4 THE COMPLEX CONSUMER

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Introduction

The soft drinks industry has a proven ability to respond quickly to changing consumer desires. But the task is getting more complex as the pace of change picks up, trends fragment and consumer behaviour becomes more inconsistent. The four strongest current trends centre on health, indulgence, ethical values and convenience. With so many factors in play, the most successful new products in 2007 were those that tapped into more than one of these. And life is unlikely to get any simpler in 2008.

COMPLEX TRENDS, COMPLEX RESPONSES

SATISFYING MULTIPLE DESIRES

Compared with a few years ago we are facing a new and more complex consumer whose demands may shift radically according to time, place and occasion.

It should come as no surprise that consumers' demands are becoming more complex. In an information rich, time poor, health aware and increasingly regulated society, consumers know what they want, and also what they *ought* to want. They recognise that these two are not always the same thing, and in the course of a busy day they may find a variety of ways to reconcile a range of sometimes conflicting needs and preferences.

As a result, four distinct market drivers have emerged in the food and drink market over the past few years, and look likely to continue in the near future:

> **Health and wellbeing**
> **Indulgence**
> **Ethical and environment**
> **Convenience**

Top 20 new product innovations in 2007 classified according to dominant trends*

Ranking		Health	Indulgence	Ethical	Convenience
1	Volvic Revive	•			
2	Volvic Touch of Fruit Original	•	•		
3	Innocent Breakfast Smoothie	•	•	•	•
4	Muller 1 A Day	•			•
5	Robinsons Fruit Shoot 100%	•			•
6	Innocent Breakfast Thickie	•	•	•	
7	Robinsons Smooth	•			
8	Schweppes-Straightcut		•		
9	Schweppes-Straightcut Slimline	•	•		
10	Del Monte Distinction	•	•		
11	This Water	•			
12	Euroshopper	•			
13	Coca Cola Diet Plus	•			
14	Princes Real No-Added-Sugar	•			
15	PJ'S Fruit Kick Smoothie	•	•		•
16	Peartiser		•		
17	Thirsty Planet Water	•		•	
18	Crystaline	•			
19	Mars Family Fuel	•	•		
20	Tango No-Added-Sugar	•			

*Based on the over-riding marketing messages, the top 20 soft drink innovations in 2007 have been classified by Nielsen as following one or more of the four key trends.

70% of the top ten launches in 2007 tapped into more than one of the four key trends

70%

Success in the soft drinks market depends on identifying and responding quickly to changing consumer desires. But with so many separate – and seemingly contradictory – drivers developing at once, it is harder than ever to tailor products to specific consumer groups. Not least because consumers themselves are increasingly hard to pigeonhole. In the course of the day, their focus can swing from one of those four trends to any of the others.

This is a recurring theme. We'll come back to it below in *The triple-decker shopper (page 39).* What's clear is that an individual consumer is increasingly unlikely to maintain the same characteristics all day, all week, or on all occasions. Today people are more inclined than ever to play different roles, and adopt different values, according to time, place and mood.

With that in mind, let's revisit those four dominant consumer trends. They're not as discrete as they might appear. In fact, marketers have been adept at combining them in a variety of permutations. While indulgence may seem incompatible with health, for example, brands like Innocent have proved you can satisfy both desires at once.

Propositions that address multiple drivers have fared particularly well – although it's clearly important that all attributes should be a natural fit, as any brand that tries to stretch too far risks weakening its core message and alienating its consumer base. In 2007 70% of the top 10 launches tapped into more than one of these four consumer trends.

And which trends are the strongest? **Of the year's top 20 new launches, 18 offered a perceived health benefit**, while nine were classified as indulgent products.

HEALTH AND WELLBEING

NO LONGER ONE TREND, BUT THREE

Clearly, the health and wellbeing trend is the most powerful driver shaping the soft drinks market at present. But to make life more complicated for the industry, that trend is itself fragmenting. Increasingly, health and wellbeing means different things to different people.

For example, 83% of the population want to live a healthier lifestyle – only 17% say they have no health concerns. Back in the ’90s, this would have driven a straightforward pursuit of the latest diet fad: low fat, low salt, or low sugar. But these days a healthy lifestyle doesn’t look so simple.

A 2007 Nielsen survey of attitudes to health identified three distinct concerns:

> **Naturalness** (addressed by nine of the top 20 new product launches in 2007)

> **Functional benefits** (something added, addressed by seven of the top 20 new launches in 2007)

> **Diet** (something removed, addressed by two of the top 20 new launches in 2007)

The three new distinct consumer concerns when it comes to health
(% of population concerned about health)

Naturalness	Functional benefits	Diet
33%	26%	41%

Those diet factors are still important to some consumers, but the dominant preoccupation that has emerged recently is maintaining a sense of health and wellbeing through naturalness. In 2007, 69% of people said they “prefer foods that are natural” – compared to 50% in 2000. This is causing some people to strike different balances – recognising that low-sugar is not the only health option, for example by trading-off the perceived naturalness of alternative drinks against their calorie content.

