



SOFT DRINKS REVIEW

CONVENIENCE

BRITVIČ

Introduction

Welcome to the 2016 Britvic Soft Drinks Review!

For those of you who are familiar with this annual report, the eagle-eyed amongst you will probably have already noticed that we're trying something a bit different this year. In simple terms, this year's review is shorter, more channel specific and is hopefully easier to navigate to help you find what you are looking for. Perhaps in the past we've been a little guilty of using this report as a vehicle to show you just how much we know about the soft drinks category, so some key facts, stats and stories have got lost... well hopefully not any longer.

We've listened to your feedback and have attempted to deliver a new look, shorter version with more relevant and channel specific information for maximum impact. It's still going to be the annual barometer of the UK soft drinks industry, packed full of data and our insight on consumer trends, but now there will be three condensed versions, each focused on the Grocery, Convenience or Leisure channels.

So, how was 2015 for soft drinks and what can we all look forward to in 2016 and beyond? Well in some respects it was a 'Tug of War' year for the category. With the economy, the sugar and health agenda and a poor summer on one side, squaring up to the growth of the Leisure channel, increasingly health conscious consumers, a warm winter and growing consumer spend on the other. The end result was that soft drinks sales remained fairly flat, with the estimated total value of the category well over £14 billion. As for the future challenges, you'll read more about that later...

We hope you like the new 2016 version of the Britvic Soft Drinks Review and as always, keep giving us your feedback so we can continue to fine tune the report to meet all your needs.

Yours Sincerely



Paul Graham
UK General Manager

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Total Soft Drinks Overview

2015 – The Tug of War

2015 was a 'Tug of War' year for soft drinks. Strong headwinds in the form of a deflationary economy, increasing negative spotlight on the health credentials of soft drinks and poor summer weather restricted opportunities for the category to grow. Conversely positive tailwinds such as increasing numbers of socialising occasions with soft drinks at the heart, proactive health conscious consumers seeking premium products and a raft of in-store events provided significant opportunity.

The end result was that soft drinks value sales remained flat at total market level in 2015, but the estimated value of the UK category as a whole was still well over £14 billion.

Savvy Shopping Drives Omni-Channel Growth

In last year's Soft Drinks Review, we headlined the rise of the savvy shopper. These behaviours accelerated in 2015, with increasing numbers of shoppers happy to visit multiple environments, whether physical or online to meet their growing needs.

These trends translated into a tough year for the major grocers, attempting to balance competing with the Discounters on price, to offering an in-store experience to deliver added value and shopper loyalty. Ultimately, to succeed in market it was crucial to deliver a point of difference to shoppers, be it the Discounters through a fantastic value offer, or premium grocers through a focus on quality fresh and convenient solutions. All too often the Top 4 Grocers found themselves struggling to deliver a clear proposition and defaulting to price cuts led to challenging times for all categories including soft drinks.

Increasing Relevance of Soft Drinks in Licensed & Leisure

Conversely to Grocery, the Licensed and Leisure channel enjoyed a strong year through capitalising on the UK consumer's increasing desire to socialise out of home. There was strong growth, specifically across Food Led and on the go environments, with soft drinks playing a vital and increasingly important role especially in the growth area of day-time socialising. Soft drinks became increasingly sophisticated, driving premiumisation through tapping into a growing demand for alcohol alternatives and mixed drink solutions.

Continued Growth of 'Better Me' & 'Better For Me'

Another participant in the tug of war of 2015 was the health agenda. Bombarded by negative messages around sugar, concern around sweeteners and the World Health Organisation's call for the reduction of recommended daily sugar allowances¹, consumers continued to drink healthier soft drinks across the board in 2015. There was a significant shift towards consumers demanding 'better me' solutions driving water and water plus consumption, together with a trend into 'better for me' versions such as no added sugar across all categories.



¹ Source: WHO calls on countries to reduce sugars intake among adults and children, March 2015

² Source: The Met Office

A Summer Washout

The UK is a nation obsessed with the weather for good reason, and 2015 saw the push and pull of soft drinks fortunes at the hands of the weather. A chilly August capped off the coldest British summer in three years², meaning that there wasn't the usual level of expected seasonal summer spike in sales, while unseasonably warm months during early 2015 helped get the year off to a strong start.

