

SOFT DRINKS REVIEW

Grocery

BRITVIC 

Welcome



Welcome to the 2017 Britvic Soft Drinks Review.

The last 12 months have passed by quickly and it's certainly been an interesting year for our category.

Following the positive feedback from last year's review, you'll see that we've followed a similar format with more channel-specific information. However, new for this year is a more visual and less copy-heavy look throughout the review, which we hope you'll agree makes it easier to navigate and brings the dynamic nature of the category to life.

As many of you will know, Britvic has been at the heart of the soft drinks industry since the 1930s when we started out as the British Vitamin Products Company, using soft drinks to bring an affordable source of vitamins to the people of Britain. Fast-forward to today and once again, the health agenda is at the heart of our industry and we at Britvic are leading the way, taking bold steps to help consumers make healthier soft drinks choices. Around 70% of our current portfolio is no or low sugar, so we are well-placed to satisfy consumers, offering them a wide and varied choice for all occasions.

Since I became GB General Manager in 2012, Britvic has focused on driving the sustainable growth of the category as well as supporting our customers to help them to unlock the further potential the category has to offer. The last year hasn't been without its challenges, particularly following the announcement of the forthcoming Soft Drinks Industry Levy, but the soft drinks category has remained one of the most vibrant FMCG sectors in the UK, with innovative companies offering new products and new brands to meet the needs of today's consumers.

We believe there are still huge opportunities for growth within the category for companies, brands, retailers and operators who innovate and invest in the long-term future of soft drinks. We hope this year's review gives some useful insight into how we as an industry can make that happen.

Paul Graham
GB General Manager

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Total Soft Drinks

**THE TOTAL
VALUE OF UK
SOFT DRINK
SALES IS
ESTIMATED
TO HAVE BEEN
AROUND £14BN
LAST YEAR**

2016 was a transformational year for soft drinks. An intense spotlight shone on the industry following the announcement from the Government in March of the impending Soft Drinks Industry Levy, which of course stole most of the headlines. But it was also a year of exciting launches, memorable marketing campaigns and engaging brand activations.

The total value of UK soft drink sales is estimated to have been around £14bn last year. In such a diverse category it's perhaps not surprising that there were some differing performances at channel level, with Retail (combining the Grocery and Impulse channels) seeing value growth of +1.0%. Periods of deflation meant volume grew ahead of value at +1.5%.

The Foodservice and Leisure channel saw growth of +3.3%, due to an increasing trend for eating out and a growing consumer desire for more premium experiences. Despite these different channel performances, the underlying consumer trends that affected the category continued to accelerate.



HEALTH ON THE AGENDA

With two thirds of UK adults now said to be overweight and obesity levels rising, food and drink manufacturers are rightly recognising that they have a part to play in combating this by helping their consumers to make healthier choices. Long before the announcement of the Soft Drinks Industry Levy, manufacturers were already responding to consumers' increasing interest in health and wellness by offering them

no and low sugar variants of their favourite soft drinks. However, this must be balanced with maintaining great taste and choice. Britvic has been ahead of the game in this respect, leading the way in reducing the calorie and sugar content in our drinks for many years to ensure we provide consumers with a well-balanced portfolio of great tasting drinks and a breadth of choice.

MAKING IT PERSONAL

Whilst existing trends of 'on-the-go' lifestyles and the desire for '24hr grazing' continued, there was an acceleration in the trend of consumers' rising expectations around product delivery, personalisation and experience. Shoppers became increasingly

demanding and more adventurous in what they looked for and expected these personalised choices to be delivered immediately. Whilst this has undoubtedly raised expectations across the trade, it also presented an opportunity to differentiate and add value.

Channel Performance

PREMIUM EXPERIENCES

The Foodservice & Licensed channel led the way in delivering premium experiences, something which increasingly became the norm, even in mainstream outlets. There remains a clear opportunity across all channels to capitalise on the increasing number of premium socialising occasions (both in home and out) and to

accelerate this upward trajectory to deliver growth into soft drinks. This will be achieved by using premium flavours and ingredients to develop products and brands which consumers are happy to spend a little more on, as well as by taking learnings from other categories who lead the way in premium experience, such as alcohol.

