used mainly to secure trade support for pitchers. Exhibit 7 summarizes the income statement of the brand in 1998.

Distribution

At inception, Brita's main retail outlet had been a health foods chain. Its competitors were in stores that stocked housewares, like Sears and Walmart. Couric believed, however, that the product would flourish in Clorox's traditional base, grocery and drug outlets, and drove distribution in that direction.

⁴ "1999 National Consumer Water Quality Report," Lisle, IL: Water Quality Association, 1999.

	Brita distribution	
	1992	1998
Department stores	27%	13%
Mass merchandisers	31%	34%
Grocery stores	11%	14%
Club stores	31%	21%
Drug stores	-	12%

This pattern of channel evolution, in which high margin retailers like department stores pioneered a new category, only to lose share to lower margin retailers, was known among marketers generally as a "class to mass" strategy. Couric explained his strategy:

Our version of "class to mass" had three elements. We wanted to be established in class, first in mass, and alone in grocery. So we created a line of upscale pitchers called Ultra for department stores, appropriate for their 35% mark-up structure. We sold the standard pitcher, inherited from Germany but manufactured locally, in mass merchants like Target and Walmart and in drug and grocery stores. They marked it up 25%. We designed a bonus pack system and a 5-pack of filters to appeal to club retailers when they became important in the early 1990s.

Keeping these various classes of trade happy is an enormous challenge. We are continuously building the system and seeing cracks appear. Eventually perhaps we'll be driven out of 'class,' but we aim to make it last as long as possible. We need the breadth of distribution and variety of products to support our \$30 million advertising budget, and to provide a channel for introducing and establishing future new products.

One way we attempt to keep the peace among our classes of trade is by insisting that no retailer advertise a Brita line at below the price that we set. We call it a MAP (minimum advertised price) policy. We reimburse retailers for featuring our products in their display advertising, but if they feature us at below the MAP, then we won't pay. The only exception we make is on the standard pitcher. We let them deal as much as they like on that item.

Positioning and Advertising

Brita's advertising in the United States emphasized a taste benefit. Couric explained:

Initially people had no clue about the concept of a pitcher product. I remember on the cab ride back to the airport after our first trade show in Chicago I explained the concept in lengthy detail to the cab driver and when I was finished he said, 'You screw it onto the faucet, right?' I realized then that we had to tell people how the product worked, so we split the advertising message 50/50 between how it works and how it tastes. Today, now that our product is more well known, we are able to be more focused about the taste benefit.

We decided on taste for three reasons. First, research showed that when we talk taste, we get a health benefits halo. When we talk health, we don't communicate the idea of taste. Second, we noted that the whole bottled water industry had been built without reference to health. Third, I wanted to be at the top of the mountain. I didn't want competitors overtaking us. If we focussed on lead removal, say at 93%, someone else could claim to take out 95%.

With taste, we could say it first, say it loudest, and we could own the benefit. By now, with \$100 million of cumulative advertising on the taste claim behind us, we are impossible to dislodge.

When we started eleven years ago, the water filtration category had low credibility. It was being investigated all the time for improper or false claims. We didn't want to get into a claims war. Our advertising needed to be pure and simple. We showed mountain streams, waterfalls and the outdoors. We promised clear, crisp, refreshing water, which is what we delivered. Today we own the waterfall imagery.

Competition

Brita's success attracted competitors in droves. Among the brand names that entered the market were Culligan, Electrolux, Sunbeam, Kenwood, Corning, Melitta, PUR, Rubbermaid, Teledyne, Omni and Mr. Coffee. None had succeeded in challenging Brita's leadership, which remained in the range of 65% to 75% across the decade. In 1999, the only competitor with double digit market share was PUR, the brand of a small, publicly held U.S. corporation, Recovery Engineering. This company made, in addition to water filters, a line of portable drinking water systems for outdoor enthusiasts and desalinators for marine and military use.

