



SOFT DRINKS REVIEW

GROCERY

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 & water plus consumption, together with a trend into 'better for me' versions such as no added sugar across all categories.

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.



¹ Source: WHO calls on countries to reduce sugars intake among adults and children, March 2015
² Source: The Met Office

Overview & Trends

Growth at the top and bottom

Story in a Sentence

Success at the premium and value end of grocery sparking big changes in the top four grocers.

Growth at the Top and Bottom and a Squeezed Middle

2015 saw an unprecedented level of change in the grocery sector, signalling an evolving landscape for the years ahead. The desire to deliver added value for shoppers continued to be top of the agenda for all of the major retailers, as they attempted to increase their share of an increasingly disloyal grocery shopper base.

Changing lifestyles and the search for convenient shopping solutions led to more consumers pursuing an omni-channel approach to their shopping behaviour. Shoppers

were happy to use a variety of large and small stores, as well as online to meet all of their needs. Online continued to be a big growth area in 2015 and is set to be one of the fastest growing parts of the market in the next five years, almost doubling in value by 2020 to £17.2bn³. Online, combined with an increase in top-up missions, together took a greater share of spend versus the big weekly shop in 2015⁴.

In the mainstream area of the channel, price continued to be the key battleground. The discounters, especially Aldi and Lidl, cemented their position in the mainstream. Their store growth continued at pace, focused not just on delivering great value but on premium quality products, competing with and often outshining the top four.



Sainsbury's

ASDA

YOUR M&S



TESCO
Every little helps

Waitrose

³ Source: IGD July 2015
⁴ Source: IGD July 2015

At the more premium end of the market, outlets such as Waitrose and M&S benefitted from the multi-channel approach of shoppers visiting their stores on more top up missions, focusing on fresh and treat purchases. This allowed them to differentiate their offer, driving value growth through a compelling premium fresh offer.

So What Did This Mean for the Top Four?

2015 was a difficult year for all of the top four. They were left competing in the 'squeezed middle' and at times, struggling for a clear point of difference in the market.

Seeing a proportion of their shopper-spend diverted to Aldi and Lidl, the top grocers strived to defend their position and deliver an even greater

value proposition. This evolving price and promotional approach signalled a change in the type of mechanics used, with a shift from volume led multi-buy offers to price cut mechanics, allowing shoppers to better manage their overall basket spend. The top four became aware that their previous unique selling point of large product ranges and greater choice was now limiting store efficiency and didn't bring the level of differentiation they sought.

As a result, the top four embarked on store development programmes, focusing on rationalising and optimising product ranges for the future. This strategic shift began with the Tesco range reset in autumn 2015. Soft drinks, together with other impulse categories such as crisps and confectionery, were key focus areas for rationalisation, meaning range reductions across a number of sectors.



Overview & Trends

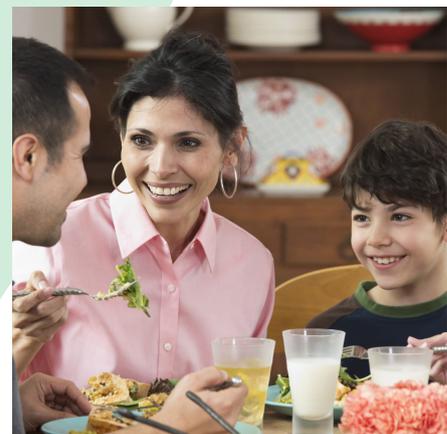
A Tough Environment for Soft Drinks

As a staple category, soft drinks were at the heart of retailers' desire to deliver competitive value to shoppers. With 43% of all soft drinks sold on deal⁵ and underlying volume growth in the category of +1.1%⁶, overall value in grocery in 2015 fell by -0.9%⁷. Despite the changing landscape, the soft drinks category still remained an absolutely critical one for the channel. At £5.5bn, soft drinks was the largest category across Grocery⁸. It continued to be purchased by 100% of UK households, with over 200 soft drinks being bought every second⁹.

Health and Functionality and Socialising Make Gains

While at a total soft drinks level sales were flat, specific areas of the market were able to capitalise on evolving consumer trends. Winners were segments that focused on health and functionality. A 'better me' mind-set was responsible for the growth in water (£524m +11.7%) and functional water (£167m +4.2%)¹⁰.