The soft drinks category withstood some fierce forces in 2015 and came out fighting to deliver a strong performance. Through a joint focus by manufacturers and operators on meeting the needs of consumers across all soft drink occasions, there is much to be positive about in 2016 and beyond.

Overview & Trends

The Rise of the Generation C Shopper Drives the Evolution of Convenience

What's the Story in a Sentence?

The increasing need for convenience and evolving shopper mission fuel growth, with soft drinks well placed as a top five footfall driver.

Convenience Channel Overview

Early last year, IGD, the global food and grocery experts, estimated the total convenience market to be worth £37.7bn³ with 72% of consumers visiting a convenience store each week.⁴ In addition, over £70,000 was spent every minute in this channel, up by +5.1% since 2014⁵. The channel benefitted from changing shopper behaviour, with a clear move to convenience, and reaped the rewards, winning sales and driving growth.

The Rise of the Generation C Shopper

Last year, longer working hours, lengthy commutes, as well as an increase in smaller and solo households, prompted more unplanned purchases, leading to the rise of the 'Generation C' shopper. As a result, there was increased demand for smaller formats across the board. This shopper expected good prices and ultimate convenience, wanting things quicker than ever before. This resulted in an increase in consumers shopping little and often and convenience stores were well placed to take advantage of this shifting behaviour.

³ Source: IGD 2015
⁴ Source: him! 2015
⁵ Source: IGD 2015

Maximising Shopper Missions

In 2015, 74% of shoppers said they wanted to be in and out of a convenience store as quickly as possible,⁶ so retailers responded through better mission management. Top up and on the go missions led the way in attracting shoppers into convenience stores⁷, so retailers placed more focus on these shopper missions, inspiring shoppers with the right product formats for their needs. A great example of this was Co-op's Generation 2 Store, which changed the layout of its stores to reflect the most popular shopper missions, including shop for later, shop for now and shop for tonight.



⁶ Source: him! CTP 2015
⁷ Source: him! CTP 2015

Evolving the Convenience Offering

As Generation C shoppers demanded more from their shopping experience, the lines between shopping channels became increasingly blurred. Convenience retailers evolved their offering beyond the traditional products and services associated with a convenience store, blending elements from discounters, online and foodservice. These included installing Costa Express on the go coffee machines and offering collect and delivery services. Forward thinking retailers also utilised the power of technology to capture the attention of shoppers both in store and via apps. As a result disciplined convenience, co-op and convenience multiples, seized the opportunity to cash in on the growth in convenience, winning market share through more sophisticated shopper solutions.

Soft Drinks in Convenience Stands it's Ground

While the overall channel saw positive growth as a result of these contributing factors, the soft drinks category stood it's ground in convenience increasing sales by +0.1% to be worth £2.1bn⁸, ahead of the total soft drinks market which contracted by -0.6%⁹. In addition, the majority of soft drinks growth in convenience¹⁰ was driven by water, water plus, energy and iced tea and coffee.

Meanwhile the low calorie segment benefitted from the trend for healthier soft drinks, achieving +3.3% growth (to £362m), versus full sugar soft drinks which declined by -0.5% (to £1.7bn) in convenience¹¹. The soft drinks category responded with the reformulation of the existing no added sugar range from Robinsons, as well as the launch of Tango Sugar Free Orange and Coca-Cola Zero Cherry.



Almost two thirds (57%) of low calorie soft drinks growth was seen in energy (+11.0% to £39m) and cola (+1.2% to £212m)¹². This was reinforced by brand marketing campaigns which focused on no or low added sugar ranges. Pepsi for example, focused above the line messaging on Maximum Taste, No Sugar, heroing the MAX variant; as a result, Pepsi was the number one brand contributor to convenience channel growth, up +9.8%, adding £10.6m to the channel¹³.

8 Source: Nielsen Scantrack data Total Impulse 52 weeks to 09.01.16

9 Source: Nielsen Scantrack 52we Total Coverage Soft Drinks

10 Source: Nielsen Scantrack data Total Impulse 52 weeks to 09.01.16

11 Source: Nielsen Scantrack data Total Impulse 52 weeks to 09.01.16

12 Source: Nielsen Scantrack data Total Impulse 52 weeks to 09.01.16

13 Source: Nielsen Scantrack data Total Impulse 52 weeks to 09.01.16

Overview & Trends



Soft Drinks Become Just as Important as Bread as a Footfall Driver

Thanks to its positive performance within convenience in 2015, soft drinks grew to become just as important as bread and the only impulse category in the top five categories cited as a footfall driver into convenience stores¹⁴. Soft drinks shoppers were an important driver of value as they bought almost one more item and spent an additional 47p per visit¹⁵ in comparison to the average convenience store shopper.

