Soft Drinks International – **December 2017/January 2018**

Global review

water drives global soft drinks

Of all the beverage sectors, the soft drinks market was the fastest growing last year, reports Richard Corbett.

The world drank more soft drinks in 2017 than they did in 2016. According to the latest global projections from GlobalData, the market increased by between 2% and 3% last year. The rise represents an acceleration in growth and while it may seem like a relatively modest rise in percentage terms, it does equate to a considerable 17 billion litres of soft drinks. Although all the numbers remain provisional, they do provide plenty of meat to chew over and digest.

Fastest growth

Of all the beverage sectors, the soft drinks market was the fastest growing last year. Today, 37% of all commercial beverages traded are soft drinks (disregarding cooler water).

Hot drinks make up a third of the drinks market and are expanding at almost the same rate as soft drinks. The ongoing worldwide coffee shop boom has contributed to the rise, helping to generate interest and to educate consumers on what teas and coffee they are drinking. The premium end of the market is subsequently thriving and increasing availability on-the-go is becoming a threat to soft drinks in the convenience channel.

Dairy drinks and milk alternatives recorded a rise of nearly 2% last year. Drinking yoghurts and Flavoured milks often go head to head with soft drinks and have enjoyed plenty of investment recently. Both categories made healthy gains last year; flavoured milk volumes went up by 3% and drinking yoghurts by as much as 5%.

Mixed blessings

Alcoholic drinks consumption was up by more than 1% last year. The spirits category is the most vibrant of the alcoholic sector and this has helped to underpin one of the headline soft drinks brands of the year. The meteoric rise of the spirits mixer brand Fever Tree has been one of the stand out stories of the year. The brand has gained visibility

across the world and this has prompted new rivals to enter the segment. They don't get much bigger than Red Bull who recently unveiled a premium mixers range, 'Organics by Red Bull'. If you had bought Fever Tree shares at the beginning of last year you would have more than comfortably doubled your money.

The tonics & mixers segment of the CSD market may be flourishing but the rest of the carbonates category recorded its second annual volume fall in succession. The category continues to be typecast as the bad guy and this is shaping consumer perceptions around the globe.

Low-calorie conundrum

What will get the analysts shaking their heads was the fact that the global low-calorie segment fell at a faster rate than the regularly sweetened segment. It wasn't supposed to be like that. The 'diet' or 'low calorie' segment was supposed to be the antidote to the outcry over obesity and CSDs.

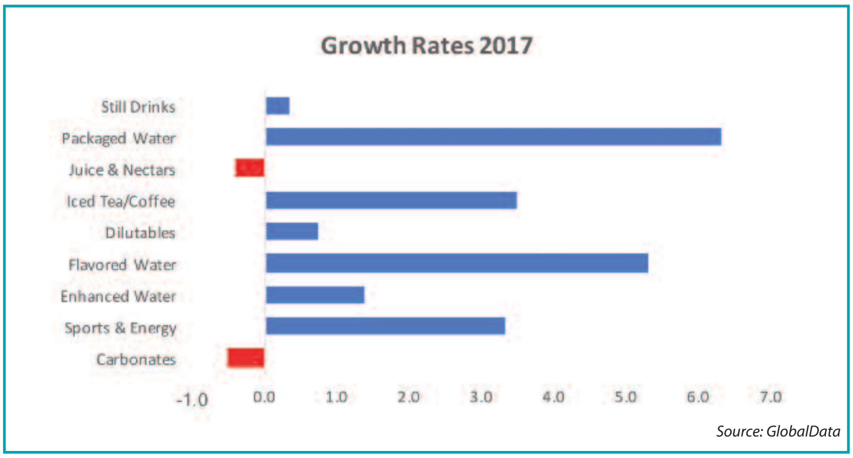
In fairness, these low-calorie losses can be attributed to anxieties in North America over the use of 'aspartame' and if you discount North America, then low calorie carbonates grew by 3%. The worry is that anxiety is contagious and that it could spread to over parts of the world. It is for this reason that Coke have invested so much in the stevia sweetened Coke Life. The fortunes of Coke Life have been up and down but mainly down. Coke are not giving up though and this year we will see the arrival of Coke Life Mark II.