DELIVERING DIFFERENTIATION

The major retailers and operators continued to strive in 2016 to establish a point of difference to drive loyalty amongst their shoppers and guests. This could be anything from offering the lowest price, the most choice or the best experience, but developing a clearly differentiated proposition was key to success and retaining customer loyalty in an increasingly competitive environment.

There will of course be a big change coming into the soft drinks category next year with the arrival of the Levy, but that shouldn't be a cause for alarm. The category is in good health and if manufacturers and trade partners collaborate effectively and evolve their offer accordingly to deliver a healthier, more experiential and more relevant category, then soft drinks will be well placed to capitalise on the obvious opportunity.

COMPETITION IN THE CHANNEL REMAINED STRONG

2016 was a solid year for soft drinks across the Grocery channel with the category returning to growth both in volume and value. This shift was driven largely by increased consumer confidence, a continued growth in at-home socialising and a growth in perceived healthier categories. Mixers, No Added Sugar and Low Sugar variants, water, smoothies and cold hot drinks were all winners in 2016¹.

Competition in the channel remained strong, with the 'Big Four' retailers still being 'Squeezed' by the growth from both the Premium Retailers and in particular the Discounters, who continued to win in the market and in soft drinks. Aldi and Lidl now contribute 10.8%² of all soft drink Grocery sales in the MAT to December 2016. Health continued to be a key driver of consumer soft drinks choices, and retailers increasingly focused on seasonal events to drive shoppers into the soft drinks category.

2016 in Grocery - The Year in Numbers

OVERALL GROCERY SALES

0.0%

Flat in both **value** and **volume**, which was better than expected, and was driven by a solid end to the year³

Q4 SALES SEEING
+1.4%

DECEMBER GROWTH
+3.3%
BEST 4W/E GROCERY GROWTH SINCE 2012

The biggest movements in where we shop continued to be away from the main shop in supermarkets towards (in order):⁴

- 1 MAIN SHOP IN DISCOUNTERS
- 2 MAIN SHOP ONLINE
- 3 TOP-UP SHOP IN DISCOUNTERS

THIS LEAVES ONLINE & DISCOUNTERS CONTINUING TO DRIVE GROWTH

5TH BIGGEST
RETAILER - ALDI SUPERMARKET

*Aldi is now the **fifth biggest retailer in UK** Grocery, moving ahead of Waitrose and more recently Co-op⁵*

However, the top four are also returning to growth, with **Tesco** and **Morrisons** leading the way, with **0.3% value growth** and **1.9% growth respectively** in the L12w vs YA⁵

VALUE GROWTH

TESCO	MORRISONS
+0.3%	+1.9%
	IN THE L12W VS YA

We saw **less and less promotions**, with spend on offer falling to its lowest level in six years⁶



Private Label is becoming increasingly important & driving growth, particularly in Tesco and Co-op where PL has seen massive support. Notably Premium PL is gaining share⁵

³Nielsen Scantrack TSR Grocery Multiples (Including General Merchandise) Year on Year Sales Growth data ending 31st December 2016
⁴Kantar Worldpanel 12 w/e data to 6th November 2016 ⁵Kantar Worldpanel 12 w/e data to 29th January 2017. ⁶Kantar Worldpanel

