TAKE-HOME

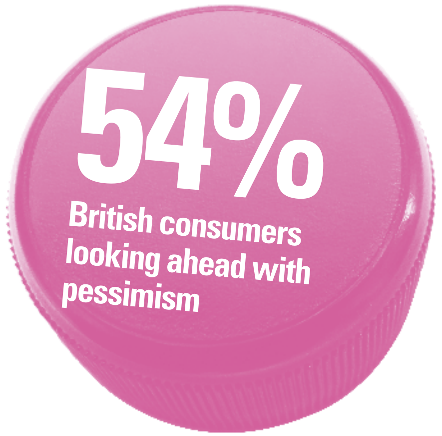
£6.2bn

Take-home sales of soft drinks +2% in 2009

TAKE-HOME

TAKE-HOME
OVERVIEW

THE DIFFICULT ECONOMIC CLIMATE, WITH CONSUMER CONFIDENCE AT A LOW, MADE 2009 ANOTHER CHALLENGING YEAR FOR SOFT DRINKS.



But there was light at the end of the tunnel as sales value grew 2% to £6.2bn and volume 1% as the second half of the year saw an overall improvement in the economic outlook.

As shoppers stretched their pounds further, smoothies proved a stretch too far: the downward trend in sales accelerated to a 27% decline, making them the hardest-hit sub-category by far. The recession also continued to impact on other premium categories, such as pure juice and sports drinks – both saw sales decline by 4%.

Consumers' search for more affordable treats produced one of the most interesting trends of the year. While the majority of shoppers switching from pure juice traded down to juice drinks, many opted for a very different soft drink choice. Low calorie cola was the main beneficiary as recession-hit consumers sought the feel-good factor but still kept an eye on their waistlines. Buoyed by this, cola increased its leadership in the take-home channel, with a 22% share of the market and value growth of 4%.

Squash and non-fruit carbonates also performed strongly, while water plus, juice drinks and fruit carbonates turned around the previous year's decline.

Value sales of plain water remained flat with a small uplift in volume sales, a marked improvement on 2008 when the sub-category experienced both value and volume decline.

The issues facing the soft drinks industry reflect broader economic trends. At the start of 2009, consumers in Britain were much more gloomy about the recession than most other Europeans, with more than half (54%) looking ahead with pessimism. This was reflected in a score of 65 on the consumer confidence index, compared to a global average of 77.

With concerns about the economy, debt and job security foremost in their minds, consumers continued to set themselves smaller budgets. This has meant cutting back, mainly by spending less on new clothes, fuel and going out – and by switching to cheaper grocery brands.

TAKE-HOME SUB CATEGORY PERFORMANCE

Value (£m) Volume (m litres)
Source: ACNielsen Scantrack, MAT 26 December 2009

	Value and volume	% change	% share
Cola	1,354	4	22
	1,674	3	24
Pure juice	1,163	-4	19
	1,104	-4	16
Glucose/ stimulant drinks	567	7	9
	274	7	4
Juice drinks	501	3	8
	380	1	6
Squash	476	7	8
	523	-3	8
Fruit carbonates	452	4	7
	537	0	8
Plain water	424	0	7
	1,005	3	15
Dairy and dairy substitutes	406	4	7
	186	7	3
Smoothies	127	-27	2
	47	-27	1
Sports drinks	164	-2	3
	107	4	2
Non-fruit carbonates	158	6	3
	235	3	3
Water plus	157	4	3
	233	9	3
Lemonade	148	4	2
	466	-3	7
Traditional mixers	115	3	2
	175	1	3
Cold hot drinks	8	-8	0
	4	-21	0
Total soft drinks	6,219	2	100
	6,949	1	100

TAKE-HOME

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Consumers were also prepared to shop around for their groceries, changing their buying habits to get the best value. Out of town outlets were still favoured for the bigger trolley shops and accounted for 52% of all sales, while 20% of British households bought groceries online. Shoppers were also making more frequent, smaller purchases of 10 items or less. The basket shop accounted for 12% more visits and a 16% increase in spend.

Retailers responded to this demand for value by increasing their promotional activity – by the third quarter of 2009, 35% of grocery sales were at discounted prices. But it seemed to work: till spend at all major supermarkets showed an increase in value share over the previous year.

Towards the end of 2009 shoppers showed a greater sense of optimism, with consumer confidence rising to 72 on the index. But consumers' concerns about the economy, debt and job security look set to continue during 2010. The need to save money is as strong as ever and, with value considerations increasingly influencing buying choices, manufacturers will face some tough decisions about price structure and maintaining value perceptions. And when the economy improves, will consumers return to their pre-recession spending habits or maintain their thrifty, budget-conscious mindset?

