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Foreword



Simon Gresty,
Chairman of
Can Makers

In total, the soft drinks sector is worth more than £13.64bn . With so many brands competing in this space, it would be easy to claim that it is surely oversaturated with thousands of apparently similar products. But it is a category that is made up of many remarkably different niches: a multifaceted market that includes premium adult soft drinks, health-focused beverages, energy drinks, low and no alcohol alternatives, water and infused water flavours...the list goes on. And every one of these faces its own challenges and opportunities.

The incoming, albeit delayed by a year, Sugar Tax (HFSS Tax) will have huge consequences for the soft drinks market, potentially driving heritage brands out of the sector altogether if they don't adapt or have the capital and resources to invest. Equally likely is that it will serve as a catalyst for the development of new brands. As the industry has proven time and again, it is nothing if not innovative.

Consumer habits have also changed in the last few years. The focus on health and well-being has never been so great. As a result, the low/no alcohol alternative market and the health drinks segment have been thriving. In turn, this has led to a greater number of brands than ever before creating a premium position in the soft drinks market.

Without question, consumers love cans. And they do so for a whole host of reasons from recyclability to convenience as well as the huge variety of drinks available in everything from 100ml to 440ml cans. Clearly there is huge potential for all those operating in the soft drinks market and far from being saturated, there remains sufficient room for significant growth in the years ahead.

In the chapters that follow, we take a closer look at the issues from lifestyle trends to legislative challenges that are influencing the canned soft drinks market today. From the brands behind the increasingly diverse low/no segment, to those

The focus on health and well-being has never been so great

innovating in health and energy drinks, we report from the industry's front line, examining what these movers and shakers are doing today, and where they think the opportunity will lie tomorrow.

I hope this report proves an interesting read and provides useful insight for producers, brands, retailers and designers, helping stakeholders throughout the value chain to capitalise on the opportunities ahead.



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Valued at £71m, water has the greatest share of the soft drinks market while the diet flavour market ranks second, valued at £27.8m and reporting 9.7% growth in the last few years .

In bars, restaurants, hotels and other on-trade premises, the soft drinks market has outperformed all other segments including wine, cider and beer. In fact, research shows that soft drinks made up 25% of on-trade sales, with sales by value in the region of £4.6bn - an increase of 2.7% YOY .

Previously dismissed by many as a market capitalising on impulse purchasing behaviour, it's fair to say the sector has changed almost beyond recognition in recent years.

Premiumisation

As the percentage of brands entering the soft drinks market with a premium product increase, the sector has embraced occasion-focused purchasing if not shifting wholly from tapping into impulse purchasing.

In part at least it is a response to the healthier lifestyle trend which has seen reduced spend on alcoholic beverages. But it also reflects an increased desire for soft drinks which add to any occasion. Today's consumers are seeking out high-quality drinks that complement an experience, fuelling the premiumisation trend. These drinks are seen as standalone, with 70% of consumers drinking them on their own vs 30% using them as a mixer.

Interestingly, it's the younger consumers who are steering the premiumisation market, with 26% of 18-24-year-olds willing to upgrade to a higher quality soft drink versus 18% of the average consumer .

Of course, the extent to which the cost-of-living crisis impacts upon this shift in the long term, remains to be seen.



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The UK Soft Drinks Industry Levy was first introduced in 2018, aimed at encouraging brands to reformulate their soft drinks or face a tax of 18p+ per litre depending on the amount of sugar it contains per 100ml. This saw many brands diversifying, including a greater percentage of low and no sugar products across their range, but full-sugar soft drinks remained dominant.

To tackle obesity and promote a healthier diet, a nationwide health programme is set to come into force in October 2022. These restrictions will mean full sugar drinks cannot be located in prime aisle spots, such as the end of the aisle or near the checkout or store entrances, and a ban on placements on website homepages. The full programme originally included restrictions on multibuy deals and advertising constraints placed on drinks that are high in fat, sugar and salt. However, this part of the programme has been delayed for a year because of the global economic situation, and to allow the industry more time to prepare ahead of the new rules on advertising.

Coupled with the forthcoming HFSS Tax, sugar costs are up 23% YOY¹, with demand outpacing production due to increased occurrences of wildfires, drought and frost as a result of climate change. The impact will undoubtedly see brands considering price increases, weighing this apparent necessity against the risk of a drop in sales while also considering the use of new formulations and alternative ingredients.