At the January 1998 International Housewares Show in Chicago, a dozen manufacturers unveiled new water filtration products or extensions to existing lines. The products appeared to be designed to attack niches not currently served by Brita. "Number 1 is always going to be under attack," Brian Barton, brand manager at Rubbermaid, told the press covering the trade show. "When you have 80% of the market share there's only one way to go and that's south."⁵

Several products took health and safety positions in reaction to Brita's taste appeal. Number 2 brand, PUR, announced that it would spend \$40 million in advertising and promotion to support its line of faucet-mount and pitcher filters. The spend included a \$15 million outlay for PUR Plus, a new pitcher system touted as the most technologically-advanced to date. The PUR filter would remove contaminants such as cryptosporidium and giardia. PUR representatives described a promotional program that would begin with a six month infomercial running on national cable television, to be followed by a schedule of 30-second spots on cable and spot network TV that would point out the differences between PUR and current pitchers. Sunbeam, known for blenders and toasters, announced the launch of Fresh Source, a product that removed microbiological cysts as well as chlorine and lead. Sunbeam would back the product with an estimated \$10 million of advertising. Number 3 manufacturer Teledyne, unveiled a faucet-mount product at the show.

At the trade show, Brian Sullivan, president and CEO of Recovery Engineering, Minneapolis was quoted as saying, "If you ask consumers if they want more contaminants taken out or less, they'll say more. People will pay more for a higher-performing product." PUR's pitcher was considerably more expensive than Brita's standard product. A Brita representative responded, "The way we see the market, this business is geared more towards taste. Consumers are interested in taste. Bacteria is way down the list."⁶

In a \$30 million ad campaign unveiled in the month of the Chicago show, Brita did not mention harmful impurities. A TV spot dubbed "There Was a Time" features shots of rushing streams set

⁵ Mehegan, Sean. "Sunbeam, recovery loading up \$\$ to take on Brita in water filtration." *Brandweek*, Vol. 39, Iss. 3, January 19, 1998 p. 12.

⁶ *Op cit.*, p. 12.

against a backdrop of mountains and a dark, brooding sky. "There was a time when it was perfect," the voiceover says. "You can have this taste . . . again."

Rubbermaid had launched a low priced product in 1997, which used a technology similar to Brita's while attacking it on price/performance. Rubbermaid claimed that its filter could cleanse 800 8-oz. glasses of water versus 560 for Brita at the same price. In 1998 the company repackaged its pitcher product and announced a portable 16-oz. bottle with a carbon filter built into the cap. Rubbermaid had not advertised its pitcher in 1997, and sales had been disappointing. At the trade show they pledged to step up promotion under a new team led by Cathryn Rings, the former head of Procter & Gamble's Max Factor cosmetics business. Rings announced at the trade show, "We're going to try some classic P&G marketing."

The Faucet Mounted Filter Entry

Prior to 1995, Brita executives expressed little interest in faucet mounted water filtration systems. Of the 50 countries in which Brita GmbH did business, only Japan had a significant faucet business, and that was attributed to space constraints in Japanese kitchens. In 1994 and 1995, however, they saw a faucet segment forming. Recovery Engineering Inc. launched a faucet mounted product under the PUR brand name with some success. In 1995, Brita hired an outside design company to design a faucet mount.

Functionally, water from a pitcher was different from water filtered through a faucet-mounted filter. In favor of pitchers, they were usually stored in refrigerators, so pitcher water was cold while faucet water was not. In those parts of the country where tap water was 'hard' and left scale deposits and scum when boiled, only pitcher filters but not faucet filters would eliminate hardness. In favor of faucet mounts, the water passed through at higher pressure than through pitcher filters, so finer filters could be used that could screen for microorganisms and offer protection against cryptosporidium and giardia. Also, pitcher-filtered water tasted crisper, with lower pH. Finally, faucet-filtered water cost significantly less per glass because the filter lasted longer. Where pitcher water cost 15 to 20 cents per gallon, faucet-filtered water cost perhaps half.

Were these differences significant to consumers? Did Brita stand for good tasting water, or how you get it? The Brita team debated whether the faucet mount would be perceived as another way to deliver Brita water. Or would the consumer decide that they were buying something quite different, perhaps even so different that some might consider it a good idea to own both a pitcher and a faucet mount?