Energy drinks continued to capitalise on shoppers' desire for an increased level of functionality, experiencing growth of +4.6%¹¹. While traditional brands such as Red Bull and Lucozade continued to deliver the lion's share of sales in the segment¹², products in the emerging 'natural' space became more sought after. This 'better for me' mind-set, together with an increased media spotlight on sugar, meant consumers were increasingly looking for healthier versions of their favourite products. This behaviour was evidenced in market by the continued rise of low calorie products (£1.5bn +2.3%) versus their standard counterparts (£4bn -2.0%)¹³.



5 Source: Nielsen Scantrack Grocery Multiples, % value on deal, 52w/e 09.01.16

6 Source: Nielsen Scantrack data 52we 09.01.16

7 Source: Nielsen Scantrack data 52we 09.01.16

8 Source: Nielsen Scantrack data 52we 09.01.16

9 Source: Nielsen Scantrack Total Coverage, Unit Sales, 52w/e 02.01.16

10 Source: Nielsen Scantrack data 52we 09.01.16

11 Source: Nielsen Scantrack data 52we 09.01.16

12 Source: Nielsen Scantrack data 52we 09.01.16

13 Source: Nielsen Scantrack data 52we 09.01.16

Manufacturers responded to these trends accordingly. Britvic in particular, continued to take increasing numbers of calories out of the market through prioritising No Added Sugar offerings across its range, delisting some added sugar products and taking steps to reformulate across the Robinsons and Fruit Shoot ranges.

The increasing prevalence of at home socialising was another consumer trend which drove positive performance in a number of soft drinks segments. Adult soft drinks, grew by +6.6% in value¹⁴, driven by an increasing consumer desire for a more sophisticated soft drinks offering all year round. There was significant innovation in the space, with the new J2O Spritz, Belvoir and Bottlegreen adult drinks helping the adult category to grow by 6.8% to £148m¹⁵. Mixers was another segment that benefitted from the increase of at home socialising, growing by +5.4% to £131m¹⁶. This was principally driven by strong growth coming from the premium segment, with Fever Tree growing by +100.1%¹⁷.

Mission Management Stepped Up a Pace

Changing shopper habits of smaller and more frequent shops led to the major grocers placing increased focus on capturing convenience spend. This meant an increasing number of in-store solutions for shoppers focused on specific missions. Meal for tonight was a key focus area across the trade, with each grocer offering cross category food and drink solutions in convenient, visible locations. While price undoubtedly remained important for shoppers on these missions, the added level of convenience from cross category solutions was able to deliver value. From a soft drinks perspective, it was clear to see that retailers understood the value of offering something for everyone, with many more 'meal for £X' deals (that in previous years had only included alcohol), now offering a sophisticated soft drink offer.

Increasing Focus on Events

Seasonal events have long been a key battleground for retailers and in 2015 this stepped up a gear. Christmas and summer remained key times of year in which soft drinks delivered sales uplifts, but growth events such as Halloween, Mother's Day and summer BBQ season also became mainstream opportunities for soft drinks to drive sales uplifts. Sporting events continued to drive growth, with Wimbledon and the Rugby World Cup demonstrating the power of activating partnerships in-store.



¹⁴ Source: Nielsen Scantrack Total Coverage, % change vs. YA, 52w/e 02.01.16

¹⁵ Source: Nielsen Scantrack, Total Coverage, % change vs. YA, 52w/e 02.01.16

¹⁶ Source: Nielsen Scantrack, % change vs YA and Em value, 52w/e 09.01.16

¹⁷ Source: Nielsen Scantrack Total Coverage, % change vs. YA, 52w/e 02.01.16:

Future View in Grocery

So how can grocery retailers overcome the challenges of 2015 and ensure that soft drink category sales thrive into 2016 and beyond?

Product Ranges Which Meet Evolving Consumer Needs

Delivering a compelling soft drinks product range has never been as important. 2016 will see continued focus on addressing consumer health concerns and offering viable alternatives to full sugar equivalents. Expect to see greater focus on launching and driving visibility of low sugar variants, increasing numbers of functional drink launches and health focused product reformulations.

Encouraging consumers to trade-up will also be a focus for 2016. In segments where consumers are prepared to pay more, such as adult socialising, expect to see a focus

on premium innovation, both from major brands such as Britvic's J20 Spritz, as well as with niche brands such as Fentimans, Fever Tree and Bottlegreen.

