WHAT’S BUBBLING UP IN INDIA’S SOFT DRINK MARKET?

IDENTIFYING OPPORTUNITIES FOR THE GROWTH OF SOFT DRINKS IN INDIA

- Soft drinks and packaged drinking water categories in India have seen a value growth of 11% CAGR and a volume growth of 5% CAGR for the last two years.
- India’s per capita soft drink consumption is 1/20th that of the U.S.
- Carbonated drinks account for more than half of the soft drink market in India.
- Innovation, new consumption occasions and focus on execution will be the biggest growth drivers of the soft drink segment.

Even though traditional and homemade drinks will always remain popular, packaged beverages are gaining traction with Indian consumers who are now frequently reaching for their more convenient-to-consume counterparts—soft drinks. While consumption is on the rise, soft drink manufacturers have some distance to go before they fully capitalise on the opportunity.

Over the past two years, the soft drink industry has seen a value growth of 11% compound annual growth rate (CAGR) and a volume growth of 5% CAGR. In total, 1.25 billion people in the country drink 5.9 billion litres of soft drinks in a year. This makes India's per capita soft drinks consumption large, but just 1/20th of that of the U.S., 1/10th of Kuwait, 1/8th of Thailand and Philippines, and one-third of Malaysia's.
Driving up per capita consumption of soft drinks in India, calls for decisive action by the industry to catch up with the growth rate of other fast moving consumer goods (FMCG) including the food basket, which currently outpace soft drinks (Food CAGR is 9%). Over years, the soft drinks category has also been affected by issues related to health concerns and pressure from government policies. However, there have been sporadic efforts to drive growth in rural areas in recent years, which have received only a tepid response, as rural consumption levels still stand at two-thirds of that of consumption in urban areas.

**SPORADIC EFFORTS TO DRIVE GROWTH IN RURAL AREAS HAVE RECEIVED A TEPID RESPONSE, WITH RURAL CONSUMPTION LEVELS STILL STANDING AT TWO-THIRDS THAT OF URBAN CONSUMPTION.**

**PER CAPITA CONSUMPTION OF SOFT DRINKS IN LITRES**

<table>
<thead>
<tr>
<th>Country</th>
<th>Soft Drinks CAGR</th>
<th>Value CAGR</th>
<th>Volume CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>11%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>KUWAIT</td>
<td>5%</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>QATAR</td>
<td>4%</td>
<td>10%</td>
<td>7%</td>
</tr>
<tr>
<td>OMAN</td>
<td>8%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>LEBANON</td>
<td>9%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>UGANDA</td>
<td>5%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>INDIA</td>
<td>6%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>CHINA</td>
<td>7%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>SAUDI</td>
<td>10%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>THAILAND</td>
<td>10%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>VIETNAM</td>
<td>4%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>PHILIPPINES</td>
<td>8%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>MALAYSIA</td>
<td>16%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>USA</td>
<td>10%</td>
<td>11%</td>
<td>5%</td>
</tr>
</tbody>
</table>

MAT Jun 2016
Source: Nielsen

**STANDING STILL?**

**SOFTENING CONSUMPTION PERFORMANCE OF SOFT DRINKS WHEN COMPARED WITH FMCG**

<table>
<thead>
<tr>
<th>Category</th>
<th>Soft Drinks CAGR</th>
<th>FMCG CAGR</th>
<th>Value</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>SD+WATER</td>
<td>10%</td>
<td>11%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>SOFT DRINKS</td>
<td>10%</td>
<td>11%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>FOOD</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>FMCG</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>5%</td>
</tr>
</tbody>
</table>

CAGR for MAT Jun 2016 over MAT Jun 2014
Source: Nielsen
WHERE THE INDUSTRY STANDS TODAY

The challenge for this industry therefore, is to restore its pace of volume growth by increasing the per capita consumption of soft drinks in India, catch up with international consumption levels of soft drinks and perform at par with other FMCG categories in India, like salty snacks, chocolates and biscuits.

GROWTH OF SOFT DRINKS IS BELOW IMPULSE CATEGORIES AVERAGE

When it comes to quenching their thirst, consumers typically choose between soft drinks and packaged drinking water. When we look at the numbers, there are 2X more players in packaged water than in soft drinks. The retail water segment, therefore, is far more fragmented, as the top two players contribute only 35% of the volume. Comparatively, the top two soft drink players contribute 80% of the volume in their category. The other trend working in favour of soft drinks is the relatively lacklustre appetite for packaged drinking water. In fact, the relative growth numbers aren’t encouraging for water, indicating that consumers would rather choose soft drinks over branded packaged drinking water.

CONSUMERS PREFER SOFT DRINKS TO PACKAGED DRINKING WATER

Source: Nielsen
Among all beverages, we see that carbonated soft drinks (CSD) are firmly in the lead, followed by non-carbonated mango-flavoured drinks.