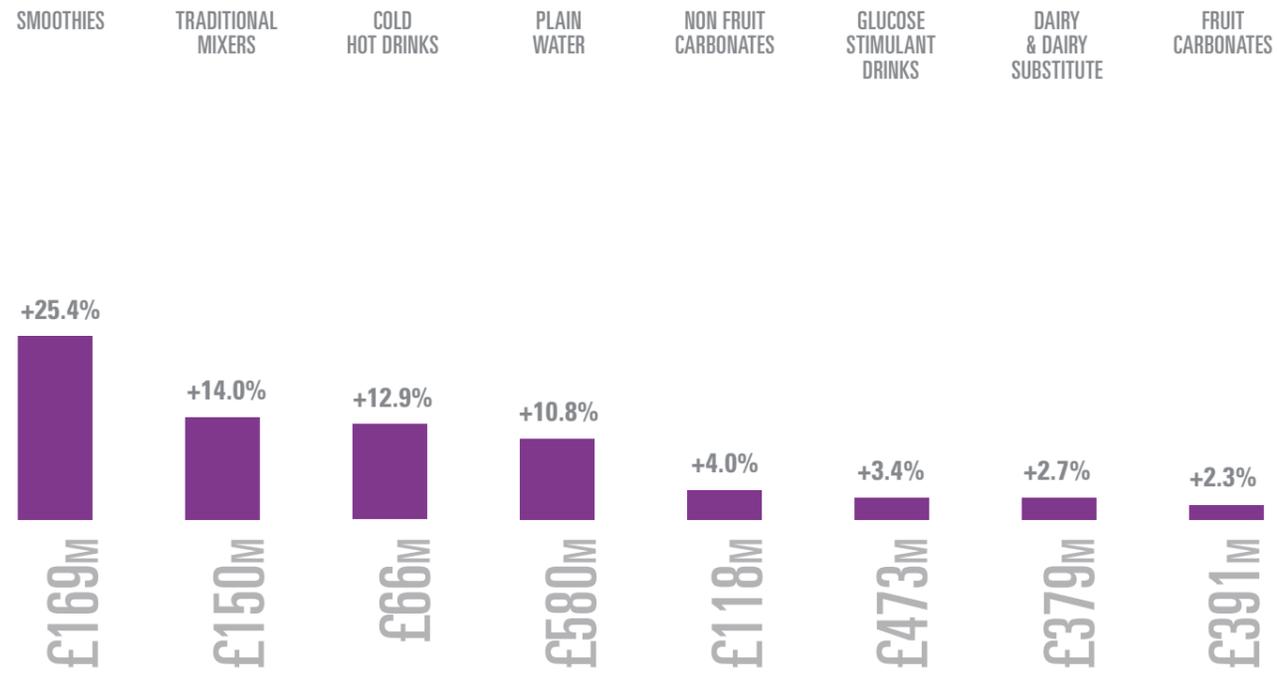
Snapshot
Facts &
Figures

£5.6 BN +1.1%

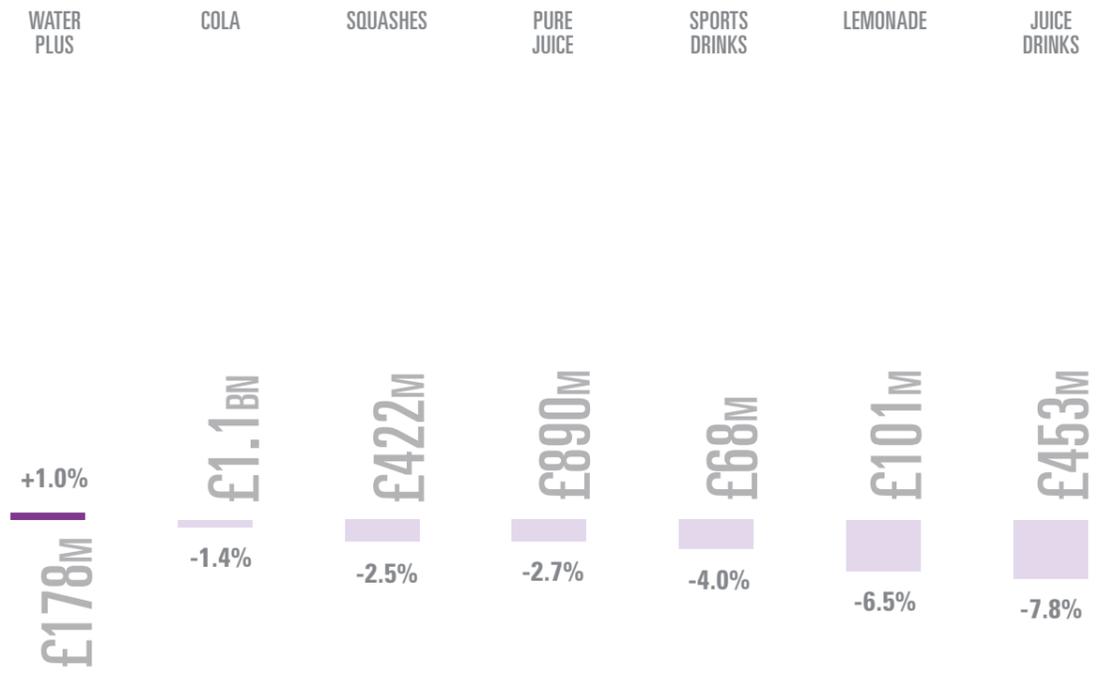
TOTAL VALUE OF SOFT DRINKS IN GROCERY

*The two biggest core segments (Cola and Pure Juice) are **in decline** but many of the smaller segments such as Smoothies, Plain Water and Traditional Mixers are growing strongly*