As Brita's filtration technology played no part in the faucet mount design, Clorox was not obliged to use the Brita name on this product. If it did so, however, it was required to pay Brita GmbH a royalty that, under the 1988 agreement, would be between 3% and 4% of sales depending on the magnitude of sales. It would also be bound by the non-compete clause of the comprehensive agreement that limited sales of products with the Brita name to North America. Conversations with the retail trade, however, revealed a distinct preference for carrying the faucet mount under a well-known name like Brita.

The direct cost of the faucet mount system was estimated to be \$15.00 and the direct cost of a replacement faucet filter would be \$3.00. Pitcher filters could not be used in faucet mounts.

Would a faucet mount cannibalize pitcher and pitcher filter sales? Perhaps, some speculated, the pitcher was a starter product, and customers who had learned to go back to drinking tap water would graduate up to the more convenient and sophisticated faucet unit. To explore these and other

questions, Clorox commissioned a simulated test market⁷ from ACNielsen Vantis, a division of the ACNielsen BASES group.

Market Simulation Study for the Faucet Filter

In the ACNielsen Vantis study, 567 respondents, characterized as water-involved⁸ and drawn from eight markets across the United States, were intercepted in shopping malls, brought to rooms containing simulated retail store shelves, and asked to choose from a display of water filtration systems.

Respondents were assigned to one of three rooms. Each room displayed ten products currently available in the market. In addition, two displayed a prototype of the Brita Faucet Filter System, one priced at \$34.99 and the other at \$39.99. The third had no Brita Faucet Filter System on display, to serve as the control cell of the experiment. In the first two rooms, subjects saw print advertising for Brita and PUR faucet mounted filters.

Consumers were first asked to rate how likely it was that they would buy any of the displayed items in the next two months. They were then asked to identify their first, second and third choice of item. Finally, they were asked a series of questions about the test product, the Brita Faucet Filter System. Vantis offered the Brita team the following conclusions from the study:

- The Faucet Filter increased the likelihood of buying a product from the Brita line.
- However it did not increase interest in the filtration category as a whole, so that the combined pitcher and faucet-mounted market was not expected to expand.
- Though higher priced, the Brita Faucet Filter generated similar levels of purchase intention to the Brita Spacesaver Pitcher.
- About half the Brita pitcher owners who bought the Faucet Filter system would continue to use the pitcher in conjunction with the faucet product.
- Both Brita and PUR's faucet filters were perceived to be superior to the Brita pitcher in removing contaminants, and in convenience. However, only Brita's faucet filter was perceived to improve the water's taste.
- Unit sales and perceptions of value for the faucet mount were strong at both the \$39.99 and \$34.99 prices, and sales would not be significantly impacted if the PUR price was dropped by \$5.00.

⁷ Simulated test market studies have a long history, dating back to the 1970s when Alvin J. Silk and Glen Urban began research at MIT's Sloan School to seek ways to forecast demand for new products without incurring the costs and public exposure of full-scale test markets. Today simulated test markets are regularly relied on to forecast in-market performance without the need to build production capacity, expose marketing plans to competitive scrutiny, and wait six or twelve months to read results. Their evolution is described in Kevin J. Clancy, Robert S. Shulman and Marianne Wolf, *Simulated Test Marketing: Technology for Launching Successful New Products*, New York, NY: Lexington Books, 1994. ACNielsen Vantis serves services and durable goods industries with a brand of simulated test market methodology, BASES, that derives from work that began in the Pillsbury Company in the 1960s, found a temporary home in Booz-Allen & Hamilton (the name is an acronym for Booz-Allen Sales Estimation System), was spun off in a leveraged buyout in 1977, and is now a division of the A. C. Nielsen Company.

⁸ A water-involved respondent was one who either owned a filtration device or bought bottled water, and described him- or herself as not satisfied with the quality of their water.