Versatility is Key in the Soft Drinks Category

While other categories only focused on one shopper mission, thanks to their versatility, soft drinks played across key growth missions, top up and on the go, with take home and single serve offerings showing mixed performance (single serve formats grew to £1.6bn +0.3% and take home formats declined to £526m -0.2%¹⁶). What's more, soft drinks was ranked the number one category bought for a food to go mission, ahead of other impulse categories such as snacks, crisps, confectionery and sandwiches¹⁷.

Retailers took advantage of the versatility of soft drinks, by maximising their potential with single serve formats in meal and snack deals and top up offers in meal for tonight deals. Manufacturers also responded by launching new formats of products that have traditionally targeted the top up mission such as squash, moving the product into the growing on the go mission with pocket squash. This highlights just how pivotal soft drinks were within the convenience channel and what a crucial sales drivers they became for retailers in 2015 and continue to be.

¹⁴ Source: him! CTP 2010/2015

¹⁵ Source: him! CTP 2015

¹⁶ Source: Nielsen Scantrack data Total Impulse 52 weeks to 09.01.16

¹⁷ Source: him! CTP 2015



Future Forecasting in Convenience

The future is bright, with predicted growth of +17% and expectations that the channel will grow to become worth a quarter of the total market by 2020.¹⁸ It is expected that this will be predominantly driven by the continued rise of top up and on the go missions, as well as meal for tonight¹⁹.

So, having seen steady performance within convenience over the last year, what does the future hold for soft drinks within the convenience channel? The versatility of soft drinks, together with the evolution of shopper missions and macro trends impacting the channel, place the soft drinks category in good stead to drive growth. Retailers can unlock this sales opportunity by continuing to evolve their offering to meet the ever changing needs of

soft drinks shoppers and maximising occasions.

Better Meeting Consumer Needs to Fuel Growth in Soft Drinks Capturing Adult Spend

As consumers age, they often move away from soft drinks and towards hot drinks or alcohol. However, by keeping adults in the category for longer, there is a big opportunity to grow soft drinks sales. Consumers are increasingly opting for soft drinks instead of alcohol across a variety of social occasions, making them the perfect partner for meal for tonight deals in convenience. Product launches such as J2O Spritz, Appletiser and most recently, Evian Spirits Bottles have been geared towards more sophisticated adult tastes, providing retailers with solutions that respond to this trend.



¹⁸ Source: IGD Convenience 2015 (Convenience defined as <3k sq)

¹⁹ Source: Him! CTP 2015 – 2020 estimate.

As well as catering for adult tastes, capturing the spend of mums with kids will be an important sales driver for retailers in 2016 and beyond. At home mums visit convenience stores more frequently, spend more and have more items in their basket than the average shopper²⁰. Soft drinks are well placed to help retailers tap into this opportunity with solutions that reassure mums and are loved by kids.

Better Me & Better For Me

Consumers have a greater understanding of what healthy living means and many have already come to realise that the health debate isn't just about sugar content or counting calories. As a result, products that offer consumers added health benefits, such as Purdey's²¹ and Vita Coco, are likely to grow in popularity.



²⁰ Source: him! 2015

²¹ NB: Purdey's contains: Vitamins B1, B2, B3, B6 and B12 contribute to normal energy-yielding metabolism

Future Forecasting in Convenience



However, as the media spotlight continues to focus on sugar, consumers will continue to actively make more sugar free choices, especially within the carbonates segment. Within convenience, we've seen sugar free products grow ahead of full sugar and we can expect this to grow in importance so providing products that respond to this trend will be key.

Maximising Soft Drinks Occasions Partnering with Food

As well as stocking a range of products that meet the ever growing needs of the soft drinks shopper, maximising occasions presents a significant growth opportunity for retailers. Figures show that over half of lunch to go and snack shoppers don't buy a soft drink²² which highlights a gap in the

market. Partnering soft drinks with food is of greater value to retailers and driving this behaviour through meal and snack deals is key to tapping into this opportunity.