This premium innovation will occur across all segments that are focused on delivering greater value for the shopper through health, convenience or practicality, all with the aim of driving value back into soft drinks.

Harder Working Stores

2016 will see a continued focus from the grocers on getting the in-store product mix right. There are likely to be changes to the soft drinks macro space to ensure that growth segments, such as water, water plus and energy are given greater visibility. Stores will begin to reflect the consumer health agenda by highlighting 'no added sugar'



more prominently, potentially with a move towards merchandising by 'sugar' or 'no sugar'.

Within each segment, stores will optimise ranges, rationalising unprofitable areas and ensuring all new product development plays a clear role in driving category growth, if it is to achieve shelf space.

A move towards clearer segmentation at fixture, based on true shopper insight, will ensure that while price will remain a key driver of choice, it won't be the only messaging that the shopper bases their purchase decisions on.

Embracing Events

Last year's Wimbledon saw value sales growth of +2.1% versus the previous year for Robinsons squash¹⁸. The events explosion in grocery in recent years is a potential gold mine for retailers wanting to drive soft drinks sales in 2016. With soft drinks occupying the number two position for snacking purchases during events, and 63% of viewers snacking while watching events¹⁹, event activations are a key opportunity for getting greater numbers of soft drinks into more trolleys and baskets – roll on the Wimbledon and UEFA Champions League, as well as many other major sporting events in 2016!



18 Nielsen Scantrack Total Coverage, % change vs. YA, 52w/e 02.01.16
19 HIM DATA 2015

Soft Drinks Grocery Performance Stats Illustrations

(All below data is Nielsen Scantrack data, 52we 09.01.16 unless otherwise stated)

Soft Drinks Performance in Grocery¹¹

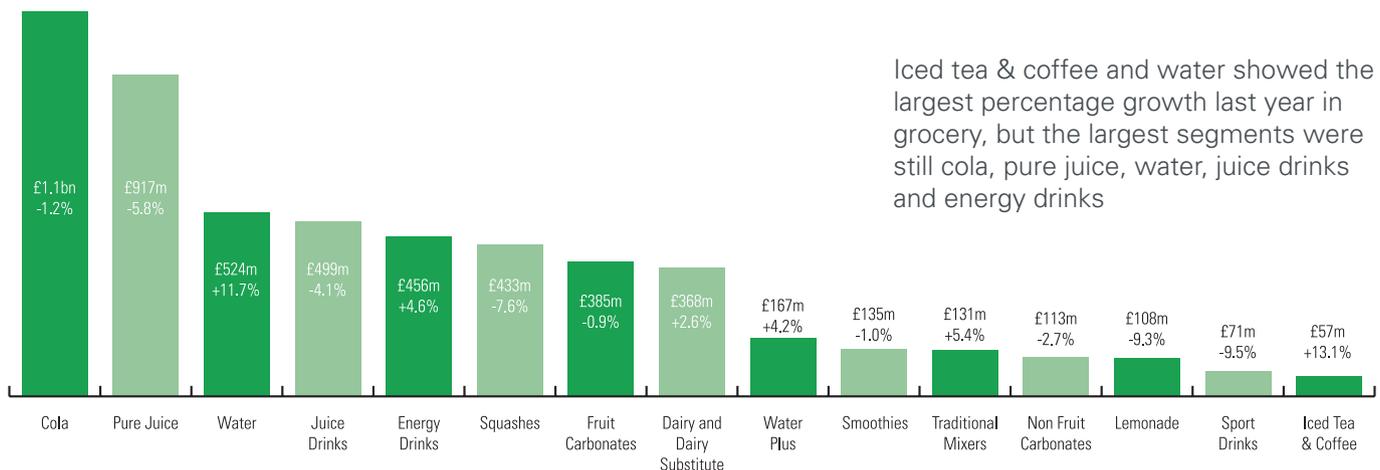
Total soft drinks – Grocery - £5.5bn -0.9%



Despite challenges, the soft drinks category still remained an absolutely critical one for the channel