The impact this will have on the soft drinks sector cannot be overstated and the opportunity to tap into the healthier lifestyle trend is unlikely to be missed. So, expect new things from established players, and an influx of new brands tapping into the desire for more low-sugar and low-calorie options.

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The rise of health and well-being in the nation's consciousness has undoubtedly led to rising demand for healthy soft drinks. In fact, the functional wellness drinks market is reported to be worth around £240.2m, and makes up 2.7% of the total soft drinks market.

Price points of these products are seemingly not a factor in consumers' purchasing behaviour, many reportedly being willing to spend up to double the average price of a normal soft drink for one that promises numerous health benefits. These various claims include vitamin enhancements, boosts to energy levels, and strengthened brain function, among many more.

While there are many health drink brands with products focused on boosting energy levels, the more traditional energy drinks sector is not enjoying the same levels of demand. Consumers often associate the market with poor taste and negative health consequences. The perception is also that these drinks are for a younger audience. But that isn't stopping these energy drink brands from repositioning themselves towards the health market, either by swapping ingredients in favour of more natural flavours or reassessing their marketing towards a science-backed health benefit claim.

the functional wellness drinks market is reported to be worth around £240.2m

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"Cayenne helps to boost your metabolism and has also been proven to increase endorphin levels..."

Kerstin Robinson,
Nix & Kix

TENZING is one brand that is shaking up the typical energy drinks market with a healthier alternative that is made purely from plants, is low calorie and sustainable and contains natural caffeine, vitamin C and electrolytes. In their own words, "the traditional energy drinks game sees millions of synthetic, sugar-filled, totally artificial cans consumed each year & billions invested in petrol guzzling marketing and a list of carbon emissions that go on and on".

Huib van Bockel founded TENZING in 2015, following a career in marketing at Red Bull UK. When asked what sets TENZING apart from competitors, Huib claimed that the mainstream energy and soft drinks were all formulated between 33 and over a 100 years ago: "We know so much more about nutrition now. The disadvantage for those brands is that they are basically stuck with recipes from the 80's or even the 20th century. We just approached it in the simplest way. We found a respectable doctor specialised in sports nutrition and said: if we were to create the best possible energising drink now; what ingredients would it have? TENZING Natural Energy was the result of that process."

As well as its original recipe, TENZING Natural Energy is now available in flavours such as 'Raspberry & Yuzu', 'Blackberry & Acai', and 'Pineapple & Passionfruit'.

exante BURST is a low calorie and low sugar multivitamin drink, containing Iron and Vitamin B12 to support energy and focus.



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Zinc to contribute to the maintenance of normal hair, skin and nails, and Manganese, Vitamin C and Choline to support metabolism. Their niche in the market is those who are looking to lose weight and need an alternative to sugary energy drinks.

Meanwhile, Nix & Kix describes itself as an all-natural, low calorie, no added sugar and vegan drink with refreshingly different flavours, but the brand simultaneously crosses two sectors of the soft drink market. It entered the market with the purpose of being a low/no alcohol alternative. But its focus on botanicals and using ingredients with health benefits firmly places it across low/no alcohol and health. They focus on cayenne as an ingredient that adds a real zing to the drink's flavour, but it also has numerous health claims including boosting metabolism and increasing endorphins.

Kerstin Robinson, Co-founder of Nix & Kix, said: "Cayenne helps to boost your metabolism and has also been proven to increase endorphin levels in the body, which is the hormone that makes you feel happy, so cayenne provides you with that feel-good pick-me-up."

Nix & Kix's full range features 'Mango Ginger', 'Blood Orange Tumeric', 'Watermelon Hibiscus', 'Cucumber Mint', and 'Raspberry Rhubarb', all with a Cayenne zing.



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Water & Infused Water Flavours

The canned water market has plenty of potential and that's because of its ability to flip the industry on its head with a truly sustainable and recyclable solution. In fact, canned waters have the highest recycling rate of any drink on the market, while the overall UK recycling rate for cans now stands at 82%.

