

For Beverage Industry In Japan, New Drink Is Breath of Fresh Air

By **AMY CHOZICK**
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TOKYO -- Seeking a pick-me-up after some hard shopping, Hirae Nagisa decides she needs some oxygen.

So she and her sister perch themselves on a bench in a crowded corner of Shibuya, a neighborhood that is Japan's epicenter of youth culture and take sips from what looks like bottled water. But this isn't standard H2O. It's a new mix containing 12 to 15 times as much oxygen as regular water.

"It's totally different. It's delicious!" says Ms. Nagisa, a 23-year-old fashion design student. "And it will make my skin look good."



A young man in Tokyo's trendy Shibuya district selects a drink from one of Japan's six-million-plus vending machines.

Bottled waters with an extra boost of oxygen are the latest craze in Japan's congested beverage industry. Marketed as an energy and health enhancer that helps hydrate better than straight water, oxygen water -- made with extra oxygen dissolved under high pressure -- has become a hit with everyone from stressed-out businessmen to teenagers who want an extra boost while clubbing.

The craze provides an insight into Japan's radically different way of making and selling beverages. In the U.S., soft-drinks makers usually conduct years of consumer research before launching a product. Japanese producers do limited research, throw new varieties on the shelves and see what happens.


The result is about 1,000 new drink products released every year, making Japan's beverage market among the most crowded in the world. Hit drinks can sell half a billion cans a year. Losers disappear within weeks. The approach has made Japan into a kind of world-wide beverage testing ground, says Gary Hemphill, managing director of the Beverage Marketing Corp. in New York.

Only about three new drinks a year win the battle for survival in the country's six million vending machines and 40,000-plus convenience stores. Those that do may then make their way to the U.S., Europe and other parts of Asia. Some of these Japanese drinks -- like canned coffee and bottled ice tea -- have become global staples. **Unilever** PLC's Lipton now offers U.S. consumers a bottled "white tea," a version of a lighter tea popular in Japan and said to have more antioxidants than regular tea. Coca-Cola (Japan) Ltd.'s Qoo, a frothy drink targeted at children that is as sweet as soda but is not carbonated, became a cult hit in Korea, Taiwan and China with twenty-somethings who think the pastel-hued cartoon character on the packaging is cool.

But some Japanese hits don't make it abroad. **Ito En** Inc.'s iced green teas are huge in Japan, but the company has had a hard time getting American consumers to embrace the bitter flavor, analysts say. Many drinks flop even in Japan. A decade ago an oolong tea made with mushroom extract designed to cure bad breath was all the rage. It has since vanished from the shelves.

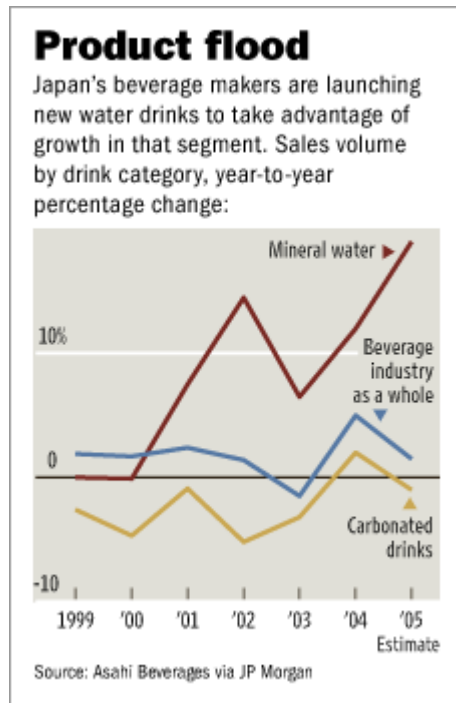
Oxygen waters have sold strongly in Japan since they appeared early this summer, their makers say. Asahi Soft Drinks Co., a subsidiary of **Asahi Breweries** Ltd., launched its Super H2O water in March

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2005, and has since sold nearly 300 million bottles. Suntory Ltd., which bottles and distributes **PepsiCo** Inc.'s products in Japan, came out with Oxygen New Breath, an oxygen-enriched lemon-sparkling water. Since its June introduction, it has sold more than six million bottles. The waters come in both flat and carbonated versions; the unflavored ones taste like normal water.