SOFT DRINKS CATEGORY DATA

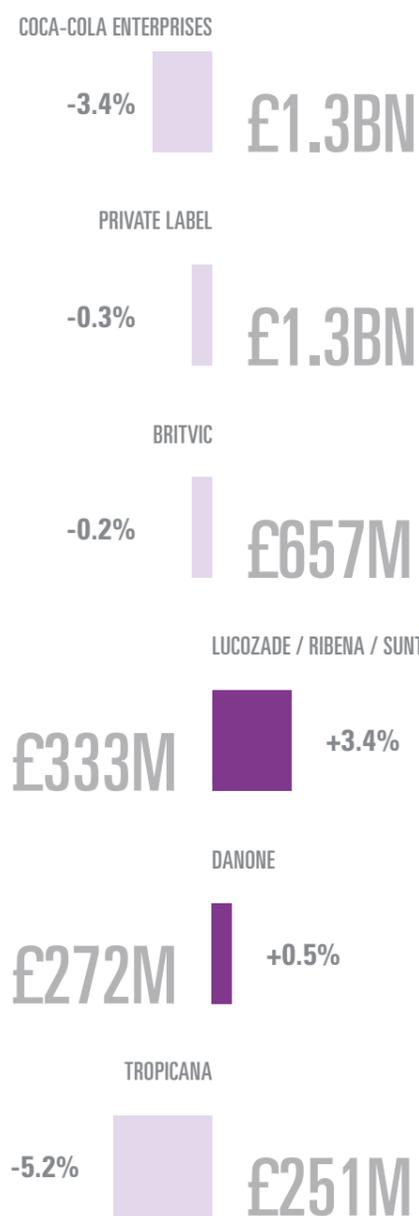


SOFT DRINKS CATEGORY DATA



TOP DISTRIBUTORS

% GROWTH / VALUE SALES



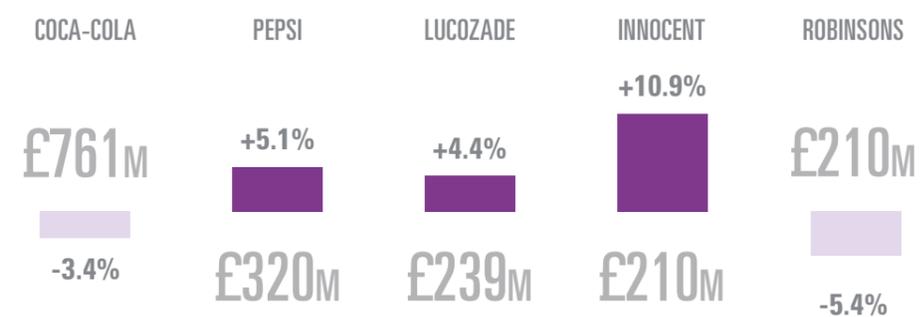
SOFT DRINKS PACK FORMAT GROWTH

% GROWTH / VALUE SALES



TOP 5 BRANDS PERFORMANCE

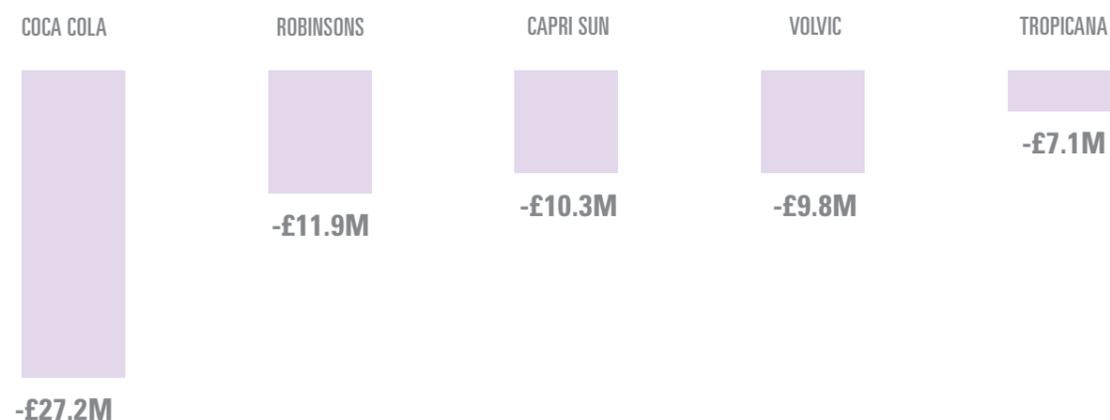
% GROWTH / VALUE SALES



TOP 5 BRANDS IN GROWTH
RANKED BY HIGHEST 'VALUE ABS DIFF VS. YA'



TOP 5 BRANDS IN DECLINE
RANKED BY LOWEST 'VALUE ABS DIFF VS. YA'



Soft Drinks Purchasing Behaviour

Soft drinks are purchased by **100% of households**, due to their relevance across a breadth of occasions throughout the day and broad appeal to the whole family



200 SOFT DRINKS BOUGHT EVERY SECOND⁷

Soft Drinks delivered consistent sales throughout the year, but with some seasonal peaks at Easter, UEFA Euro 2016, Wimbledon, Summer, Rio2016, Halloween & Christmas

What were the key influences in 2016?

BIG FOUR RETAILERS EVOLVED THEIR STRATEGIES TO WIN

1

DELIVERING VALUE

Following the price deflation of previous years, the major retailers focused on delivering value back into the category, with less soft drinks sold on promotion. They also started to evolve their promotional strategies with less deep discounts. Alongside this, events and feature space were

In response to the continued pressure from Premium Retailers and Discounters, the Big Four adopted a range of strategies to grow and win in the market place. They adopted more profitable trading practices, focusing on maximising the return from their promotions and feature space, and rationalising their ranges to improve operational efficiencies.