Soft Drink Segments in Grocery

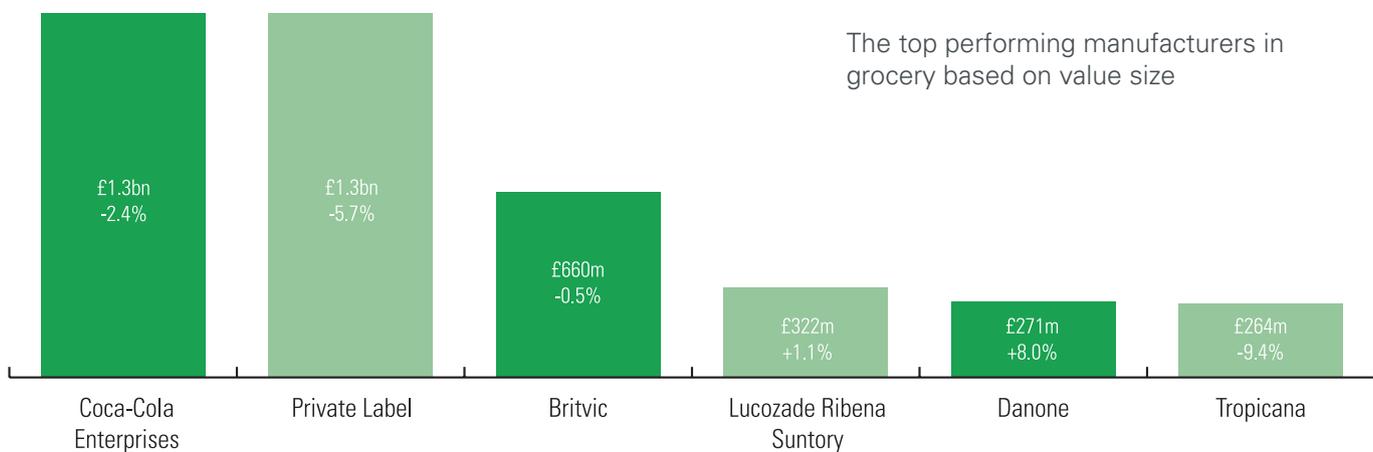
Value Sales (size of each segment £m and % growth / decline) – every segment