The study projected that unit sales of the faucet mount in its first year would lie between 350,000 and 1,395,000 units. Half of this volume would come from consumers who would otherwise have bought a Brita pitcher. Whether sales would be at the high or low end of the range depended on how aggressive was Brita's marketing investment, and how competitors responded. Ten scenarios were generated by combining the following factors and levels:

	Low	High	Very High
Consumer advertising	\$5.4 million	\$11.1 million	\$15 million
Consumer promotion	\$2.0 million	\$3.0 million	\$4 million
Feature price reductions	\$1.8 million	\$2.3 million	\$2.8 million
Other trade spending (displays, racks, etc.)	\$3.2 million	\$6.1 million	\$9 million

The ten scenarios gave rise to the following ten sales forecasts:

Scenario:	Minimum Advertised Price (\$5.00 off List)	Consumer Promotion and Trade Spending	Consumer Advertising	Competitive Pricing	First Year Unit Sales Forecast
1	\$34.99	Low	Low	Low	340,000
2	\$34.99	Low	Low	Current	350,000
3	\$29.99	Low	Low	Low	395,000
4	\$34.99	High	High	Low	970,000
5	\$29.99	High	High	Low	1,125,000
6	\$29.99	High	High	Current	1,160,000
7	\$34.99	High	Very High	Current	1,205,000
8	\$34.99	Very High	Very High	Current	1,245,000
9	\$29.99	Very High	High	Current	1,350,000
10	\$29.99	Very High	Very High	Low	1,395,000

Each scenario resulted in a sales and income forecast. For example, scenario 2 led to the following forecast:

Total households	75.86 million
Product awareness resulting from \$5.4 million advertising	13%
Distribution (% of market reached)	72%
List price (30% of sales assumed to occur at list)	\$39.99
Feature price (70% of sales assumed to occur at the feature price)	\$34.99
Trade promotion	\$3.2 million (low)
Consumer promotion	\$2.0 million (low)
Competitive pricing	current levels
Total sales (units)	350,000

Brita USA had not asked Vantis for a forecast of sales of replacement filters. The proposed product had an LED filter replacement indicator, which would likely increase compliance with filter replacement recommendations. Each filter would treat 100 gallons of water, about four months' output from a typical kitchen faucet, before the indicator would signal that it was due for replacement.

Couric's Decision

Couric prepared to call his marketing team together to hear their views on how to take the Brita brand forward. He anticipated that he would hear three points of view: keep the focus on building the installed base of pitchers, shift the budget to encourage the installed base to buy more filters, or put the weight of resources behind building a whole new installed base in faucet-mounts.

He saw many demands on the Brita marketing budget besides the faucet-mount product launch. Household pitcher penetration was slowing, and yet six out of seven households did not have one. Could there be segments who had not responded to the broad appeals of the first decade, but who might well respond to more targeted communication efforts—specific appeals to singles and to parents of young children, for example? Perhaps investing in direct mail or other highly targeted marketing tools could cultivate demand in these niches. Then there was the filter opportunity. Brita had never invested in the direct cultivation of filter demand, beyond in-store promotion.

On his desk in the corner office were Recovery Engineering's published financial results for the quarter ending January 3, 1999. Its quarterly sales were up \$1 million on the previous quarter to \$19.5 million, but its net loss had more than doubled to \$7.2 million. Its stock was trading at \$10, down from \$35 in mid 1998. Recovery Engineering had raised capital in an Initial Public Offering in 1997 on the claim that it had a technological edge over Brita. To be sure, PUR had been first to market with a number of new features: the first cryptosporidium filter for pitchers, the first mechanical device to indicate when to replace a filter, and the first widely distributed faucet filter. But as Couric weighed how much urgency to put behind the faucet-mount launch, he found comfort in PUR's flow of red ink.

A Fax and a Phone Call

Couric's fax began transmitting. Over the line came a report from the Clorox field sales director, with a sketch of a display that had been seen that morning in the Schaumburg, IL branch of Target Stores, in the store's large water filtration section. A sign over the display had read:

*Which water filtration product is right for me?
How do different water filters give me great tasting water and protect my family?
Choose your level of protection:*

- *Lead, chlorine.*
- *Lead, chlorine, cryptosporidium, guardia.*
- *Lead, chlorine, cryptosporidium, guardia, Lindane (a pesticide), Atrazine (a herbicide), asbestos.*
- *Lead, chlorine, cryptosporidium, guardia, Lindane (a pesticide), Atrazine (a herbicide), asbestos, benzene, TTHMC.*

All product claims are NSF® certified to national public health standards.