Driving Seasonal Demand

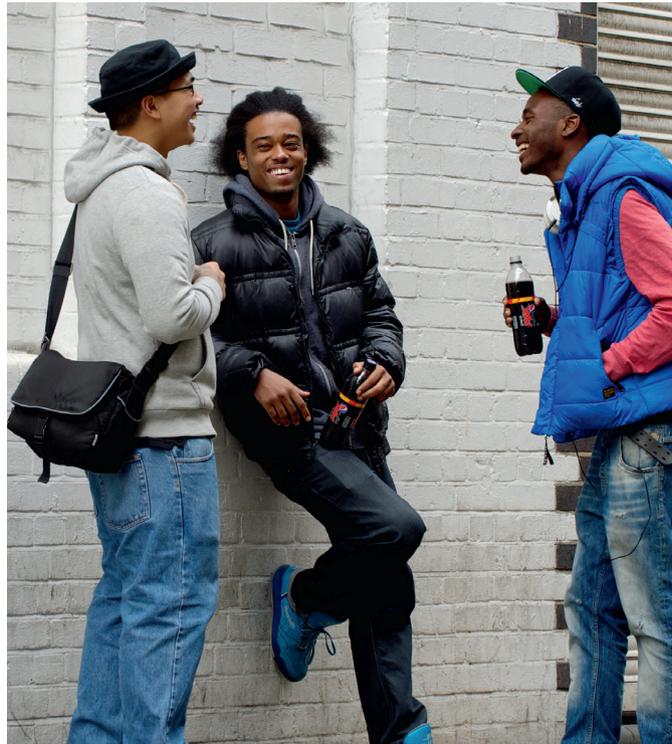
The impact of weather on consumer shopping habits is huge, especially within a channel such as convenience which benefits from the most unplanned purchases. Sales of soft drinks naturally peak in summer so leveraging that occasion is particularly important within the convenience channel where soft drinks are one of the top five drivers of impulse purchases.

Excellent Execution of Events

While taking advantage of impulse purchases in the warmer months is a sure way to drive sales of soft drinks, driving demand in colder months is also important and can be achieved by linking to relevant events. The results from maximising such events speak for themselves: one in four recently stated that they would buy soft drinks during the Rugby World Cup (24%) and soft drinks were cited as a top three category after beer (47%) and crisps (40%)²³. Supporting sporting events, or taking advantage of seasonal events such as Halloween and Christmas, present a huge opportunity for retailers to

grow their sales. Creating impact in store through promotions and events also allows retailers to grow sales of soft drinks, despite any unseasonable weather.

The future is indeed bright for soft drinks within convenience and with Wimbledon and UEFA Champions League, as well as many other major sporting events, just around the corner, the year looks set to be a profitable one – whatever the weather!



Soft Drinks Convenience Performance

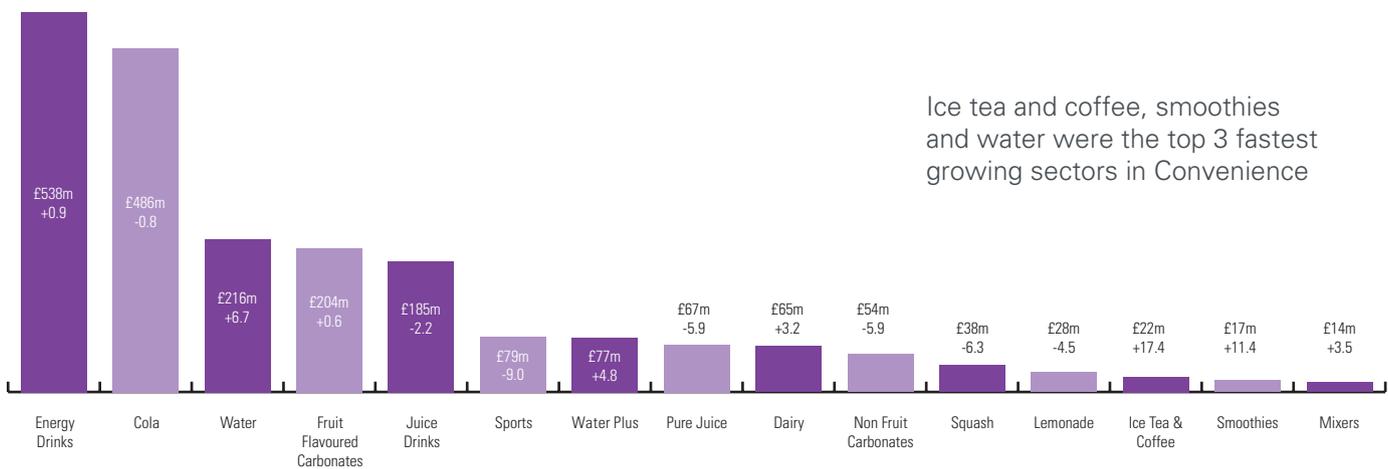
Soft Drinks in Convenience Stands it's Ground



