

Hot Water

Ethos, the brainchild of Peter Thum '90, operates on a simple concept: water for water

BY STEPHEN SCHENKENBERG



Thum spoke in Manhattan on March 22, World Water Day, designated by the UN General Assembly in 1992 to draw international attention to the critical lack of clean, safe drinking water worldwide. To learn more visit www.worldwaterday2006.org.

“What’s the power of a billion dreams?”

This question—which is printed on a small square brochure for Ethos Water near the counter of your local Starbucks—was preceded by a more traditional query: “What’s the power of one person’s dream?” In this story, they spring from the same source.

It was November 2000, and Peter Thum '90, had arrived in Cape Town, South Africa, on behalf of the consulting firm McKinsey & Company. There to work on a branding study for a South African winery, Thum was hit with an eye-opening view of impoverished children suffering from an alarming lack of clean water. Sewage

ran down the middle of their streets, and there was little safe water.

“Seeing this kind of poverty had a real effect on me,” he remembers.

After returning to the UK, Thum began reading seriously about the world water crisis, and working on a new McKinsey project for a water-bottling company that enabled him to learn about the industry from the inside.

“I saw an opportunity to create a compelling brand that could connect people in developed countries with people in developing countries who desperately needed water,” he says. “This idea started out literally on a cocktail napkin, and ultimately led to Ethos.”

In March 2002, Thum left McKinsey to work full-time on developing Ethos. By the end of the year, he was joined by Jonathan Greenblatt, his business school classmate, a former online real estate executive who had spent five years in the White House and U.S. Department of Commerce during the Clinton administration. The duo pitched their business plan to nearly 200 potential investors, only three of whom showed interest. Returning to an airport after yet another pitch, the two decided a change was in order.

“We came to the conclusion that if we didn’t start the company with our own money,” Thum says, “it would never happen.”

Thum and Greenblatt co-founded Ethos Water, www.ethoswater.com, in August 2003. In an effort to increase distribution, the two began conversations with their respective contacts at Starbucks, hoping the coffee giant would agree to be a customer. After six months of meetings, Thum and Greenblatt scored a face-to-face talk with Starbucks founder and chairman Howard Schultz. “We handed him a bottle and explained what the business was about,” Thum says, “telling him

the story of our company and what we were trying to achieve.”

Thum's and Greenblatt's goals would soon become Schultz's own, when Starbucks acquired Ethos in April 2005, pledging \$10 million to supporting the Ethos mission in the coming five years.

As to what drives those who buy Ethos, Thum points to idealism. “I think customers respond to the fact that, in a very simple way, they can help address the world water crisis,” he says. “Ethos allows people to empower themselves, just by making a purchase. For every bottle sold, a nickel is donated—and that's actually a very large number in relative terms. A nickel may not be very much for somebody in the United States, but in a country like Ethiopia or Bangladesh, a nickel buys about a month's worth of water.”

For Thum, Ethos customers have provided special inspiration since the company's first days. He recalls living in New York City, preparing for the company's launch and seeing dauntingly-full coolers of bottled water at a local pizzeria. “I remember talking about how hard it was going to be to for our business to make it,” Thum says.

But that would change. “The week we launched Ethos in Starbucks stores, I walked through Times Square to do some media interviews, and I saw people carrying our product. They would never know who I was, but they were carrying our product right through the middle of Times Square. It was so exciting to see the city—which seemed like it would conquer Ethos—in a very small way being conquered.”

Stephen Schenkenberg is a Madison, Wis.-based freelance writer.

Starbucks Stirs Up the Water Market

Its new brand of bottled water, Ethos, sells to the rich to help the poor.

BY MARC GUNTHER

In an effort to grab a bigger share of the fast-growing \$9.8-billion a year bottled water industry in the U.S., Starbucks is rolling out a new brand of bottled water, with a twist.

No, that's not a twist as in lemon or lime—the twist here is that Ethos Water, a tiny startup acquired by Starbucks in April, will donate five cents for every \$1.80 bottle of water that it sells to fund drinking water projects in poor countries in Africa, Asia and Latin America.