In addition, they have pursued differentiation strategies by improving their Own Label ranges, and they have tried to get ahead of the competition by supporting the growth segments of the category.

under increased scrutiny with space being allocated to those segments that drove the highest levels of incrementality, such as Cola. This meant soft drinks brands were not just fighting against each other for aisle end feature space but other major categories like Confectionery and Snacks.

2

RANGE RATIONALISATION

Range rationalisation strategies aimed to improve in-store operational efficiencies and supply chain profitability, as well as making the category easier to shop. There is always a balancing act between improving efficiencies and still delivering choice to the

shopper, and so whilst this meant that brands were under increased scrutiny and some lost out altogether, those products with a differentiated positioning, a clear role within the range and a loyal shopper following have been supported.



3

HOME ADVANTAGE

In an attempt to establish a point of difference, the Big Four also chose to refocus on their Own Label brands; both in terms of improving product quality and marketing activity, with some increasing total Own Label space in their larger stores by up to 10%.



4

HEALTH & SUGAR TAX

In order to respond to the health and wellness trend that continued to grip consumer consciousness, some retailers adopted sugar reduction strategies, particularly in categories bought by families, to appeal to the needs of the health conscious shoppers. These strategies have become more heavily adopted following the announcement of the Soft Drinks Industry Levy last March.