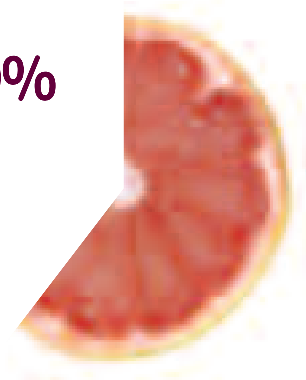
At the same time, consumers are responding to the prospect of gaining health through functional benefits. Hence the rise of probiotics as a mainstream sector. One in nine shopping baskets now contains a probiotic, and big grocery brands like Flora Pro.activ are successfully extending into this space.

So where does this leave diet and no-added-sugar drinks? For years they have been steadily increasing their share of the soft drinks market, and in 2007 they continued to grow on-premise sales. But in the take-home market it was a different story, as the long growth trend slowed. Two years ago, diet/no-added-sugar drinks’ share of total soft drink sales value was 24% and rising; now it is down to 22%. Consumers are taking a step back from the idea that health is all about denial. While dieting still plays an important role in their lifestyles, they are recognising different approaches to healthy living. Dieting and denial are giving way to balance and moderation.

The rise in consumers’ preference for natural foods
(% of population)

2000
50%

2007
69%



So consumers who might previously have considered switching to diet or no-added-sugar variants may now prefer to drink regular variants as part of a more holistic healthy lifestyle. In the quest for naturalness, few consumers are willing to make compromises on taste – but more will make compromises on sugar content, accepting that sugar is a natural ingredient, particularly in fruit-based products. Hence, for example, the rise of smoothies, now selling three times faster than two years ago.

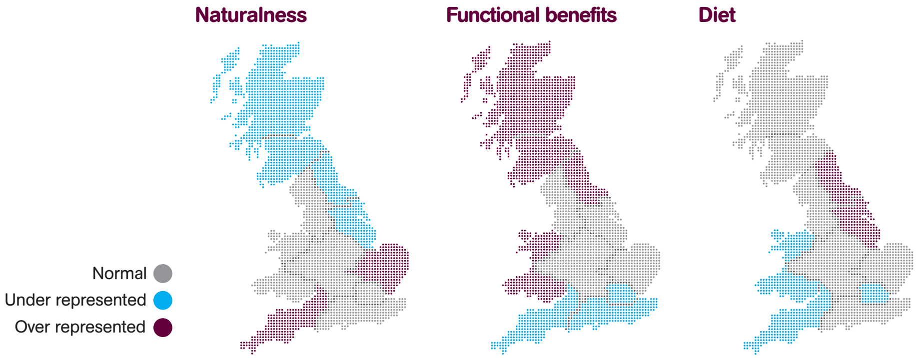
For the foreseeable future, then, diet and regular look set to co-exist. Sometimes in the same shopping basket – because another pattern emerging in consumer research is that what we think isn't necessarily what we drink.

Take, for example, those 69% of consumers who say they prefer foods that are natural: 37% of them buy a diet cola which contains artificial sweeteners. When faced with such a fragmented picture of what's healthy, it seems we're sometimes led by our heads, and sometimes by our hearts.

Given that everyone in the country is exposed to much the same messaging from the media, marketers and industry regulators about health and naturalness, you might expect attitudes to be broadly similar across the UK. But in fact, there are distinct regional differences (see map below).

The desire for naturalness is strongest in the South of England – and weakest in the North East, where consumers are most likely to be looking for functional benefits or diet options. The most balanced consumers appear to be in the West Midlands.

Regional differences in consumers' three health concerns



THE TRIPLE-DECKER SHOPPER

PREMIUM, VALUE AND MAINSTREAM

85% will buy premium brands at one time or another

85%

Consumers want more and more. In the past few years they've come to expect retailers to offer them a selection of price bands: premium brands alongside cheaper "value" options, as well as mainstream brands. This has been particularly evident in categories such as ready meals, snacks – and soft drinks.

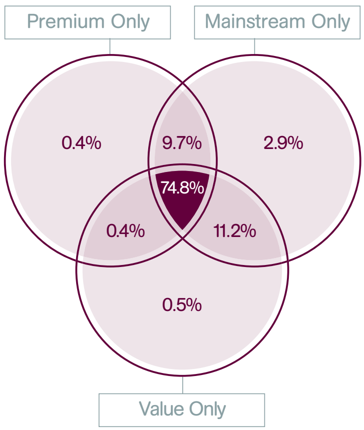
Even own-label products now come in layers. While many own-label goods are still seen as a value offering, ranges like Tesco Finest and Sainsbury's Taste the Difference have emerged as premium brands in their own right – and several supermarkets have launched "value" ranges below their mainstream own-brand offering.

But it would be wrong to think that each layer corresponds to a different type of shopper. Increasingly, consumers are choosing premium brands for special occasions, mainstream and value brands for others. These days, Britain is a nation of triple-decker shoppers.