The soft drinks category was worth £2.1bn in convenience and remained strong, despite macro pressures, growing by +0.1% YoY, ahead of a market declining -0.6%

Soft Drink Segments in Convenience

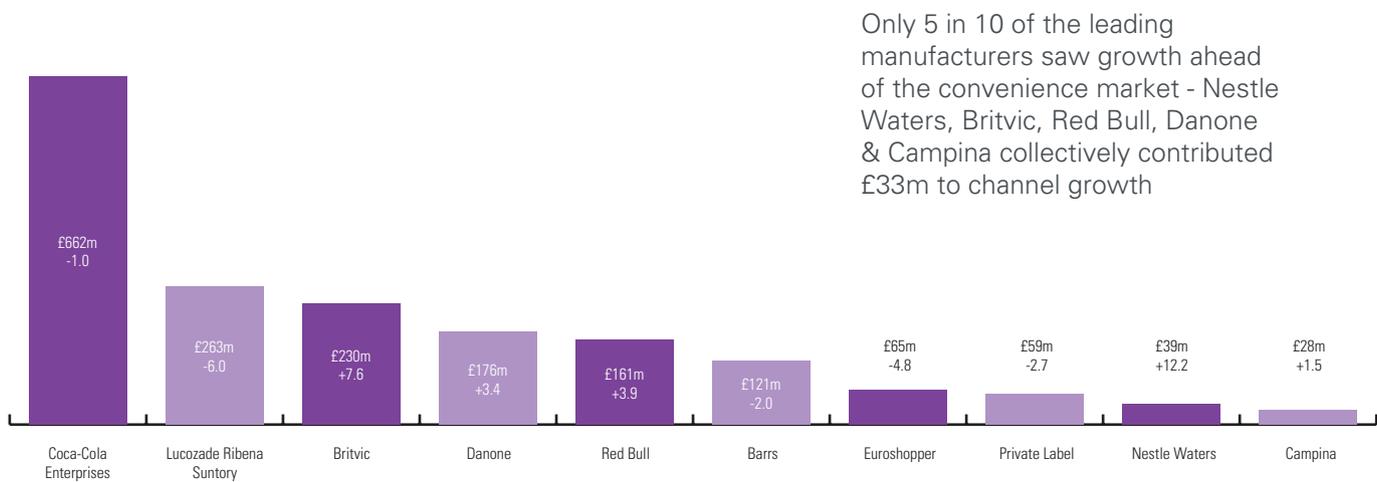
Data: Value Sales (size of each segment £m and % growth / decline) – every segment