Manufacturers and retailers have been keen to push their own CSR credentials whilst trying to ensure that their portfolio exposure to the tax was as minimal as possible. In a channel with a high proportion of mums shopping for their families, this move seemed to be well received.



2017 & Beyond in Grocery - The Future in Numbers

ANTICIPATED SALES GROWTH FROM THE GROCERY MULTIPLES IN 2017⁸



THE TOTAL MARKET GROWTH, INCLUDING DISCOUNTERS



New store openings from the discounters also helping to maintain market share at over 13%

76% SHOPPERS



STATE THEY EXPECT FOOD AND DRINK PRICES TO INCREASE IN 2017...

2017 & BEYOND IN GROCERY

Although the grocery channel is predicted to grow, the latest forecast from IGD predicts this will largely be driven by inflation rather than volumes. Long-term market predictions are difficult so soon after Brexit, however consumers are expecting to see higher grocery prices and household incomes squeezed, which is already giving them cause for concern. Retailers will need to consider how they can help shoppers cope with this period of economic uncertainty.

To keep steering a straight course through these choppy economic waters, grocery retailers will need to establish a point of difference to their competitors, whether that be through price, premiumisation, community or experience. Understanding shopper motivations and then connecting and engaging with those shoppers will be critical here, and we will see an increased use of technology as an enabler to do this both in-store and pre-store.

In 2017, the Discounters look set to continue growing ahead of the market but probably at a slower pace. With an improved perception of quality and choice, they have successfully grown trip spend to comparable levels to some of the major mults, but there is now less room for growth here and with less store openings planned in 2017 further growth is likely to be constrained.

Finally, the expansion of online shopping (currently responsible for 5.8% of all Grocery sales but likely to be up to 9.0% by 2021 according to IGD) is likely to continue with growth coming from older shoppers. While Tesco is currently the largest player, online growth is increasingly being driven by smaller operators such as Waitrose and Morrisons. The launch of Aldi online and Amazon Fresh is set to accelerate this trend.

2017 & Beyond for Soft Drinks

**3.4%
GROWTH
POTENTIAL
BY 2021**

GROWTH POTENTIAL IN SOFT DRINKS

There is clearly still further growth potential for soft drinks in the Grocery channel and according to Global Data this could be as much as 3.4% by 2021. The key to unlocking this will be tapping into wider beverage occasions and the role that soft drinks might be able to play in them. For example, one in five adults⁹ now don't drink alcohol so this is a clear opportunity for soft drinks to take advantage of.

However, it's not simply a case of replacing alcohol. The marketplace is changing and soft drinks must evolve with it. To make it a more valuable category it needs to become healthier, more experiential and more relevant to consumers, playing an even bigger role in their lives by offering them the kind of premium and exciting experience at home that they would expect if they were in a pub, restaurant or leisure outlet.