Source: Nielsen Scantrack data to 09.01.16

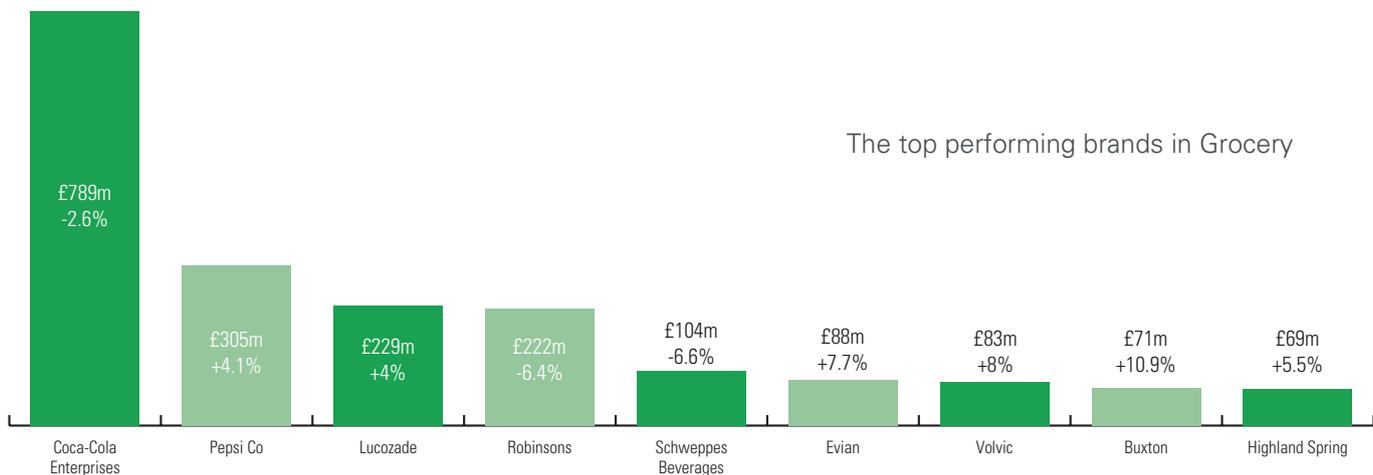
Leading Manufacturers in Grocery

Data: Value Share and growth / decline



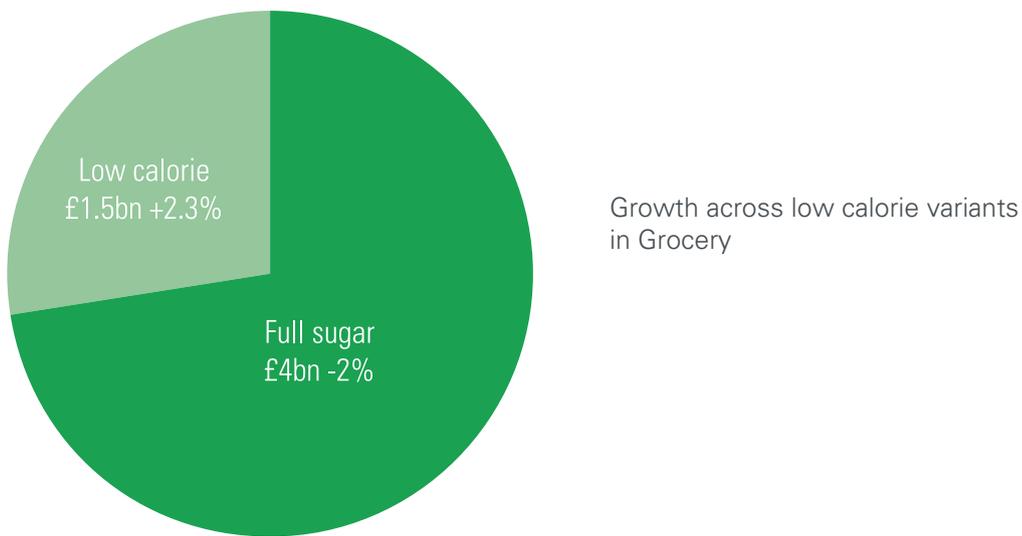
Leading Brands in Grocery

Data: Greatest value sales £m (include % growth / decline)