Suntory's Oxygen Diet, an oxygen-doped carbonated water that also contains a substance designed to burn fat, has sold five million bottles. (In the U.S. in October, **Coca-Cola** Co. announced that, in partnership with Nestlé SA, it had developed Enviga, a sparkling green-tea-based soft drink that it claims can burn calories.)

The key to this success is consumers such as Yuki Kamioka, a 48-year-old supervisor at a Tokyo advertising agency. She finds oxygen water more refreshing than regular water -- especially when she's swimming laps. "I try to drink it as much as I can," she says.

But Ms. Kamioka also says she's always looking for new health drinks. That, says Minoru Matsumoto, a senior officer at **Seven & I Holdings** Co. -- Japan's biggest convenience-store operator and the owner of 7-Eleven stores world-wide -- is typical for Japanese customers, who are becoming bored with drinks faster than ever.

To keep up with this constant desire for new products, convenience-store chains demand that Japan's dozen or so major beverage makers provide them with unique -- and sometimes

exclusive -- products. Advanced in-store technology tracks sales daily, and flops are pulled from the shelves in as little as three weeks. The power of the convenience stores is so great that they sometimes charge drink makers "placement fees" to secure prime real estate in the drinks aisle. Pressure to maintain the right image with consumers and a good standing with retailers pushes beverage makers to launch hundreds of new drinks a year.

"It's becoming a self-perpetuating system," says Dave McCaughan, executive vice president at marketing communications company McCann Erickson Japan, a part of **Interpublic Group of Cos.**' McCann Worldgroup. "The whole industry is just geared towards new products, new products, new products."

New drinks in Japan are therefore risky ventures, and often don't generate much return. But failures are built into the business model. In the U.S., Coca-Cola Co. is still feeling the effects of a disappointing 2004 launch of the low-carbohydrate soda, C2. Coke Japan launches an average of 100 new drinks a year, and only a handful may stick -- but that's not seen as much of a problem.

The oxygen-water trend evolved from oxygen bars, sleek spa-like places where customers can inhale flavored oxygen at a high price, which have been popping up in Tokyo and other major cities world-wide over the past five years. "It's a boom. People will pay money to take in more oxygen," says Yumi Takagi, a spokeswoman for Suntory.

While a few smaller beverage-makers in the U.S. have tried to introduce their own versions of oxygen water, mostly at health-food stores, the trend has never gained momentum in the mainstream drink industry.

But scientists say that drinking oxygen doesn't give the same benefits as breathing it. When oxygen is inhaled it travels to the lungs, then on to the bloodstream, which then carries it throughout the body. When oxygen is swallowed, however, it goes to the intestines, which are not as effective at transferring

gases to the bloodstream as the lungs are. (Oxygen waters are about as likely to cause burping as carbonated sodas are.)

Koji Ishida, a health professor at Nagoya University in central Japan, studied the heart rate and endurance of a group of students who drank oxygen water while exercising. He found it had no effect. Naomi Takagi, a Tokyo-based beverage industry analyst at J.P. Morgan, says the price of oxygen water -- about twice that of regular bottled mineral water -- is too high. "Oxygen water is a passing fad," Ms. Takagi says.

There are early signs that the trend may fade. Seven & I Holdings says it sold an average of 20 bottles of its oxygen water drinks a day at the beginning of the summer in each of its 11,000 stores. The company now sells half that.

Yuta Kusaka, 24, a salesman in Tokyo, tried oxygen water as soon as it came out. "It looked cool," he says. Besides, "it was supposed to be good for you."

But he says he won't buy one again. "It just tasted like regular water to me." Then he drops some change into a vending machine -- and selects a bottle of iced tea.

Write to Amy Chozick at amy.chozick@wsj.com¹

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(1) <mailto:amy.chozick@wsj.com>

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