SUPPLIERS

The top three suppliers CCE, Britvic and GSK, accounted for almost 50% of the market between them. The collective value growth of Britvic (6%) and CCE (4%) drove category growth of £111m and increased value sales by 5%, compared to the 2% growth in soft drinks overall. Third-placed GSK fared less well, with value sales down 3%. Britvic's success was driven by strong performances from Pepsi, Robinsons and drench juicy spring water. CCE's growing portfolio of energy drinks benefited from the buoyant energy category, with rising sales of Monster and Relentless. Coke was also a key contributor, with sales up 4%. GSK had a difficult year, with both Ribena and Lucozade seeing sales decline.

Also in the top 10 suppliers, Barrs saw sales value increase by 9%, with Irn Bru and new acquisitions Rockstar and Rubicon Juice Drinks leading the way. A significant increase in distribution provided a shot in the arm for Nestlé Waters' top brand Buxton and relative newcomer Pure Life.

BRANDS

The Top 10 brands accounted for nearly half of the total take-home soft drinks sales. Actimel grew the fastest in value terms, up 7%, although a higher than average price meant it did not feature in the Top 10 brands by volume.

Cola had another good year, with Coke and Pepsi both performing well. But the leading light was Pepsi Max, with value sales up 9% making it the fastest growing major cola brand. Robinsons increased its dominance in the squash market, contributing more than a third of the sub-category's overall growth.

On the downside, Tropicana was impacted by the trend of trading down from pure juice, with sales down 5.7%.

Brands and promotions played a key role in delivering a value for money message in 2009. A return to the safety of big brands coupled with the launch of Essential Waitrose provided a great platform for growth. These elements combined with our most successful expansion programme in any year have delivered a genuine broadening in our consumer reach.
Suzanna Duke, Director – Ambient Buying, Waitrose

RETAILERS

With consumers more determined than ever to make every penny count in 2009, the search for low prices meant more shopping around – and retailer loyalty suffered.

Ultimately, supermarkets won the battle, with sales value up 4% driven by the exceptional performance of the big four in a tough market. Promotions certainly helped, to the extent that discounters such as Aldi and Lidl saw their market share grow more slowly than last year. 61% of the population bought from a discounter in 2009 – nearly the same as from Morrison's – but if consumer confidence continues to grow and shoppers return to their former habits, discounters may find it challenging to maintain their recent growth.

An increase in promotions, led by retailers, was certainly evident in the soft drinks sector – 49% of sales for later consumption were on promotion, an increase of 3%.

The well-publicised challenges faced by impulse outlets were reflected in a 3% drop in soft drinks sales. Hardest hit were local and high street newsagents, with value down 20%, and multiple off-licences, down 11% by value due to the collapse of First Quench group, owner of Thresher and Wine Rack. High street shops, independents and multiple forecourts also suffered a decline.

But it wasn't all doom and gloom for small stores, with the convenience channel (stores of <280 sq m) enjoying a 2% increase in sales.

SOFT DRINKS SUB-CATEGORIES

COLA
STILL GAINING GROUND

Cola remained the top sub-category after yet another strong performance. Value growth of 4%, for a second year running, took total cola sales to £1.35bn – a 22% share of the take-home soft drinks market.

Cola seems to have benefited from tight economic conditions, as many shoppers switched their spending from higher priced smoothies and fruit juice. These switchers predominantly favoured low-cal variants.

Pepsi continued to grow sales faster than Coke, with 5% value growth taking sales to £271m. But Coke was not far behind, with sales up 4% to just over £16m. Pepsi Max was again the star performer, with sales value growing 9%.

PURE JUICE
LOSING THE VALUE-CONSCIOUS SHOPPERS

Pure juice remained the No2 category by a large margin, with total sales of £1.16bn. But sales declined by 4% – equivalent to £41m – as consumers turned to less expensive alternatives. While most of the switchers traded down to juice drinks, many moved to entirely different sub-categories in search of value-for-money enjoyment – and cola was the main beneficiary. Not all juice brands were in the doldrums, though: Princes grew 47%, picking up an extra £6m of sales.

GLUCOSE/STIMULANT DRINKS
MONSTERING THE MARKET

With a healthy 7% increase in sales to £567m, glucose/stimulant drinks was once again the top-performing sub-category. Although its growth was down on the 12% achieved in 2008, it remains the third largest sub-category with a growing share of the total soft drinks market.

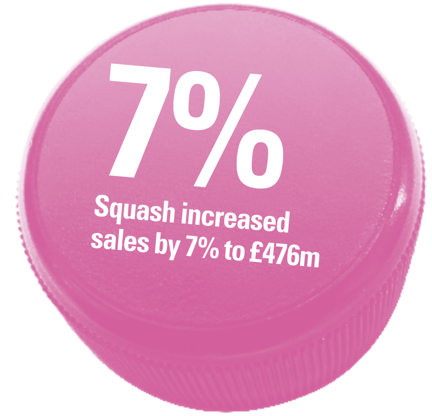
The big stimulus was provided by Relentless and Monster, which together accounted for 58% of the growth. The key to stimulant drinks' remorseless rise is increased distribution, for both new and existing lines. Overall, distribution rose by 12%, with new brand Monster accounting for a quarter of this.