Some segments within soft drinks have seen value growth on the back of price increases, but consumption trends have definitely shifted over the last three years with growing preference for health-based drinks including dairy products.

**FIGURES OUTSIDE THE CHART INDICATE VOLUME CAGR% MAT JUN '16 VS '14**

All figs. in %
Source: Nielsen

**THE STEADY GROWTH OF HEALTH-BASED DRINKS**

<table>
<thead>
<tr>
<th>DAIRY SEGMENT</th>
<th>SOFT DRINKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAT JUN 2014</td>
<td>MAT JUN 2016</td>
</tr>
<tr>
<td>VOLUME</td>
<td>X</td>
</tr>
<tr>
<td>STORE BASE</td>
<td>X</td>
</tr>
</tbody>
</table>

VOLUME CAGR% MAT JUN '16 VS '14

Source: Nielsen
THE THREE GROWTH DRIVERS FOR THE SOFT DRINK SEGMENT

Small evolving segments like dairy may not be sufficient to either drive the per capita consumption or bring in the desired growth for this category. The first challenge that this category faces is to outpace other impulse consumption and traditional options available and clock high single-digit growth in volume. Moreover, the category is dependent on soaring summer temperatures across the country, and a delayed onset of rain and winter can affect demand.

We identified three winning strategies that give growth impetus to India’s soft drink category.

- Continuous and aggressive focus on innovations
- Making the category season-neutral
- Focus on execution

A. CONTINUOUS AND AGGRESSIVE FOCUS ON INNOVATIONS

The Nielsen Global New Product Innovation Survey in 2014 found that 63% of consumers say they like it when manufacturers introduce new products, and 57% say they purchased a new product during their last shopping trip. Despite that, another study by Nielsen on innovation trends in India found that the FMCG sector has a low focus on innovation in tough economic situations.

Interestingly, the soft drink industry has shown a contrary appetite for risk by investing in new launches in recent years—even during the difficult times of 2013. However, soft drink brands pulled back in 2014, when new launches dropped by 14%.

SOFT DRINKS SAW DECLINE IN NEW LAUNCHES OVER LAST 3 YRS

NUMBER OF NEW LAUNCHES CAME DOWN AFTER 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of New Launches</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1,425</td>
</tr>
<tr>
<td>2014</td>
<td>1,188</td>
</tr>
<tr>
<td>2015</td>
<td>1,059</td>
</tr>
</tbody>
</table>

Gr over YA-17% Gr over YA-11%

Source: Nielsen

63% OF CONSUMERS SAY THEY LIKE IT WHEN MANUFACTURERS INTRODUCE NEW PRODUCTS, AND 57% SAY THEY PURCHASED A NEW PRODUCT DURING THEIR LAST SHOPPING TRIP.
Genuine innovations, as distinguished from ‘me-too’ drinks, have paid off for the soft drink industry, and may be a significant driver of consumption for the future as well.

**Innovation in pack size:** The existing 600 ml pack, popularly known as “On the Go or mobile pack,” was split into two sizes of 400 ml and 750 ml by top players. This made it possible to aim for a gain of an additional 61 million unit cases in offtake sales and get double-digit volume growth for this specific pack size.

**PACK INNOVATIONS LED TO VOLUME GROWTH IN THE SOFT DRINK CATEGORY**

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>OTG</th>
</tr>
</thead>
<tbody>
<tr>
<td>W/O 400ML+750ML</td>
<td>WITH 400ML+750ML</td>
</tr>
<tr>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>-6%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Nielsen

This innovation is making an impact by creating more consumption opportunities, as it has translated into 8.7 lakhs of additional servings. It is now easier for people to consume 400 ml as a single drink, while the 750 ml makes three glasses of approximately 250 ml each. Neither of these options was possible with the original pack of 600 ml.

These innovative pack sizes also provide a spectrum of price points for consumers to choose from as lower price points like Rs.10 are difficult to sustain for manufacturers with increase in cost pressures for the soft drink industry.

**Innovation in flavour:** With more and more Indians open to the idea of trying out newer and different flavours, it is a good time for beverage companies to launch new variants. Currently, apple, orange and mixed fruit flavours account for 55% of the non-carbonated market, with brands like Tropicana (PepsiCo) and Real (Dabur) dominating the segment. But the other half of non-carbonated soft drinks, comprising flavours like guava, pomegranate and litchi, has contributed 38% incremental volume over the last three years, thereby driving sustainable growth for the category. Other non-carbonated brands like Tata Gluco+ and Paper Boat are successfully innovating with flavours.

Currently apple, orange and mixed fruit flavours account for more than 50% of the non-carbonated segment beyond mango and dairy based products, with brands like Tropicana and Real dominating the segment. But the other half which comprises flavours like guava, pomegranate and litchi, have contributed 38% incremental volume over the last three years.
CHANGING TASTES OF THE INDIAN CONSUMER

NON CORE VARIANTS

45% UC

NON CORE INCREMENTAL GROWTH

+38%

Core includes apple, orange and mixed fruit flavours in non-carbonated segment beyond mango drinks like Slice, Maaza and dairy segment. The remaining flavours are termed as non-core.

