



Passport

SOFT DRINK NEW PRODUCT DEVELOPMENT: THE SEARCH FOR FUNCTION, FLAVOUR AND HEALTH

July 2013

Key findings

<p>Local customs and tastes inform new product launches</p>	<p>Developed markets in North America and Western Europe are seeing the premiumisation of new products, while emerging markets focus on products for consumers who are still moving from home-made beverages to packaged soft drinks, by using familiar flavours and formulations.</p>
<p>Categories blurred as staples emulate successful growing categories</p>	<p>Bottled water, carbonates and juices are staple soft drink categories, historically leading others in volume terms. However, the growth of RTD teas and sports and energy drinks continues to drive new product innovation. Manufacturers of staple product are seeking to emulate the success of these growing categories by incorporating functionality or marketing the naturally healthy properties of their beverages.</p>
<p>Several new products follow the trend for functional beverages</p>	<p>Launches of new energy drink products are being seen across the world. Existing brands are using their success in developed markets to reach developing markets, while new brands are highlighting innovation in flavours and formulations to draw consumer interest.</p>
<p>Manufacturers search for healthier soft drinks</p>	<p>Consumer demand for healthier soft drinks is at an all time high, amidst concerns regarding the links between obesity and soft drinks. This has hit reduced sugar carbonates especially hard, as many consumers are eschewing even diet drinks for other beverages. Within naturally healthy drinks, premiumisation presents new opportunity.</p>
<p>Exotic and traditional flavours have their appeal</p>	<p>Beverage flavour plays a key role in consumer purchasing decisions. While exotic flavours are enticing consumers to switch brands in developed markets, traditional brands are important for consumers in emerging ones.</p>

INTRODUCTION

ADDING VALUE ACROSS MARKETS

THE RISE OF FUNCTIONALITY

THE QUEST FOR HEALTH

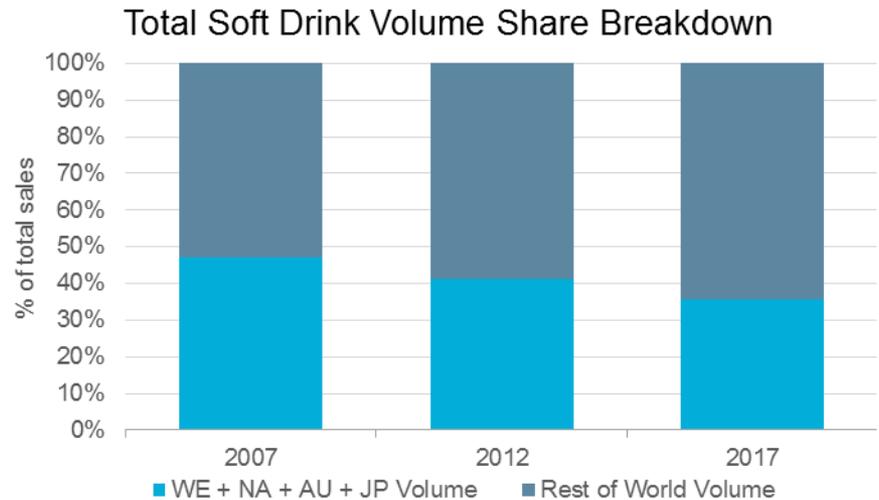
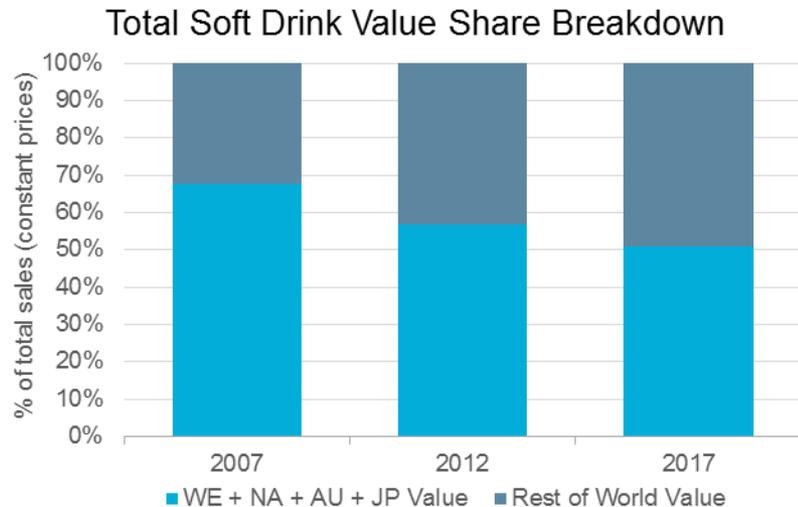
EXOTIC VERSUS TRADITIONAL