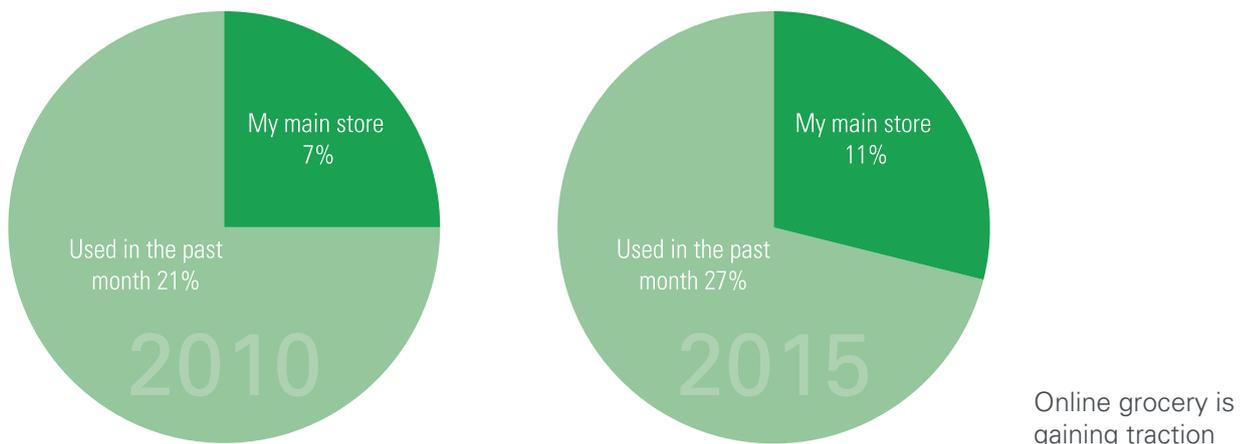


Grocery Performance

Full sugar versus low calorie performance across the channel



The retailer landscape continues to evolve

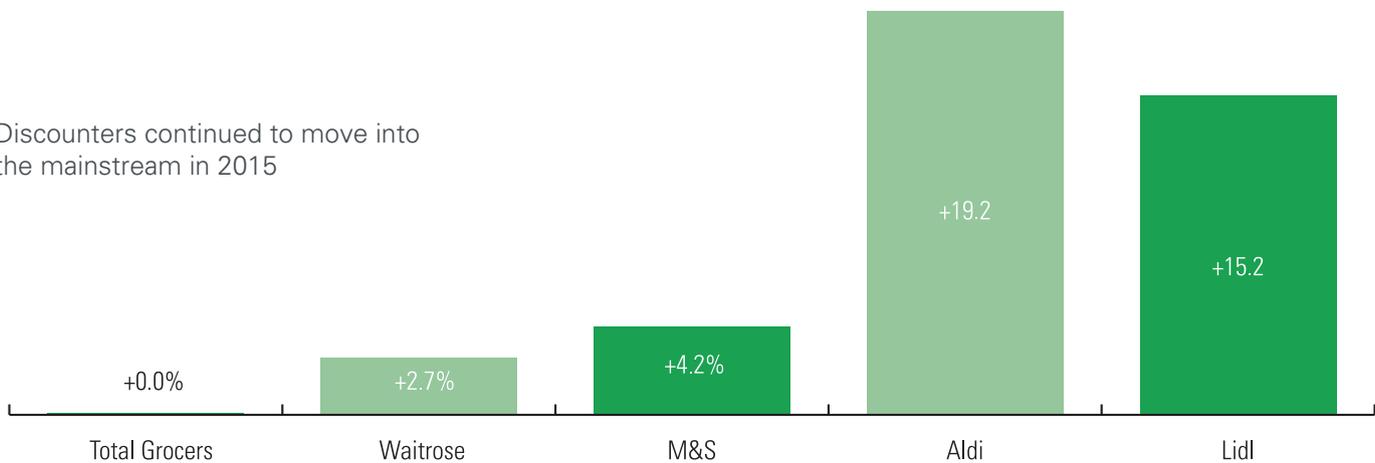


Source: IGD 2015

Premium retailer growth versus discounters

Source: Kantar Worldpanel, Value %chg., 52w/e 31.01.16

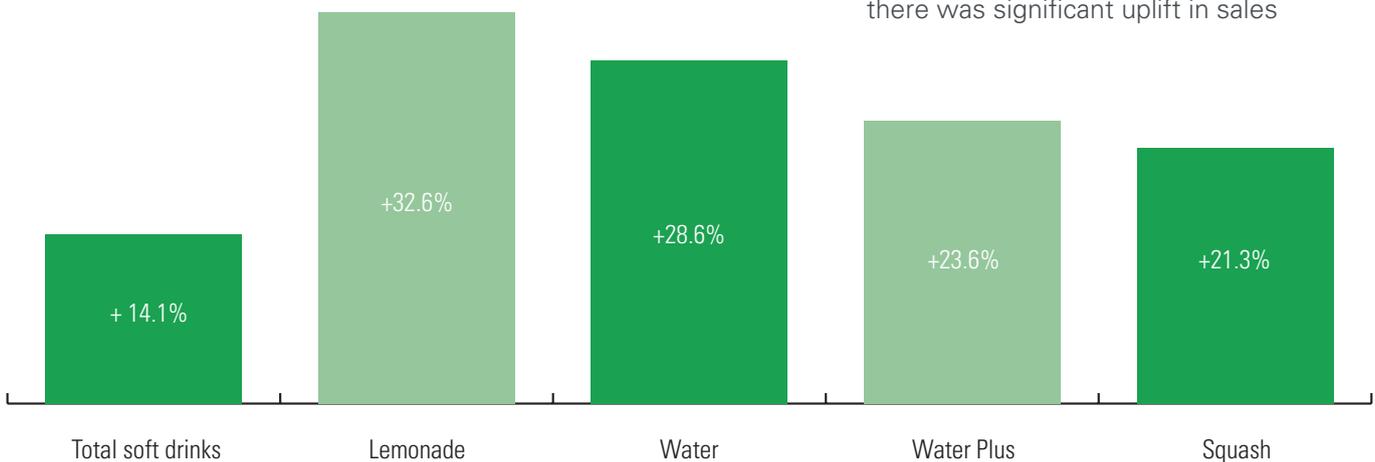
Discounters continued to move into the mainstream in 2015



Events stimulate soft drinks uplift

(% value sales increase)