UC = Unitcases

Source: Nielsen

B. MAKING THE CATEGORY SEASON-NEUTRAL

Brands in the soft drink category, alongside others categories like chocolate, chyawanprash and frozen snacks, have been trying to overcome the challenge of seasonal demand for years by creating campaigns and communication to drive consumption occasions that are not tied to seasons.

THE SEASONAL FACTOR

CONSUMPTION OF CARBONATED SOFT DRINKS SOAR IN THE SECOND QUARTER

Source: Nielsen
The soft drink category can take a cue from chocolate manufacturers, who managed to increase consumption over the years by broadening its base from children to people across age groups. There’s also opportunity around events. Recent value offtake trends in the soft drink category indicate that it is possible to leverage festive occasions across the year to drive consumption. Occasions like Rakshabandhan in the North, Ganesh utsav in the West, Durga Puja in the East and other parts, and Holi, Christmas and New Year across the country have proved to be ideal occasions for soft drink brands to try and push sales.

A study across the festive months from August to November, particularly across Northern India, shows better growth for the category during this time. These festive months generate almost 30% of the annual volume and 5.3 times the volume CAGR as against sales of the rest of the year including the peak summer months.

FESTIVE CHEER

FESTIVE SEASONS SET TO BEAT SUMMER MONTHS IN SALES OF SOFT DRINKS

VOLUME CAGR  VALUE CAGR

FESTIVE MONTHS VS. NON FESTIVE MONTHS

5.3x  1.7x

Source: Nielsen

The carbonated drink segment is the primary driver of the spurt in sales during festive seasons because of sustained communication campaigns aimed at consumers. The category has bucked the trend of slow growth during the winter months in north and parts of the east to show growth, demonstrating the possibility that brands and retailers can drive growth through communication and store visibility. Smaller segments, like fruit, vegetable and energy drinks, are also trying to ride the wave of growth during festive events. Surprisingly, the juices segment, which has always been positioned on a year-long health and wellness platform, has not been able to take advantage of festive months.

Marketers trying to stay ahead of the curve should spread their marketing efforts across segments of soft drinks instead of concentrating on just the leading segments like carbonated drinks.
C. FOCUS ON EXECUTION

In the current scenario of tight wallets across organisations and evaluation of every rupee spent, execution of the strategies remains the priority. Execution on the retail store is two-fold - increasing distribution and in-store execution. With the consumer becoming smarter and picking up cues about a product from all the available sources and getting influenced by the clutter of information, in-store execution becomes one of the key factors behind the final purchase. And this applies more to categories that have a larger impulse consumption component.

Soft drinks top the charts in terms of per capita consumption, but the potential to grow even further in the Indian retail space is tremendous. Just like other established FMCG categories including biscuits, refined oils and washing powder, soft drinks too can possibly become a product of daily consumption.
Expansion in the soft drinks category has to be matched with a corresponding growth in support infrastructure, like visi-coolers and other refrigeration equipment which can operate without electricity, especially in rural areas. Key players have been regularly investing to bring in growth by increasing the number of stores stocking soft drinks. This, coupled with an increase in cooling infrastructure, will have a positive impact on visibility and in-store execution for the players and hence on increasing the volume consumption growth of the soft drink category.

Our studies show that effective store visibility has the potential to generate incremental sales of anything between 1.2 and 1.4 times. Cognisant of this potential there has been an increase of 13% in coolers provided by manufacturers, and an even larger 38% increase in retailers’ own coolers, refrigerators and deep freezers. With the ever present challenge of cost to manufacturers versus cost to consumers, innovative cooling equipment with smaller sizes and low electricity consumption has been increasing their presence in geographies with poor infrastructure like smaller towns and rural areas to ensure that the trials and per capita consumption sees some boost in the days to come.
As one of the key growth drivers, new regional players in the soft drinks category are likely to bring both investment as well as variety to the industry. Though the category is dominated by two national players, regional players are steadily gaining ground in pockets. Large markets like Tamil Nadu, Uttar Pradesh, Delhi and Madhya Pradesh have seen the emergence of regional brands that have grown the pie as far as both consumption as well as retail presence are concerned.

CONCLUSION

The Food basket within FMCG is seeing some stress to attract consumers to keep consumption growths alive. This task becomes all the more challenging for categories that are not able to consistently connect and resonate with changing consumer needs. Going forward, soft drink manufacturers would need to:

• Keep consumers satiated with innovations - on the go pack.
• Leverage the potential of off-season or non-festive months - create occasions for consumption.
• Continue to focus on execution - support smaller stores with infrastructure to drive visibility and chilled soft drinks to maximise growth.
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