CONCLUSION



New products seek to add value across diverse markets

- Whether a soft drink manufacturer is a global conglomerate, such as Coca-Cola or PepsiCo, or a local manufacturer with distribution across only a handful of small grocers, new soft drink products have sought to provide consumers with added value. This value can come from a well-established brand coming to a market for the first time, or a traditional home beverage now being packaged for convenience.
- The prospect of providing something “new” and “different” has been the challenge for companies – especially in developed markets, where consumer budgets are larger but competition is more robust. However, the wealth of these markets cannot be ignored, but while the markets of Western Europe, North America, Australia and Japan have dominated the landscape, the future of the industry is largely in the hands of emerging nations. While some consumers in these countries find value in embracing the culture of a global brand, many others still have localised tastes and preferences when it comes to their beverages.



Developing regions to contribute almost all future growth

- The dominant developed soft drink markets, such as the US, Japan, Germany and the UK, are all countries where consumers view packaged beverages as an everyday part of life.
- However, over the next five years, a slew of new faces will lead value growth. The obvious examples are China, Brazil and India, but the potential for growth in Indonesia, Nigeria, Venezuela, and Colombia should not be overlooked.
- While staple soft drinks will drive much of the growth in these new markets, differing consumer palates and lifestyles will require manufacturers to create products different from their global brands.

Sales (US\$ million)

Geographies	2012
USA	176,053.8
Japan	86,480.8
China	66,602.6
Brazil	42,722.1
Germany	37,302.8
Mexico	36,625.0
United Kingdom	20,516.5
Italy	19,915.6
Spain	19,377.4
France	19,290.2

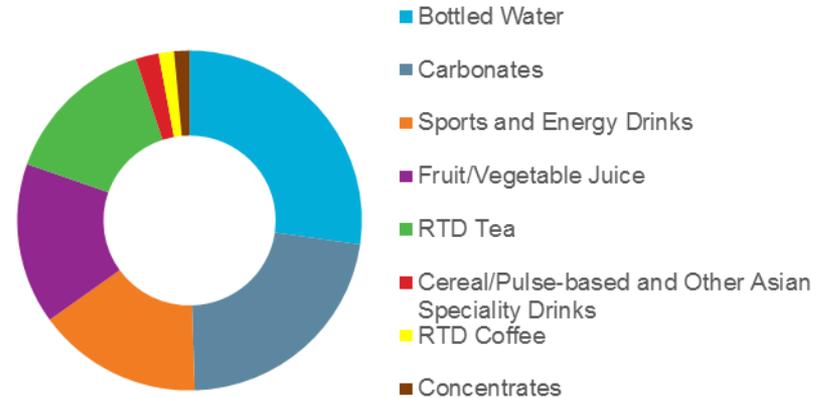
The US\$1 billion club

Geographies	2012-17 CAGR %	2012-17 Absolute (US\$ million)
China	7.0	26,758.9
Brazil	7.5	18,692.7
USA	1.4	12,986.0
Mexico	4.4	8,869.5
India	14.3	7,752.7
Russia	4.0	3,203.8
Indonesia	6.8	2,970.7
Nigeria	7.8	2,251.4
Argentina	2.8	2,186.6
Venezuela	3.5	1,950.0
Iran	6.9	1,869.5
Colombia	4.0	1,837.4
Thailand	4.2	1,511.4
Uzbekistan	13.4	1,344.2
Chile	3.4	1,063.0

Growth across multiple categories calls for blurring of lines

- The majority of soft drink growth between 2012 and 2017 will still be based largely on staple products, such as bottled water and carbonates. This is especially true in emerging markets, where some consumers are still transitioning from unpackaged to packaged beverages.
- However, in both developing and emerging markets, increased competition has made the value proposition more complex than simply providing a safe and known brand. In response, manufacturers continue to innovate, responding to important beverage trends.

Category Value Growth 2012-17
(constant pricing)



- The ability of global brand manufacturers to balance these two market types has a significant influence on new products launches. As the new products highlighted in this briefing demonstrate, three major areas have emerged across both market types: function, health and flavour. However, the manner in which these products are promoted, and the markets in which they are launched, are key factors in determining product success.