Beneath the sign he had seen five PUR systems and four Brita systems mounted on identical backing cards labeled with one, two, three or four bullets. No PUR system had fewer than two bullets and the PUR Ultimate Faucet Mount had the maximum, four. Not a single Brita system had more than one bullet.

Simultaneously, Couric's phone rang. His investment bankers were advising that Procter and Gamble, the world's largest consumer products company and Clorox's most respected competitor, was about to close a deal at \$35 per share for control of PUR.

Exhibit 1 1993 Advertising

HOW IT WORKS.

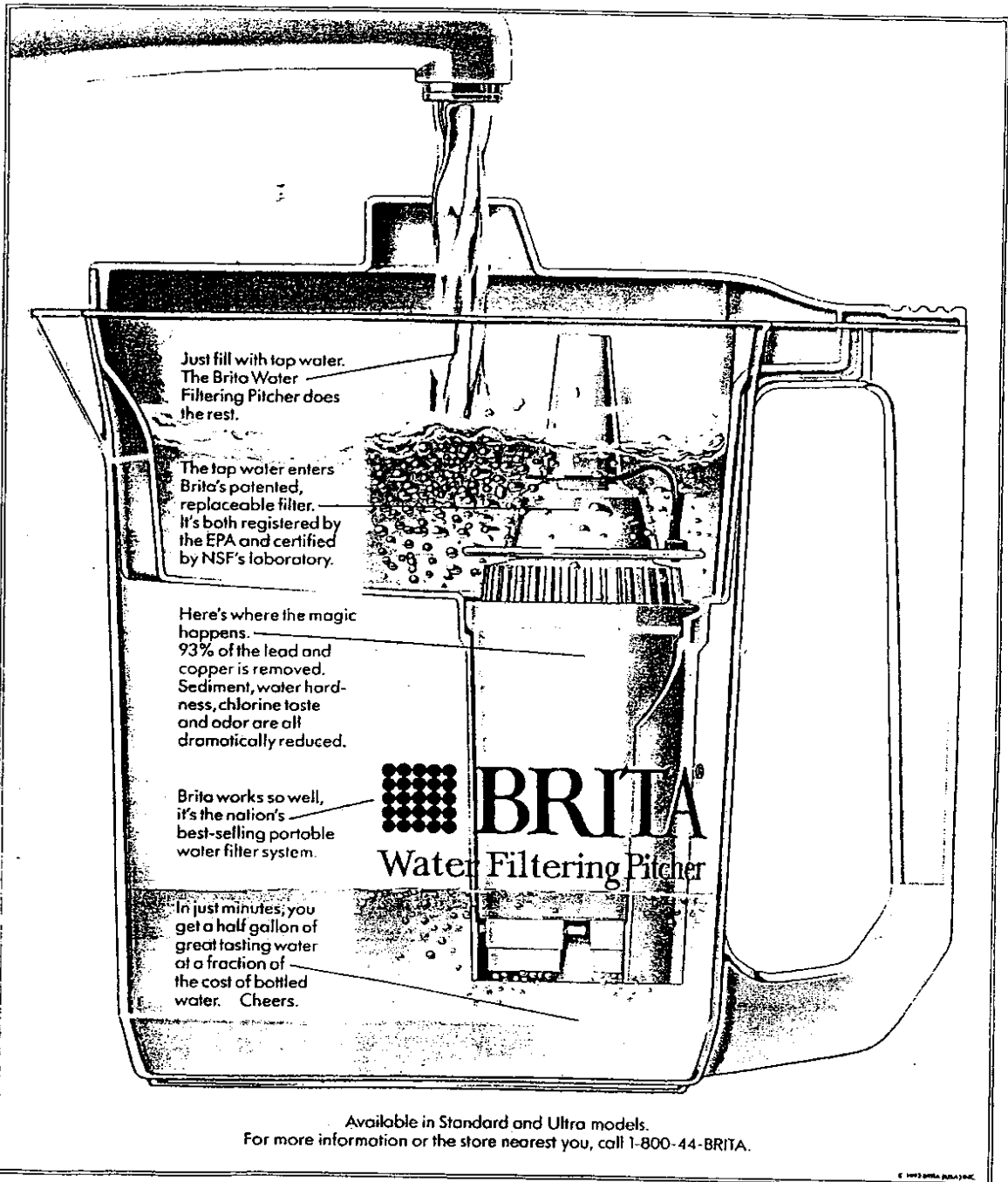
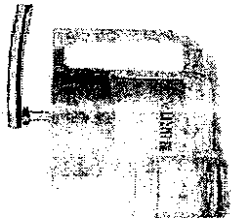