Nielsen Scantrack data Total Impulse 52 weeks to 09.01.16

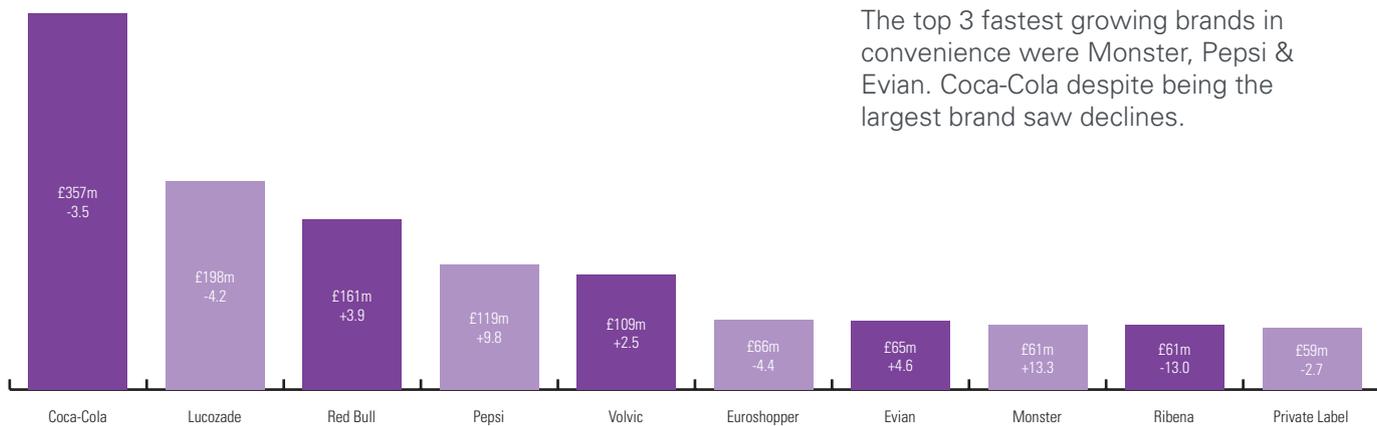
Top 10 Manufacturers Performance in Convenience

Data: Value Share and growth / decline



Top 10 Brand Performance in Convenience

Data: Greatest Value Sales £m (include % growth / decline)

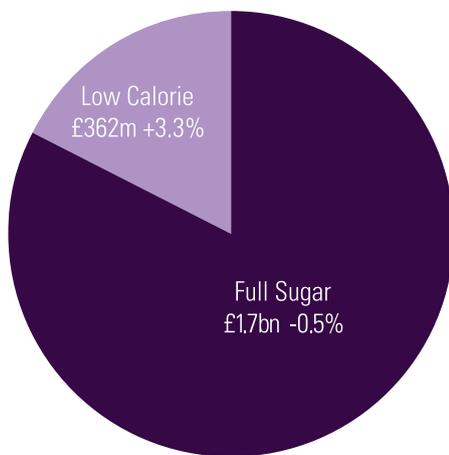


Coca-Cola – includes Coca Cola Regular, Diet Cola, Coke Zero and Coca Cola Life
Pepsi – includes Pepsi Regular, Diet Pepsi, Pepsi Max