One of the key players in the canned water industry is CanO Water. Josh White, Ariel Brooker and Perry Fielding were inspired to create the brand after seeing lots of plastic bottles washed up on a beach in Thailand and discovering the beverage can's environmental credentials.

Not only that, but CanO Water took its innovation one step further with a resealable can and tackling the bottled water market head claiming its ring pull top enables drinkers to take bigger sips of water than they would get from a bottle.

Life Water UK is an example of another brand taking the canned water market by storm, claiming it is the UK's first zero plastic, spring water solution. With awards including Best Sustainable Beverage Brand in 2020, and Best CSR & Sustainability Initiative in 2019, Life Water UK has been the drink of choice for numerous partners including the Brit Awards, London Fashion Week and the Natural History Museum.

A household name in the beverage sector for more than 30 years, Radnor Hills entered the canned water market in 2019, investing £3.5m in a new canning line for it's renowned spring water. More recently Radnor Hills has also diversified, introducing a line of infused sparkling water drinks in response to a market demanding a healthy alternative to traditional fizzy drinks.

Radnor Hill's infused water range includes flavours such as 'Mango & Pineapple', 'Raspberry & Black Cherry', 'Lemon & Mint' and 'Blackberry & Pomegranate', and boast all-natural flavours and extracts, and contain zero sugar, calories or sweeteners.

The flavoured and infused water market is estimated to be worth around £13.6 billion and is predicted to £29.1 billion by 2027 . As a

A household name in the beverage sector for more than 30 years, Radnor Hills entered the canned water market in 2019



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result, we can expect to see more brands following in the footsteps of Radnor Hills, and in particular, wider product ranges from established players in the water, health and energy drinks sector.

Dash Water is an example of a challenger brand that has grown significantly in the last five years. While it has entered the infused water market at a fruitful time, its backstory of sustainability and tackling food waste has been a key factor contributing to its success.

In 2020, the company saved 145 tonnes of wonky fruit and veg from going to waste and is aiming to save more than 2,600 tonnes by 2025.

In an interview, Jack Scott, one of the Co-Founders of Dash Water, said: "As well as [tackling] waste, we saw a gap in the market for a great tasting drink that didn't have any of the sweeteners or sugars of normal fizzy drinks. We really wanted to create a healthier alternative to soft drinks, allowing people to have the same excitement in a can, but without the guilt associated with sugar or artificially sweetened drinks.

"Our product starts with freshly sprung spring which we add bubbles to and then infuse real wonky fruit. It contains no sugar sweeteners or calories and comes in a can. All fruit used to infuse our drinks has been rejected by supermarkets because of the way it looks."



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Low/No Alcohol-alternatives

The low/no alcohol-alternative drinks market currently makes up 3.5% of the entire alcohol industry. But, according to the International Wine and Spirits Record (IWSR) Drinks Market Analysis, sales of no/low-alcohol drinks could grow by more than 31% by 2024, particularly in regions such as Germany, Spain and the US. In the UK, the market is predicted to rise at a volume compound annual growth rate of over 6% between now and 2025.

The general shift towards health and wellbeing products during the pandemic was widely reported while statistics from the Office for Health Improvement and Disparities confirmed that the percentage of the population consuming quantities of alcohol that could negatively impact their health rose by 33% between February 2020 and the end of 2021. As a result, more consumers today are either looking to drink in moderation or to cut out alcohol altogether. According to the Mindful Drinking Movement, Club Soda, nearly half of UK adults (49%) make up this part of the market.

Consequently, many premium adult soft drinks brands are providing a high-quality alternative for consumers who don't want to drink, as well as those who are unable to drink. In some cases, these consumers may simply be seeking a product that offers something different to an alcohol brand's own no/low alcohol alternative.



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With limited choices of mixers and a lack of options for quality, occasion-led soft drinks, Punchy Drinks spotted a gap in the market for a premium adult soft drink that could be enjoyed by both alcohol and non-alcohol drinkers.

Founded in 2018, the brand established itself as a no and low alcohol start-up targeting Millennials and Gen Z. After securing £250,000 investment in late 2019, the brand has since adopted the can and increased its focus on the no alcohol category with its three-strong premium soft drinks range.