In 2009's price conscious environment, maintaining growth for this high-ticket subcategory was also a marketing challenge. One key to success was a 20% uplift in promotional support, raising the proportion of sales on promotion by a third to 42%. The other was a sharp rise in packs at sub-£2 price points. These drove two-thirds of the sub-category's 2009 growth and now account for 29% of sales.

JUICE DRINKS
VALUE WINS OUT

Juice drinks sales returned to growth – up 3% to £501m – after declining by 1% in 2008. The sub-category benefited from pure juice shoppers trading down in search of taste and fruit content at a lower price.

Driving category growth within the top 10 brands was Rubicon, up a significant 54%, Oasis 6%, Capri Sun 11% and J_2O 5%. Value conscious shoppers gave private label a 15% increase in sales.



SQUASH
CONCENTRATING ON GROWTH

A slightly better summer brought a ray of sunshine to squash sales, with value growth of 7% to £476m. This was a real improvement on the 2008 performance of 2% and injected an additional £30m into the sub-category.

The success of double-concentrate sales returned private label to value growth but complicated the volume story. On the face of it, sales volume dropped slightly – but "equivalised volume" (diluting double concentrate to the same strength as normal squash) shows that in reality volume was growing.

Market leader Robinsons had a good year, with value sales up 6% to £208m, representing a third of the sub-category's growth of around £12m.

FRUIT FLAVOURED CARBONATES
TANGO AND VIMTO ADD FIZZ

Fruit flavoured carbonates had a strong year, returning to value growth of 4% to £452m after a 1% decline in 2008.

The top 10 grew significantly, with four in particular – 7UP, Tango, Schloer and Vimto – into double digits. Of these the stars were Tango at 18% and Vimto, up 27%. However, No1 brand Fanta bucked the trend, losing 4% sales. Lilt was also down 1%.

PLAIN WATER
STAYING AFLOAT

Water stemmed the decline of the last two years with value sales flat at £424m in 2009. The change in fortunes was largely down to increased promotional activity, which lifted supermarket sales by 3%.

A 300% increase in distribution lifted sales of Nestle's relative newcomer Pure Life. Highland Spring and Buxton also performed well.

DAIRY DRINKS
CONSUMERS PRO PROBIOTICS

Dairy drinks doubled their growth to 4%, bringing sales for the year to £406m. This success was a combination of existing consumers buying more and others adding dairy drinks to their basket for the first time.

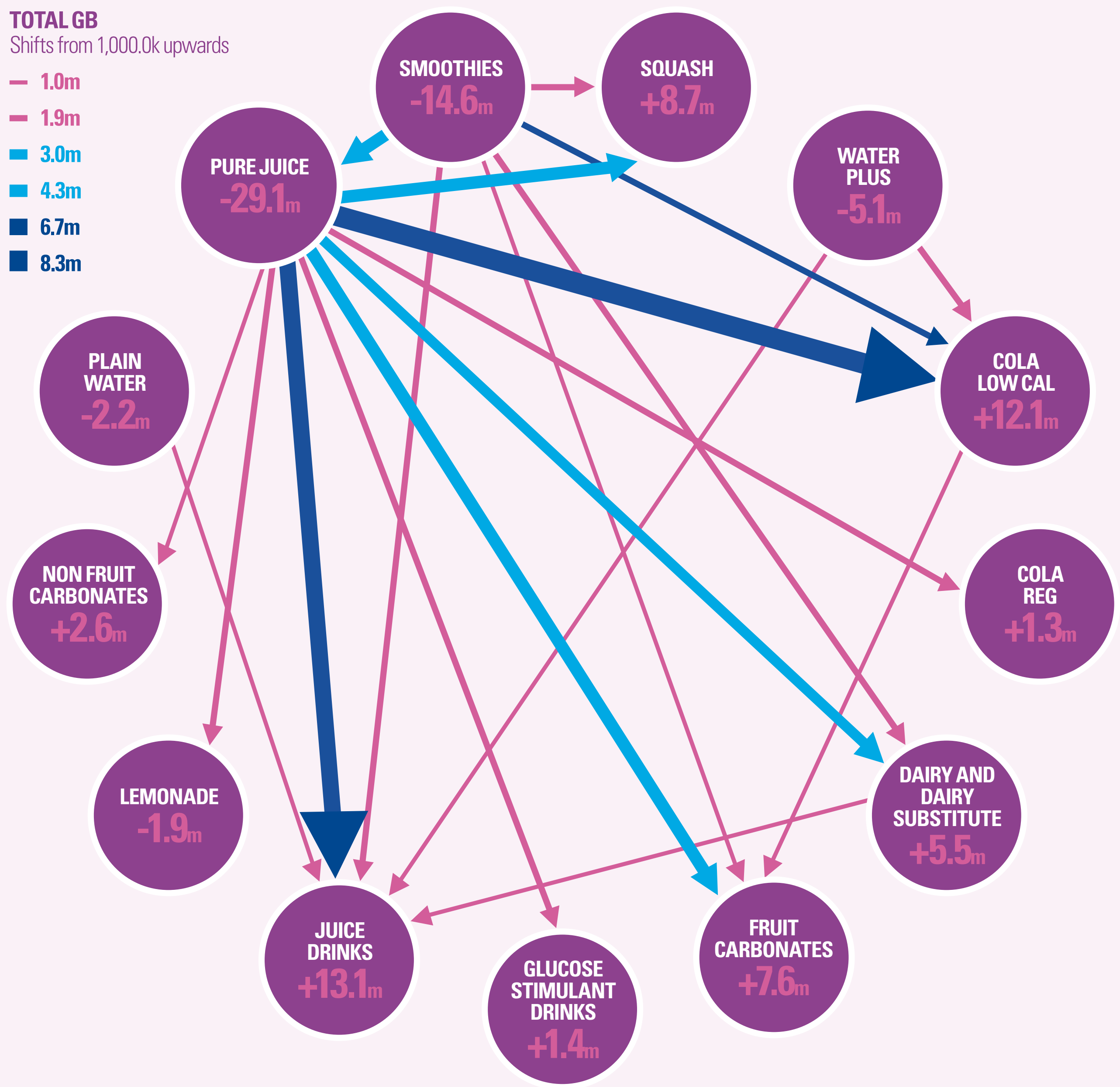
Top brand Actimel grew by 7% but the big success story came from the second and third placed brands. Frijj surged ahead by 17% to £44m, closely followed by Benecol, up 15% to £35m.