Nielsen Scantrack data Total Impulse 52 weeks to 09.01.16

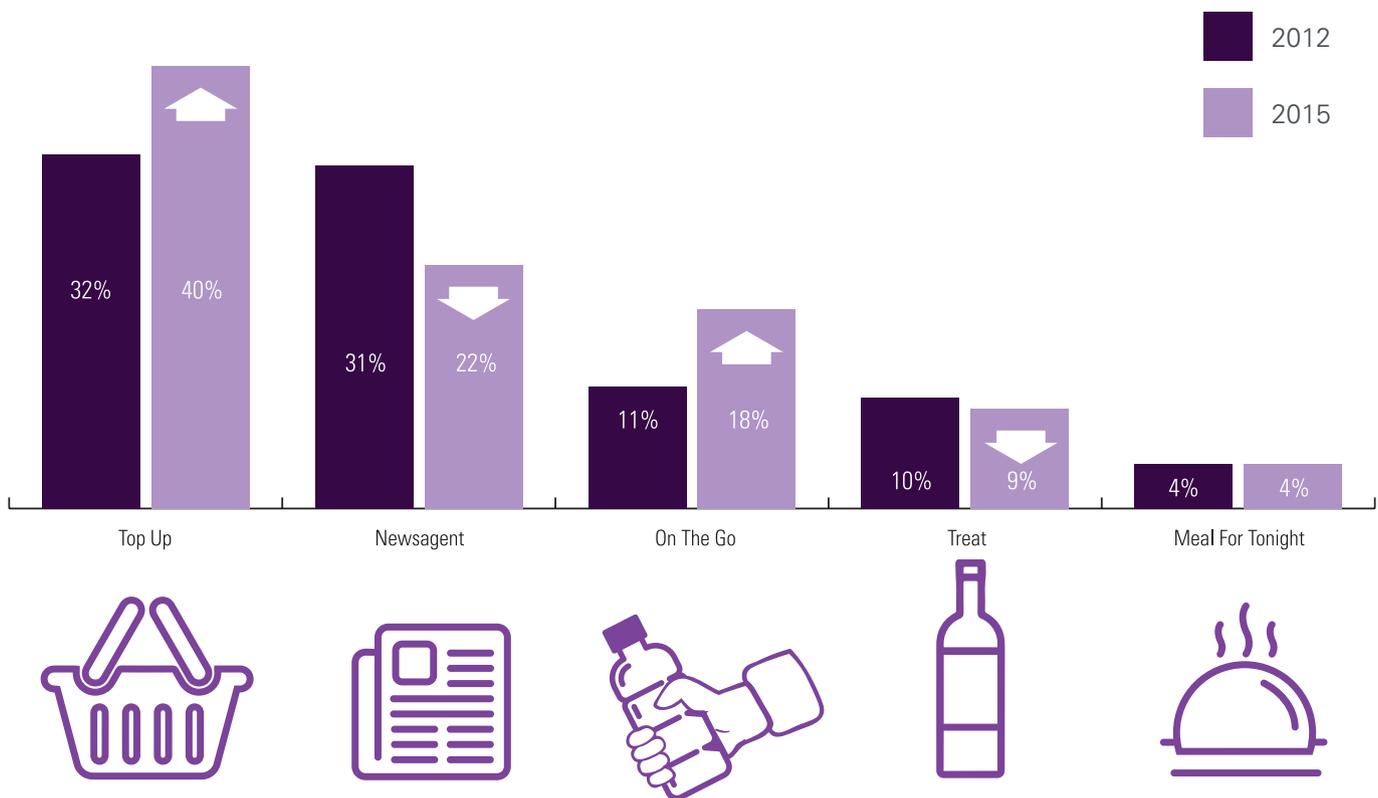
Convenience Performance

Full sugar versus low calorie performance across the channel



Low calorie drinks outperformed full sugar formats which declined in convenience in 2015, with 57% of growth in low calorie driven by cola and energy offerings.

Percentage of Shopper Missions in Convenience Channel¹⁵



Source: Him! CTP 2015

Glossary

Convenience – In the Britvic report data, Nielsen’s Total Impulse read covers Multiple Impulse stores (e.g. Multiple Forecourts, Multiple off Licence, Convenience Multiples and Symbol groups) and Independent stores

Carbonates – A drink made predominantly from carbonated water to which juice or flavourings have been added.

Cola – Cola-flavoured carbonated drinks, including cola with flavours such as cherry, twist of lemon, etc. Includes all clear and coloured colas .

Fruit Flavoured Carbonates – Flavours are typically orange, cherry, lime, blackcurrant, apple, pineapple and grapefruit, lemon, lemon and lime, tropical and other mixed fruit flavours. Also includes Tizer, Dr Pepper and Vimto, as these brands now contain fruit.

Non-Fruit Carbonates – Non-fruit flavoured carbonates, excluding cola but including Irn Bru. Also includes traditionals such as cream soda, ginger beer and shandy.

Lemonade – All conventional clear and cloudy or traditional, carbonated lemonade; flavoured with lemon juice and additional fruit flavours to produce coloured lemonade.

Energy Drinks – All ‘energy boosting’ drinks such as Red Bull, normally fizzy.

Sport Drinks – Drinks that are specifically designed to replace minerals, sugars, trace elements and fluids as a result of exercise. Can include dilutables and powders.

Squash – Concentrated beverage, commonly called squash, cordial or syrup. Must be diluted prior to consumption.

Mixers – All drinks intended to dilute an alcoholic beverage, as well as being consumed as a standalone soft drink.

Iced Tea & Coffee – Includes cold soft drinks that are tea and coffee based such as Lipton Ice Tea.

Smoothies – Generally drinks described as smoothie, either in brand name or as a descriptor on the packaging. Drinks described as thickie will also be included.

Dairy Drinks - Ready to drink milk or milk substitute to which flavouring or juice has been added. May consist of any type of milk, regardless of fat content.

Juice Drinks – A non-carbonated drink which generally contains fruit juice (some may not) plus added water or other ingredients.

Pure Juice – A non-carbonated 100% pure juice or other juice blend with no added water or sweetener, that may be chilled or long-life. Includes all concentrated juices, with the exception of frozen juice.

Water – Still or sparkling water with nothing else added.

Water Plus – Sparkling or still flavoured water or water with added functional benefit.

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