Carbonates was not the only soft drinks category to end up in the red last year. Juice & nectars are expected to have shrunk again. The category is however not out of fashion, far from it, consumers are just drinking better quality juice but less of it.

Many have expected some CSD drinkers to migrate to the flavoured water market. The big guns of the water category have invested in flavoured fizzy waters and this appears to have been justified. Flavoured waters are expected to have seen a 5% jump in sales last year.

Water and energy

Plain packaged waters are outpacing flavoured waters and last year will be the fastest growing soft drink category. Consumers in developed markets are drinking more packaged water because it



Carbonates and juice & nectar markets are projected to have shrunk in 2017.

is healthy while in developing markets they are drinking more bottled water because it is safe. The water market has grown by almost 70% in a decade and it will not be long before four in every 10 litres of soft drinks sold will be a plain packaged water. Without water, soft drinks growth will have been slashed to just half a per cent.

Many might have expected the energy drink category to be setting the pace but last year growth fell below 5%. The dramatic progress of the category was always going to be difficult to maintain and a slowdown in the influential Asian market will have contributed. Sports drinks are often lumped in with energy drinks and combined, growth was even less spectacular. Sports drinks could only edge forward last year as there was no major Olympics or Soccer World Cup to provide a focus for the category.

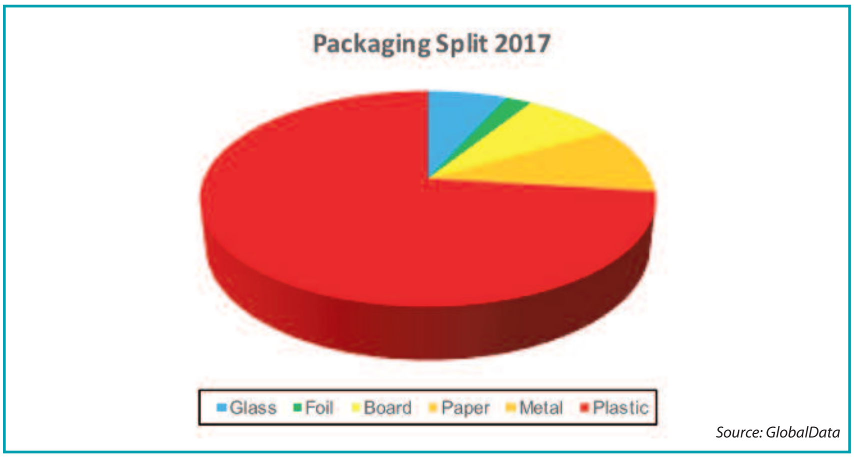
You can however continue to be optimistic for energy drinks; Coca-Cola's distribution of the Monster brand will further boost the global number two brand, while market leader Red Bull's flavour innovation will bring more drinkers into the category. More female drinkers are also entering what is still a very male dominated category. That can only be a good thing for sales.