In a recent interview, discussing the change of packaging from a bottle to a can, Paddy Cavanagh-Butler, Founder of Punchy, said: "We started off with a glass bottle and made the move to cans to meet environmental credentials as glass isn't infinitely recyclable in the same way can is. We also moved from plastic to paper labels which means that the can is fully recyclable and can be put in the bin straight away, unlike most glass bottles."

Another brand that is tapping into the low/no alcohol sector is Nix and Kix.

Julia Kessler, one of the co-founders of Nix and Kix, said: "Whenever we went out with the purpose of not drinking, we ended up drinking, something like, say, white wine spritzer, simply because, for us it was healthier than any of the options available. When you don't want to drink you don't want to have something like cranberry juice, you want something which is still cool and exciting. We were determined to find a non-alcoholic alternative that was healthy but still excited the taste buds."



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Paddy Cavanagh-Butler

Founder of Punchy, a premium adult soft drink company.

Movers and shakers from across the industry share their experience and offer opinion on how we can expect the market to develop, the challenges ahead and what's coming next.

Industry opinion

Punchy's drinks are available in a wide range of sophisticated flavours including 'peach, ginger & chai', 'blood orange, bitters & cardamom', and 'cucumber, yuzu & rosemary', all of which are all-natural, low sugar, low calorie and served in plastic-free packaging.

Q: Why did you decide to enter the premium soft drinks market?

A: "The soft drinks category is still dominated by mass-market commodity brands that contain ingredients that are bad for you and packaged in materials that are bad for the environment. We saw an opportunity to solve these problems with a brand that puts creativity at its core, with flavours and its look and feel, and we communicate with our customers."

Q: What are some of the challenges you think the canned soft drink market will face in the future?

A: "Changing legislation, and this not being consistent across markets, will present a headache for brands with global ambitions. There are also many more brands entering the market and, inevitably, there can only be so many winners and losers. Strap yourself in!"

Q: What do you think is next for the canned soft drink market?

A: I think functionality is the future of soft drinks - there is so much growth in this category, particularly in the US, led by brands like Poppi and Olipop. It will be fascinating to see how this plays out as other brands experiment with things like nootropics and adaptogens."

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Nick McKay

Commercial Director at premium canned soda drinks brand, Square Root.

Industry opinion

The business began with glass bottle drinks, but following a successful funding round via Seedrs, Square Root was able to expand into the canned beverage market which it believed opened new opportunities, enabling the brand to target different demographics as well as locations where glass cannot be sold.

Q: Why did you decide to enter the canned soft drinks market?

A: "There were developments in other categories, such as craft beer, for great tasting products, yet soft drinks had seen little development for some time. Cans open up a significant channel of on-the-go consumers, which is important for us to capture, as well as a growing sector."

Q: How has the canned soft drinks market changed over the last few years, and what are some of the key reasons responsible for this shift?

A: Cans provide start-ups with an affordable solution. We are witnessing this as the packaging format of choice to drive scale.

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Georgie Bolton Carter

Senior Brand Manager of DASH Water.

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The drinks company is helping to reduce food waste by using wonky fruit to infuse its sparkling and soda water, with its range of drinks containing no calories, sugar or sweeteners. Flavours in the range include Raspberries, Peaches, Blackcurrants, Lemons, Cucumbers and Mangoes, as well as fusion flavours, such as 'Rhubarb & Fiery Ginger', 'Limes & Garden Mint', and 'Bitter Orange & Grapefruit'.



Q: What do you think is next for the market?

A: 1. Business as a force for good

"2022 has seen consumers embracing sustainability like never before. Kantar reports 'eco actives', the UK's most environmentally conscious demographic, have rapidly grown, now worth £37bn to the British grocery market[1]. Deloitte reported 1 in 3 consumers have stopped purchasing certain brands due to sustainability concerns about them[2].

"Using business as a force of good has been central since inception, and we are humbled to have officially been recognised for that with a B-Corp accreditation. Not only do we accept fruit and veg 'misfits' others say no to, but we believe there has to be a better way in everything we do. It's not just about the finished product in its good-looking can; it's how we make our drinks; the decisions we make every day; how we treat the people we work with and how we do business. As a leading sustainable drinks brand, we were proud to be one of the only soft drinks served at COP26. Jack and Alex hope to inspire and encourage other business leaders to do the same."