Since we raised this occasion-driven behaviour in last year's Soft Drinks Report, the trend has become increasingly apparent. Indeed, a good selection of price bands has become a key issue when people are choosing their preferred retailer.

As the chart (below) shows, three-quarters of consumers now fill their shopping basket from all three price bands, depending on the occasion. And 85% will buy premium brands at one time or another – while virtually the same proportion will sometimes buy value brands.

The triple-decker shopper



The mix has been gradually moving upmarket. Recent sales trends show clear growth for premium brands – and also for the mainstream sector as consumers look for good value from their brand purchasing. This growth has been at the expense of value brands, which declined slightly in both sales value and market share last year.

Total Soft Drinks Value Share

(%)	2005	2006	2007
Value	9	9	8
Mainstream	72	70	71
Total premium	19	21	21

Total Soft Drinks Value Sales

(£millions)	2005	2006	2007
Value	511	524	498
Mainstream	3,937	4,159	4,288
Total premium	1,015	1,221	1,282

2005 2006 2007

75% of consumers fill their shopping baskets from all three price bands – value, mainstream and premium

75%

Industry expert

"A key feature of the current consumer landscape is the theme of naturalness. This barely existed as a front of mind concept five years ago – although natural products were around, there was greater preoccupation with using sweeteners, preservatives and processing to meet demand for low fat, low sugar and greater convenience. Now it's almost as if we're returning to "the way things used to be". Whether this consumer shift has been driven by media attention or other factors, one thing is clear – soft drinks manufacturers that make naturalness more accessible will prosper."

Daniel Hibbs
Consumer Insight Manager
The Nielsen Company (UK)

THE NEXT BIG THING

Signals from the internet

If there is one constant with consumer fads, it's the fact they're always changing. So what will be the next big thing in soft drinks?

The industry is currently riding the wave of superberries such as blueberry and acai. And as the UK population ages – by 2014 it's forecast that over-65s will outnumber under-16s for the first time – it's a safe bet that soft drinks with additional health benefits will come increasingly to the fore.

The internet has become an important predictor of future trends. According to Nielsen Buzzmetrics – which tracks over 70m online forums, blogs and messaging sites to find out where the internet buzz is growing – two current hot topics are new functional ingredients, and sustainability.

Functional ingredients

Online interest in **antioxidants** is growing among both early adopter and mainstream consumer groups. Antioxidant knowledge is currently evolving from general concept to a focused understanding of sources and benefits, but there's widespread acceptance that they're a good thing. New or existing soft drink products that can make antioxidant benefits part of their overall brand positioning, without diluting the core value proposition, could grow in importance. Highlighting specific antioxidant content and benefits should help increase the credibility of claims and the relevance to consumers. One to look out for is **selenium**, a wheat–derived antioxidant that boosts the effects of other antioxidants as well as providing its own benefits.

And here's a surprise – a new angle for an old favourite. **Calcium** has long been linked to good teeth and bone growth. But now it's the subject of renewed interest on the net as something of a panacea, appealing to groups from athletes to the elderly for tackling problems ranging from cramps to weight loss. While calcium has historically been associated with milk, many consumers are now supplementing their diet through other calcium-rich food sources. There could be a growing opportunity to tailor soft drinks to a female audience, promoting calcium's potential to relieve PMS and menopause related symptoms.

Sustainability

Sustainability is taking a deeper root in consumers' thinking – and it has direct relevance to soft drinks. Although the organic and fairtrade sectors are still a relatively small part of the soft drinks market, their growth in grocery overall demonstrates the British consumer's increasing sensitivity to environmental and ethical concerns. Sustainability will be a growing issue.

In response to consumer opinion and government pressure, all the major retailers have announced initiatives to cut down on packaging and waste over the next few years. Soft drinks manufacturers have also been quick to respond. A number have signed up to the Courtauld Commitment, pledging to design-out growth in packaging waste and deliver absolute reductions. The big players, including Britvic and Coca-Cola, were also among 21 food and drink manufacturers to sign the Federation House Commitment, pledging to improve water efficiency.

57% of consumers now claim they actively try to buy local products

57%

69% of GB shoppers are prepared to give up packaging that just has an aesthetic function

69%

According to Nielsen survey data, British shoppers now express a real desire to “do the right thing” when making their shopping and product choices.

The goalposts are moving fast. In March 2007, 48% claimed they actively try to buy local products. Four months later, in July, the figure was 57%. Over the same period, the proportion of shoppers who claimed to buy products with little or no packaging rose from 45% to 55%.

The good news for manufacturers is that 46% say it’s worth paying extra for products that are ethically produced or kinder to the environment. Manufacturers who can couple sustainability with great tasting products will tap into this consumer mindset. If consumers mean what they say – and that’s still quite a big if – the potential rewards could be huge.

46% of consumers say it’s worth paying extra for products that are ethically produced or kinder to the environment

46%