This is shrewd marketing. How else would an unknown brand of a look-alike, taste-alike product like water stand out from the crowd in an industry that is dominated by giants like PepsiCo (Aquafina), Coca-Cola (Dasani) and Nestle (Poland Spring, Arrowhead and Deer Park) and well-supplied with premium brands like Evian and Fiji.

“We've got a very simple message,” says Peter Thum, the 37-year-old co-founder of Ethos, who is now a Starbucks vice president. “Every bottle makes a difference. Buy this brand and help children get clean water.”

Starbucks would not say how much it paid for Ethos Water, but it probably amounted to little more than pocket change for the \$5.8-billion a year retailing giant. Founded in 2003, Ethos was struggling to break even, with just six employees and limited distribution near its Santa Monica, California, offices when it was bought by the coffee chain. Thum and his co-founder, Jonathan Greenblatt, 34, had approached Starbucks with the hope of getting their water distributed in its stores.

But Starbucks' executives say they liked the company and its founders so much that they bought the whole thing. Jim Donald, the president and CEO of Starbucks, told *FORTUNE*: “We looked at Peter and Jonathan and what they were about, and it was a no brainer.”

There's probably more to it than that. Starbucks has its own brand of coffee (obviously) and tea (with Tazo), and the company wants to carve out its own place in the water business. Until now, Starbucks sold Crystal Geyser, a brand owned by a privately-held California firm. It plans to distribute Ethos Water to supermarkets and convenience stores, as well through its 5,000 U.S. coffee shops.

Bottled water's a good business. Americans drank an average of 24 gallons of bottled water per person last year, more than any other beverage except carbonated soft drinks, according to the Beverage Marketing Corp., a New York-based consulting firm. But even as the business is growing by 8 to 10% a year, domestic waters face growing price competition and margin pressures because consumers show little brand loyalty, says Gary Hemphill, the firm's managing director. Imported waters, with their higher costs and premium images, continue to charge higher prices. Ethos gets its water from springs in California and Pennsylvania, but is hoping that its social message can support a premium price.

“The question is, if people have to pay more for Ethos, will they be willing to?” Hemphill says. “I do think its message is in sync with Starbucks' corporate image, so in that way the deal makes sense.” Starbucks has been a pioneer in the area of social responsibility, first by providing its part-time employees with health care benefits and stock options, and more recently by building long-term partnerships with coffee growers and environmental groups in the developing world. Needless to say, Starbucks already attracts customers willing to pay premium prices for their drinks.

While companies ranging from Ben & Jerry's to Newman's Own and Avon have linked their marketing to social causes, Ethos Water is ingenious because its product is tied literally to its mission. More than one billion people in poor countries lack access to a safe supply of drinking water, and water-borne diseases are responsible for as much as 80% of the sickness in the world, according to Water Partners International, a nonprofit that has been supported by Ethos.

Thum got the idea for Ethos Water while working as a consultant for McKinsey & Co. in South Africa, studying the wine business. “I ended up spending a lot of time around people who were very poor,” he says. “It changed the way that I saw things.” He turned for help to Greenblatt, his former roommate at Northwestern's Kellogg School of Management, who had worked on development issues for the Clinton administration.

In 2003, they launched Ethos Water and a sister nonprofit to distribute money to water development efforts. “We had never started a company, let alone a nonprofit, or ever done anything in the bottled water industry,” Thum says. Most investors turned down their pitches, but Pierre Omidyar, the eBay founder who now runs a network of nonprofits and businesses with social purposes, became a key backer. Before the Starbucks deal, Ethos Water helped finance water projects in Bangladesh, Democratic Republic of Congo, Ethiopia, India and Kenya.

By selling to Starbucks, they diluted their mission some. Instead of giving away the bulk of their profits, they will give away five cents per bottle. But Thum and Greenblatt say the Starbucks deal will enable them to deliver more money, more quickly, to water projects that will help children, and that's what counts. Starbucks has promised to contribute at least \$1 million to humanitarian water projects in 2006, and says it hopes to give away at least \$10 million over the next five years.

And if Starbucks' customers swallow the Ethos pitch, there will of course also be even more money flowing into the chain's coffers.

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