2. Health remains a focus

"As we've adapted to the 'new normal' after Covid-19,

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health has remained at the forefront of consumers' minds. Traditionally the soft drinks market has been saturated by artificially sweetened and sugary beverages, but shopper needs are changing. Consumers are increasingly looking for 'natural' sugar-free options, in fact 71% of consumers are concerned about the amount of sugar in their drinks[3]. And it's not just consumers that are asking for it. As new HFSS regulations come in, retailers are looking to back more non-HFSS brands, giving space to DASH over the likes of Coca Cola. We are now a serious contender to the big names in the traditional soft drinks industry, by tapping into the ethical and savvy customer, bringing a new younger shopper down the aisle."

3. The rise of online shopping

"Google searches for 'grocery delivery' hit an all-time high in lockdown. DASH was able to pivot its focus to online and capitalise on this – spinning the traditional drinks sales model on its head. We are now the leading soft drink brand online, online sales accounting for a staggering 65% of our total business. 30% of sales alone come from the DTC, selling 11,000 cans every day, and of those 50% are done via subscribe and save, where consumers enjoy a monthly delivery of DASH to their door. DASH is doing something totally revolutionary in the world of soft drinks and much bigger companies are starting to take notice."

Q: What are some of the challenges the market will face in the future?

A: "Another looming challenge is the Deposit Return Scheme. We've seen in Australia and Germany that, if executed properly it's a really positive thing for the industry. Whilst this may be a challenge in the short term as we transition into it, in the long term it will be an extremely important and much-needed step for soft drinks."

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Sugar Tax drives continued health focus

While it is difficult to say just how long the consumer's passion for health and well-being will last and whether rising interest during the pandemic will be curbed by the cost-of-living crisis, it is almost certain that the Sugar Tax will see the emergence of more health focused brands, which might otherwise have targeted the traditional soft drinks market. At the same time, many brands will have to change their business model and adapt in response to the tax.

Square Root's Nick McKay commented that while the HFSS Sugar Tax is currently on hold, many brands have already future-proofed their business, but for the smaller or more independent players, it's a different story.

"For brands such as ours, we are looking to add value in the categories that we operate in. That will require us to work harder and out-think more dominant brands that can afford the product reformulations", said Nick McKay.

Paddy Cavanah-Butler from Punchy thinks the impact will be stark: "Brands will have to innovate or get left behind."

Contrary to popular expectation, we are now seeing early indications of the health drinks sector migrating into the on-trade market while the combination of premiumisation and the incoming Sugar Tax, could open further, unexpected opportunities for many brands in the near future.



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Emergence of new brands and product development



Whether the coming years will see larger brands dominating the market by expanding their ranges or a more significant emergence of new brands in the sector is a hot topic for some.

Square Root's Nick McKay thinks suppliers need to do more to support emerging brands, not just the dominant players: "Some of the MOQs (minimum order quantities) are insane and could drive smaller brands into alternative formats, and maybe even consider aluminium alternatives. One of the challenges for the canned soft drinks market is differentiation - how do brands penetrate the category where big brands consider range extension and more flavours from new product development (NPD). True NPD will require innovation solutions, not only from a brand perspective, but also from a sustainability piece. There are many creative solutions that could be applied."

Establishing a premium position in the market will be a key consideration for many brands as younger consumers continue to drive demand for high quality soft drinks, while environmental considerations will inevitably factor highly in new and emerging brands' propositions.

With sustainability so closely linked to consumers' behaviour and purchasing habits, it's likely all segments of the soft drinks market will adopt the can to a greater or lesser degree. Beverage cans are already the world's most recycled packaging format and use significantly less CO2 during the recycling process, providing potential energy and cost efficiencies for the manufacturer and producer, and a format that resonates with the environmentally conscious consumer.

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The Can Makers is the trade body representing drinks can manufacturers in the UK. Members work together to promote the benefits of the drinks can and aid communications between the industry and its customers: the brewers and soft drinks manufacturers and the retailers, as well as the packaging industry, the media and consumers.

The Can Makers was the first organisation in Europe formed to promote drink cans, and is part of the Metal Packaging Manufacturers Association (MPMA), which represents the UK metal packaging industry.

For more information, please visit: www.canmakers.co.uk.