SPORTS DRINKS
HITTING THE WALL

After three years of growth that pitched sports drinks into the second fastest-growing sub-category, 2009 was a different story. Sales were down 2% to £164m. This was due partly to the two-pronged effect of smaller brands being lost in distribution cuts and a decline in sales of Lucozade Sports and Hydroactive.

The two brands driving sales growth were Gatorade, up 40% to £2m, and relative newcomer Euroshopper Isotonic. Its low price attracted value-conscious consumers, resulting in a significant sales increase to £2m.

HOW CONSUMERS SWITCH BETWEEN SOFT DRINKS SUB-CATEGORIES



TAKE-HOME
SOFT DRINKS SUB-CATEGORIES

NON-FRUIT CARBONATES
IRN BRU KEEPS AN IRON GRIP
With sales up 6% this sub-category experienced one of the fastest growth rates in the soft drinks market, with sales of £158m taking it close to overtaking sports drinks.

Irn Bru remained the dominant brand with sales of £95.3m although sales growth slowed versus last year to 4%. In a sub-category characterised by distinctive products with loyal buyers, the brands driving growth in 2009 were D&G Jamaica (up 13%) and Barrs' originals range of cream soda, dandelion and burdock, ginger beer and shandy (up 6%).

WATER PLUS
FROM MINUS TO PLUS
Sales of water plus increased by 4% to £157m – the first year of growth since 2006. Now running neck and neck with non-fruit carbs, water plus grew sales volume (up 9%) considerably faster than value – indicating some flexing of prices to attract value-conscious consumers. While flavoured water still accounts for some 96% of water plus, the big success story was water with functional ingredients – turning the previous year's 42% decline into a 72% increase. The heroes in this turnaround story were relative newcomer Glaceau Vitamin Water, with sales up by nearly £5m and V Water, up 143% to just over £1m.

LEMONADE
PREMIUM BRANDS CLEAN UP
Lemonade saw value growth of 4% to £148m. This was helped by an increased demand for the multi-pack format and retailers increasing distribution of such lines.

R Whites was the big winner with sales up 17% in value terms, with Schweppes attaining a respectable 5% growth – between them driving 83% of the sub-category's growth.

SMOOTHIES
ANOTHER BUMPY RIDE
The reversal of fortunes continued for smoothies as recession-hit shoppers switched to lower price pure juice and other sub-categories. Sales dropped by 27% to £127m, outpacing the previous year's 20% fall.

TRADITIONAL MIXERS
JUST THE TONIC
Tonic water and soda water continued to achieve value growth, with sales increases of 5% a piece. Overall value sales in the sub-category grew on a par with 2008 at 3% to £115m.

COLD HOT DRINKS
SALES STILL COOLING
This sub-category continued its downward trend, with sales declining 8% to £1m. Kenco was the main casualty, with sales down 83%.