Exhibit 1 (continued)



What does it take to make tap water taste like this?

Not much.

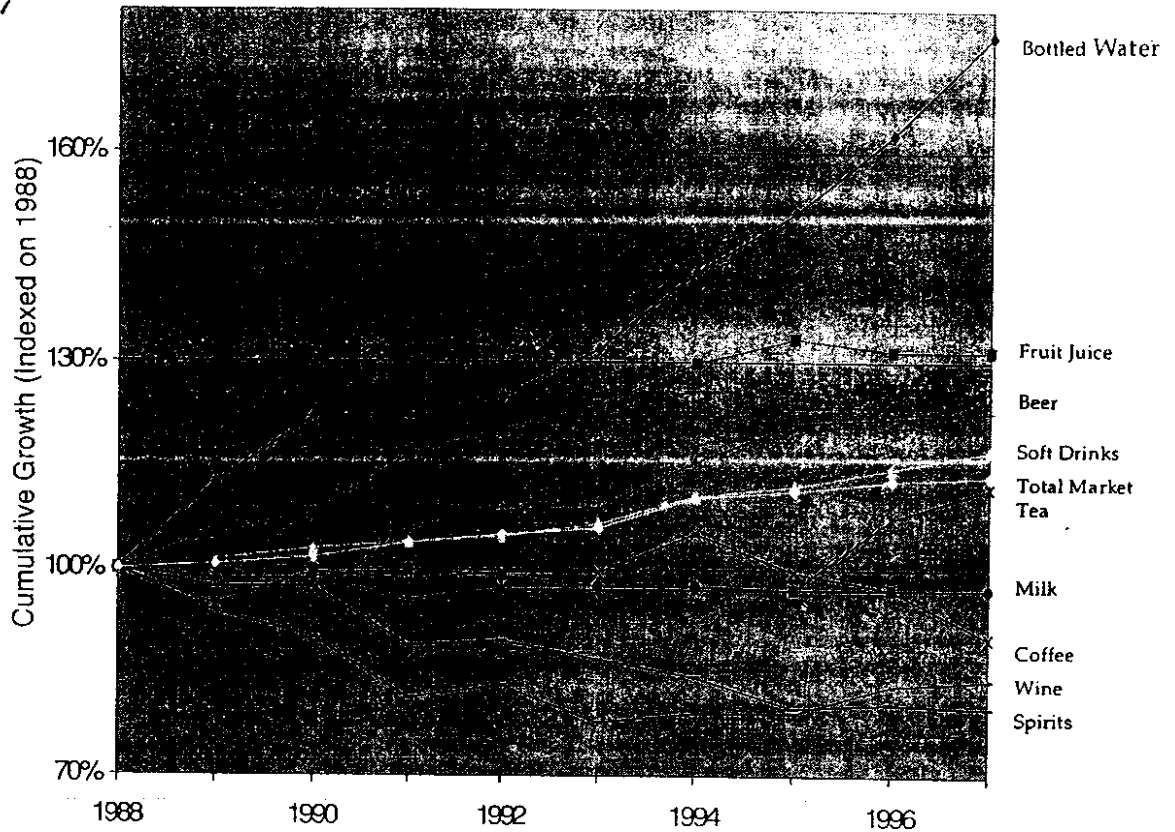


The ingenious filter inside the Brita® Water Filtration Pitcher is one of a kind. It virtually eliminates lead and chlorine. Chemically reduces copper, sediment and water hardness. Best of all, it turns tap water into clear, fresh, wonderful water. There's nothing like the great taste of Brita water. Enjoy.