Iced tea and still drinks

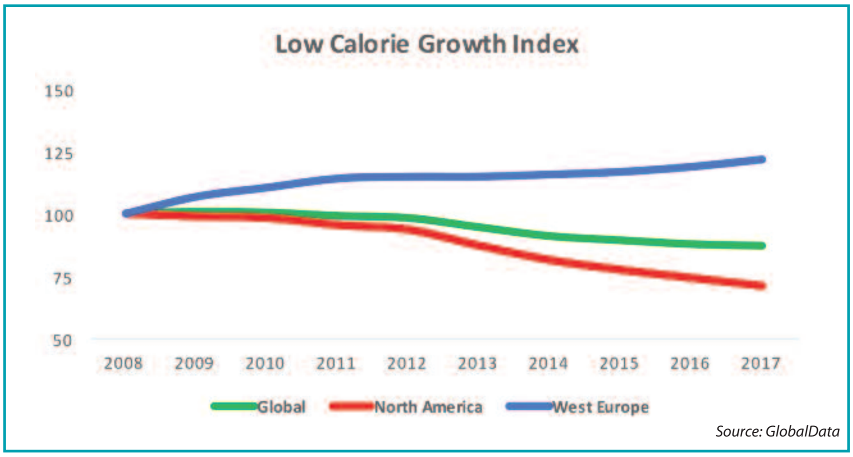
Female drinkers are more likely to opt for an iced tea than an energy drink and 2017 was a positive year for the category. Much always depends on Asia, where nearly two thirds of iced teas are sold. Here good growth in China is helping the market, driven by leading producers Tingyi and Nongfushanquan. Out of Asia, it was an interesting year for the category with the announcement that the global agreement between Nestlé and Coca-Cola to distribute Nestea was to be ended in 2018. The iced tea market is definitely evolving and Nestlé wanted to "develop Nestea independently". The associations with wellness and the emergence of 'craft style' operators make iced tea 'one to watch' for this year.

The rise of iced tea in Asia appears to have dented the demand for still drinks which remained almost flat for the year. Asia accounts for 60% of still drink sales. Decline in North America and West Europe will also have impacted on still drinks. Here still drinks have been affected by the sugar debate and have also been impacted by some of the same factors that are depressing juice & nectars.

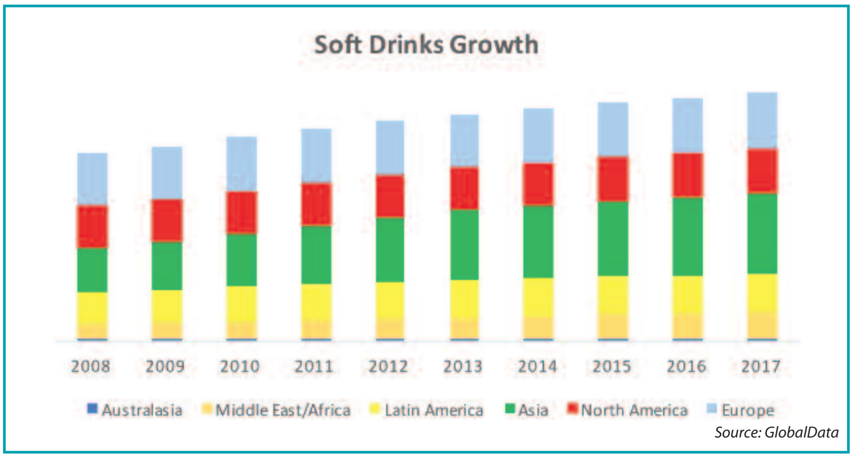
A sluggish still drink market can help dilutables. These drinks did indeed recover from a small volume drop last year but the sales rise was modest at best. In countries where dilutables are found in abundance, they tend to be long standing categories and are often mature. Being the most economic form of soft drink refreshment, dilutables tend to do well in times of global economic uncertainty and are a good barometer for the health of the worldwide economy.



Packaging and the environment was an increasingly big issue for the soft drinks industry in 2017.



North American low calorie carbonates decline shapes the global performance.



The rising influence of Asia on global soft drinks demand is evident.

Continued growth expected

The worldwide economy does remain fragile but does seem to be settled as we enter 2018. It is early days but GlobalData are projecting the world's soft drinks market will expand by 3% this year. There remains plenty of challenges for the industry to address but the role of soft drinks in landfill and Ocean waste gained considerable momentum in 2017 and will become even more high profile this year. ■

Richard Corbett is a Strategic Analyst at GlobalData.
Email: richard.corbett@globaldata.com
www.globaldata.com