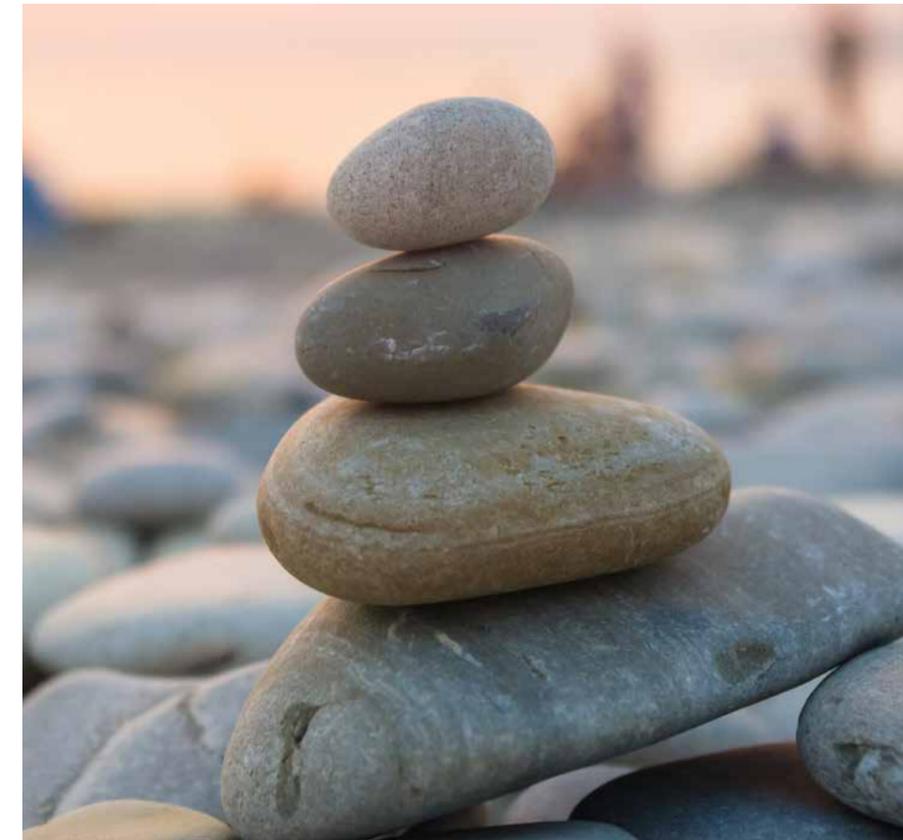


THE CHANGING IMPACT OF HEALTH

It is too early to know what the true impact of the soft drinks industry levy will be, however retailers and manufacturers are preparing for the April 2018 milestone. The combination of the current health and wellness trends and the arrival of the levy are likely to mean a reduction in the amount of full sugar launches and promotions moving forwards, with the focus shifting to No Added Sugar and Low Sugar offerings which are likely to receive more share of feature in-store.

The major multiple Grocers are likely to adopt different strategies when the levy arrives depending on their corporate stance and shopper profiles with some likely to offer more choice and others stocking more reformulated products.

But all retailers will need to focus their energies on shopper engagement in order to minimise the impact of the levy and to win in the marketplace.



Definitions / Glossary

Grocery – Definition of which channels this includes to be clarified by Britvic

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 and Monster, normally fizzy.

Sports 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.

Flavoured Water – Sparkling or still flavoured water.

Total Dilutes – dilute-to-taste drinks.

Grocery Data

SOFT DRINKS SEGMENTS PERFORMANCE IN GROCERY

	Value Sales	Value % Chg YA	Value Abs Diff vs YA	Volume Sales	Volume % Chg YA	Volume Abs Diff vs YA
TOTAL SOFT DRINKS	5,550,051,536	1.1	58,281,768	6,017,149,736	1.4	85,632,744
COLA	1,110,983,637	-1.4	-15,283,385	1,321,300,848	-2.9	-39,280,852
COLD HOT DRINKS	66,323,544	12.9	7,591,191	18,697,081	10.6	1,799,528
DAIRY AND DAIRY SUBSTITUTE	378,770,238	2.7	10,135,651	170,203,286	3.7	6,034,199
FRUIT CARBONATES	391,153,972	2.3	8,644,465	420,114,025	1.8	7,473,756
GLUCOSE STIMULANT DRINKS	472,991,120	3.4	15,676,827	252,010,451	3.1	7,672,806
JUICE DRINKS	453,437,433	-7.8	-38,513,530	361,639,985	-7.7	-30,147,392
LEMONADE	100,748,923	-6.5	-6,972,440	268,667,684	-5.8	-16,442,219
NON FRUIT CARBONATES	117,546,487	4.0	4,534,373	149,033,594	2.0	2,935,606
PLAIN WATER	580,212,376	10.8	56,541,587	1,464,786,571	11.0	144,735,650
PURE JUICE	890,091,521	-2.7	-24,783,739	654,091,948	-3.2	-21,377,236
SMOOTHIES	168,886,487	25.4	34,226,065	50,546,978	21.7	9,023,505
SPORTS DRINKS	68,456,708	-4.0	-2,877,451	49,701,603	-3.5	-1,794,142
SQUASHES	422,183,782	-2.5	-10,812,115	364,297,600	-1.4	-5,205,806
TRADITIONAL MIXERS	150,006,756	14.0	18,445,604	184,424,103	8.9	15,066,483
WATER PLUS	178,258,627	1.0	1,728,693	287,634,170	1.8	5,138,889