During the two weeks of Wimbledon there was significant uplift in sales



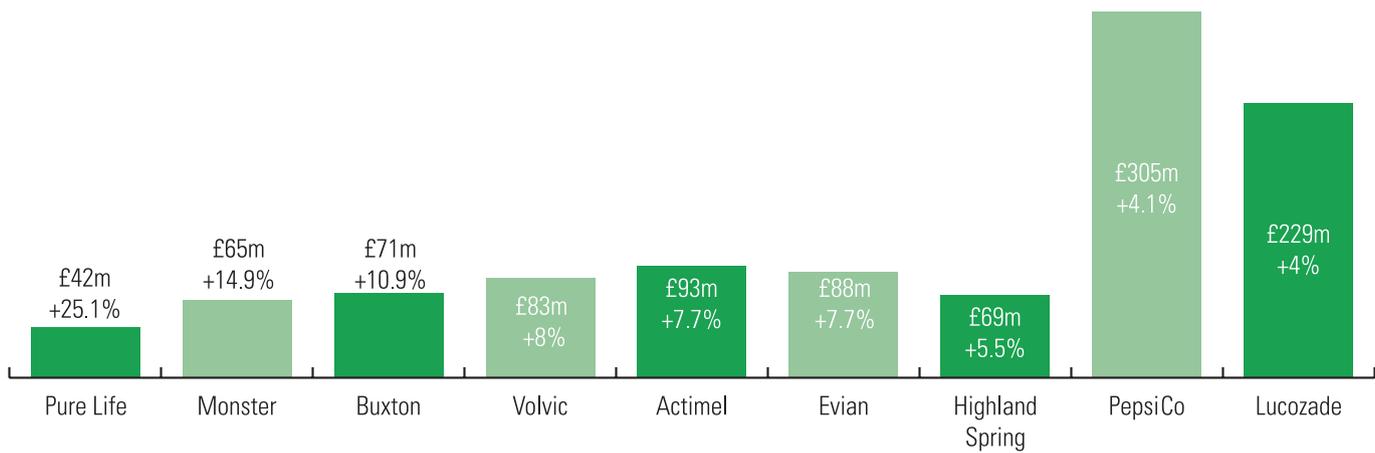
Source: Nielsen Scantrack Total coverage value sales and growth 2wk ending data 12/7/15

Grocery Performance

Going for Growth in Grocery

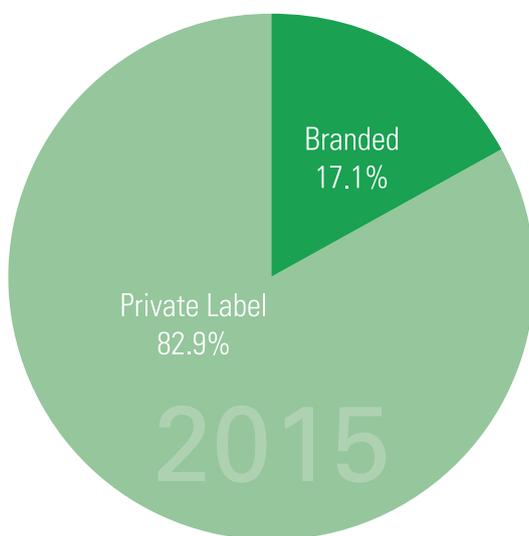
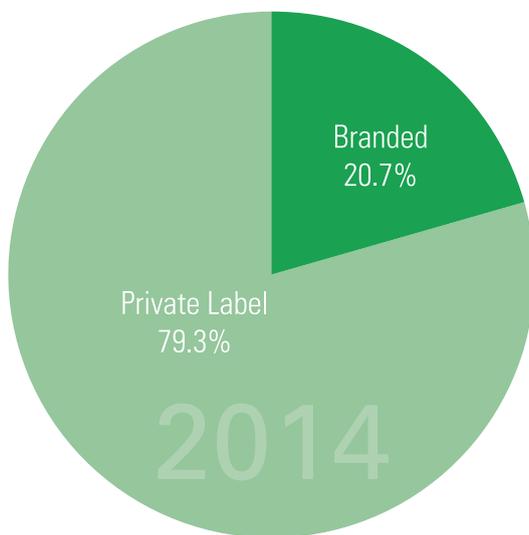
Data: Greatest value sales % growth

The fastest growing brands were Pure Life, Monster and Buxton



Branded Versus Private Label Soft Drinks in Discounters

Data: value sales £m



Private Label soft drinks gained ground in discounters in 2015

Source: Kantar Worldpanel 52 w/3 04 Jan 15
Source: Kantar Worldpanel 52 w/3 03 Jan 16

Glossary

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.

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