BRITA
Tap into great taste.

Brita offers a non-sweetener, phosphate-free, lead-free, BPA-free water. For the one nearest you, call 1-800-44-BRITA or visit our website at www.brita.com. Substances removed may not be in source water. ©1997 The Brita Products Company.

Exhibit 2 Growth of Segments of the U.S. Beverage Market



	Bottled Water	Fruit Juice	Soft Drinks	Beer	Wine	Spirits	Coffee	Tea	Milk
Per Capita Consumption (gallons, 1997)	12.7	15.0	54.6	29.1	1.9	1.2	22.6	7.6	20.0
Segment Size (Billions of gallons, 1997)	3.4	4.1	14.7	7.9	0.5	0.3	6.1	2.1	5.4

Source: 1999 Beverage Marketing Directory, Mingo Junction, Ohio: Beverage Marketing Corp., 1999.

Total Per Capita Consumption = 144.7 gallons in 1997.

Total Beverage Consumption = 44,500,000,000 gallons in 1997.

Exhibit 3 Major Brands in the Bottled Water Category (supermarkets only)

	Percent of Households Buying	Price per 128 oz. unit
Still Water Brands		
Dannon	44.77%	\$1.03
Arrowhead	6.27%	\$2.09
Poland Spring	4.57%	\$0.95
Sparkletts	4.47%	\$1.39
Chrystal Geysers	4.05%	\$0.86
Evian	3.85%	\$2.13
Hinckley & Schmitt	2.61%	\$5.49
Private label	2.38%	\$1.36
	17.73%	\$0.68
Carbonated Water Brands		
Canada Dry	26.83%	\$3.70
Schweppes	5.69%	\$4.97
Vintage	4.66%	\$5.85
Clearly Canadian	2.65%	\$2.44
Perrier	1.75%	\$11.66
Private Label	1.31%	\$9.47
	12.52%	\$2.78

Source: Information Resources Inc. "Marketing Fact Book" January-December 1997,
<http://fic.wharton.upenn.edu/iri/factbook>

Exhibit 4 Water Quality: Consumer Attitudes and Behavior

From a survey of 1,007 adults conducted between January 14 and 17, 1999. Sample is projectable to all U.S. adults over age 18.

Expressed concerns about household water quality (% of respondents):

	1995	1999
Exposure to chemicals	75	72
Health contaminants (lead, bacteria)	54	48
Appearance	61	56
Non-hazardous waste	45	40
Appliances	33	26
Electronics	38	36
Gasoline	43	38

Expressed concerns about household water quality by age in 1999 (% of respondents):

	18-24	25-34	35-44	45-54	55-64	65+
Exposure to chemicals	89	79	79	79	59	59
Health contaminants	67	58	58	58	36	36

Use of water treatment device (% of respondents):

	1995	1999
No device used	47	35
Bottled water	36	38
System	27	38
Tap water pitcher	5	16
System on faucet	9	11
Whole house system	10	8
Softener	10	9

Use of water treatment device by region of country in 1999 (% of respondents):