TOP 10 DISTRIBUTORS IN GROCERY

	Value Sales	Value % Chg YA	Value Abs Diff vs YA	Volume Sales	Volume % Chg YA	Volume Abs Diff vs YA
CCE	1,283,541,584	-3.4	-44,941,958	1,233,741,152	-3.8	-48,717,724
PRIVATE LABEL	1,266,941,072	-0.3	-3,977,246	2,142,670,814	1.4	30,204,718
BRITVIC	657,443,842	-0.2	-1,630,507	725,382,656	0.2	1,496,423
LUCZD-RBN-SNTRY	333,277,523	3.4	10,951,383	213,714,274	4.2	8,687,251
DANONE	271,973,069	0.5	1,382,131	312,379,993	-2.7	-8,729,502
TROPICANA UK	250,671,560	-5.2	-13,752,788	134,196,691	-1.6	-2,195,317
INNOCENT	222,255,518	10.1	20,445,146	91,377,840	2.9	2,567,785
NESTLE WATERS	190,094,394	19.0	30,338,716	360,373,986	23.9	69,554,232
BARRS	113,137,640	-0.6	-627,840	124,856,095	1.2	1,441,229
HIGHLAND SPRING	72,401,541	5.0	3,432,692	144,989,045	7.0	9,495,669

LEADING BRANDS IN GROCERY

	Value Sales	Value % Chg YA	Value Abs Diff vs YA	Volume Sales	Volume % Chg YA	Volume Abs Diff vs YA
PRIVATE LABEL	1,266,941,077	-0.3	-3,977,251	2,142,670,837	1.4	30,204,725
COCA COLA	761,474,820	-3.4	-27,182,056	789,401,108	-4.7	-38,525,147
PEPSI COLA	320,470,192	5.1	15,572,264	441,915,495	3.2	13,590,971
LUCOZADE	238,666,921	4.4	10,065,353	166,488,529	5.4	8,575,781
INNOCENT	210,275,453	10.9	20,698,446	86,405,602	3.5	2,930,297
ROBINSONS	210,005,936	-5.4	-11,920,088	169,755,150	-5.2	-9,283,541
TROPICANA	196,862,156	-3.5	-7,082,429	100,437,543	-0.1	-69,280
RED BULL	122,800,273	9.8	10,922,451	31,454,332	11.7	3,290,418
EVIAN	94,556,216	7.6	6,666,839	160,438,934	4.4	6,755,276
VOLVIC	73,432,329	-11.8	-9,844,257	103,388,826	-15.8	-19,342,366

GOING FOR GROWTH IN GROCERY

	Value Sales	Value % Chg YA	Value Abs Diff vs YA	Volume Sales	Volume % Chg YA	Volume Abs Diff vs YA
INNOCENT	210,275,453	10.9	20,698,446	86,405,602	3.5	2,930,297
PURE LIFE	61,075,002	44.9	18,931,428	170,394,295	50.1	56,911,439
FEVER-TREE	33,591,630	126.1	18,735,148	10,347,994	125.9	5,766,847
PEPSI COLA	320,470,192	5.1	15,572,264	441,915,495	3.2	13,590,971
NAKED	33,026,048	77.6	14,428,519	8,294,715	103.1	4,211,481
RED BULL	122,800,273	9.8	10,922,451	31,454,332	11.7	3,290,418
LUCOZADE	238,666,921	4.4	10,065,353	166,488,529	5.4	8,575,781
GLACEAU SMARTWATER	18,669,717	71.7	7,794,962	25,775,684	103.1	13,084,067
EVIAN	94,556,216	7.6	6,666,839	160,438,934	4.4	6,755,276
BUXTON	77,049,375	8.4	5,977,616	151,432,880	6.1	8,678,619



Britvic Soft Drinks Ltd
Britvic Head Office
Breakspear Park
Breakspear Way
Hemel Hempstead
HP2 4TZ