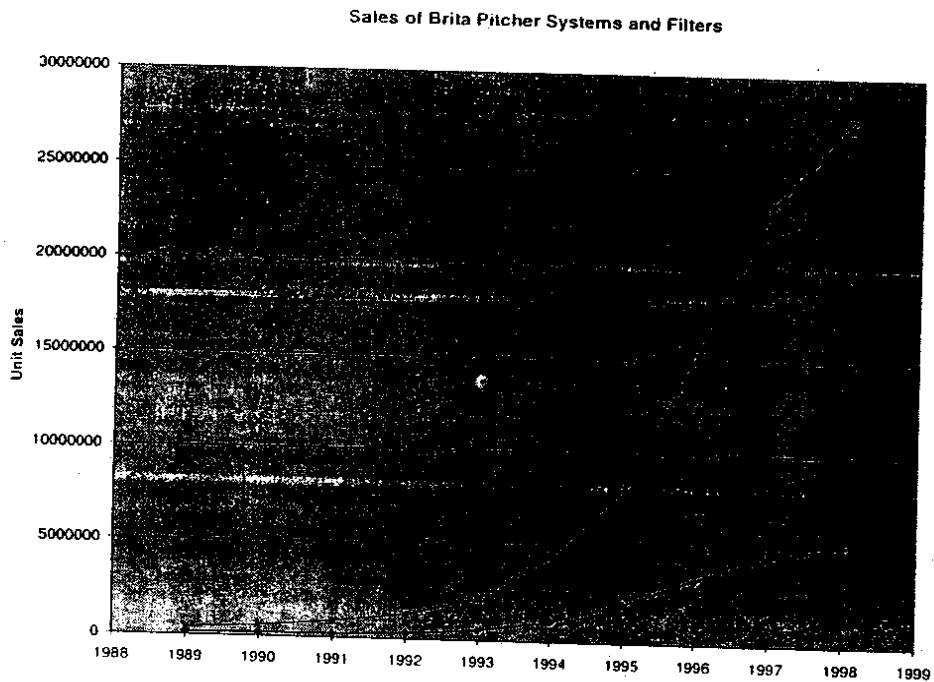
	North East	North Central	South	West
Bottled water	33	32	42	33
Tap water pitcher	24	12	17	12
System on faucet	9	10	10	13
Whole house system	10	8	7	10
Softener	5	21	4	16

Source: Water Quality Association: 1999 National Consumer Water Quality Report.

Exhibit 5 Brita Unit Sales, 1989 to 1998

Brita Unit Sales ('00)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Systems	171	194	202	302	546	1,056	2,030	3,363	4,565	5,266
Filters	402	581	876	1292	2,205	4,458	8,164	15,246	23,293	27,413



Source: Company records (approximate and unaudited).

Exhibit 6 Retail Market Shares (United States, all retail outlets)

Systems

	1992	1993	1994	1995	1996	1997	1998
Pitchers (thousands of units)	375	640	1,405	2,636	4,381	5,689	6,307
Brita	82%	82%	75%	77%	77%	80%	83%
PUR	-	-	-	-	-	4%	8%
Rubbermaid	-	-	-	-	-	7%	4%
All others	18%	18%	25%	23%	23%	11%	5%
Faucet Mounts (thousands of units)	1,186	782	602	659	898	1,249	1,291
PUR	-	-	-	9%	30%	67%	74%
Teladyne	23%	23%	30%	43%	43%	27%	23%

Filters

	1992	1993	1994	1995	1996	1997	1998
Filter sales (\$millions, retail)	\$20.5	\$26.5	\$38.7	\$63.3	\$82.3	\$116.3	\$154.7
Brita	32%	43%	59%	65%	75%	75%	75%
Teladyne	25%	20%	15%	10%	9%	7%	4%
PUR	0%	0%	0%	1%	2%	8%	17%
Omni	12%	13%	8%	8%	5%	3%	2%
Sears	7%	6%	3%	2%	2%	1%	1%
Pollonex	7%	4%	2%	1%	1%	0%	1%

Source: Company records, assembled from data from Industrial Market Research Inc. and Information Resources, Inc.

Note: Retail audit estimates may not agree precisely with Brita's sales records because they are extrapolated from a sampling of retail stores.

Exhibit 7 Revenue and Net Income of Brita Systems and Filters, 1998

	Total ('000)	Per Unit
Brita Pitcher Systems		
Unit sales	5,266	
Revenues	\$79,800	\$15.16
Cost of goods sold	41,100	7.80
Gross margin	38,700	7.36
Consumer promotion	4,000	
Feature price reductions	5,000	
Other trade spending	7,000	
Brita Filters		
Unit sales	27,413	
Revenues	\$112,400	\$4.10
Cost of goods sold	56,200	2.05
Gross margin	56,200	2.05
Consumer promotion	1,000	
Feature price reductions	1,000	
Other trade spending	1,000	
Combined Brita Systems and Filters		
Combined revenues	\$192,000	
Combined gross margins	94,900	
Advertising	30,000	
Combined consumer and trade promotions	19,000	
Net income before G & A	45,900	

Source: From company records, modified to preserve confidentiality of margin information but without altering the relative magnitudes of margins.