

Suntory Beverage & Food Limited 2015 Strategies for Core Brands in Japan

[Review of 2014]

In the overall Japanese soft drink industry in 2014, demand was estimated slightly lower than in the previous year, reflecting factors such as impact from unseasonable weather in summer and a delayed recovery in consumer sentiment after the consumption tax hike.

Meanwhile, Suntory Beverage & Food Limited (SBF) posted a year-on-year growth in sales volume owing to the nurturing and strengthening of core brands and the cultivation of new demand. This reflects the SBF concept of proposing distinctive, high-quality products that satisfy the preferences and needs of consumers to deliver products that offer an abundant richness to the lives of consumers.

Among its brands, the company is positioning *Suntory Tennensui* (Mineral Water) as a key brand of its business in Japan. SBF recorded a sales volume increase of 11% in contrast with the previous year, reflecting aggressive marketing activities and the development of new brand categories. The unsweetened carbonated water market was driven by brisk demand for *Suntory Minami-Alps Tennensui Sparkling*, *Suntory Minami-Alps Tennensui Sparkling Lemon*, and the flavored water market was propelled by favorable demand for *Suntory Minami-Alps Tennensui & Asa-zumi Orange*, which contains natural ingredients.

The same held true for the *BOSS* brand. Despite estimates that sales in the canned coffee market would slightly decline from the previous year, sales volume of *BOSS* brand canned coffees rose 6% compared with a year earlier owing to aggressively marketing carried out throughout the year. In addition to solid sales of the four core products in the *BOSS* coffee range (*BOSS Rainbow Mountain Blend*, *BOSS Zeitaku Bito*, *BOSS Muto Black*, and *BOSS Café au Lait*), sales were very favorable for *PREMIUM BOSS*, which was released in September 2014. *PREMIUM BOSS* is produced using a fine grain coffee beans created by a new

production method. In addition, SBF strengthened the positioning of *BOSS* by enhancing its sales promotion activities in the growing bottle-shaped canned coffee market.

Furthermore, *Iyemon Tokucha*, a FOSHU (food for specified health uses) drink product, received the support of many consumers given that it offers value both in the form of good flavor and health functions. Only in its second year on the market, demand for *Iyemon Tokucha* has grown extensively, exceeding sales of 12 million cases a year.

Reflecting these and other activities we implemented during the year, we recorded sales volume of 415 million cases, 0% growth from a year earlier, marking our 22nd consecutive year of year-on-year growth, in our business in Japan.

*1 Results for Suntory's soft drink sales volume in Japan

[2015 strategies for brands in Japan]

In 2015, SBF aims to create new demand by taking its proposals of premium and unique products that satisfy the preferences and needs of consumers to the next level. The company aims to further strengthen the nurturing and expansion of products with high added value to accelerate its business growth.

- For core brands, SBF plans to continue to carry out product development that offers new value to consumers and also aims to fortify marketing activities. In particular, the company looks to enhance its brand strength, mainly for (1) *Suntory Tennensui*, (2) *BOSS* canned coffees, and (3) FOSHU drink products.
- SBF aims to change tracks and actively tackle the challenge of developing products in completely new categories.
- The company aims to further strengthen measures to offer small-size format products, including 500ml PET bottles and bottle-shaped cans owing to changes in soft drink intake patterns among consumers.

These activities should facilitate the nurturing and strengthening of SBF brands as well as the creation of novel products through innovations in various fields in addition to technology. This will then set off a positive chain reaction that should further boost brand value.

To carry this out, SBF plans to actively invest in R&D, brand marketing, and

production facilities in the medium-to-long term.

The following table outlines the major details of core brand performance in 2014 and plans for 2015.

(Million cases,)

	2014 results	YoY	2015 plan	YoY
<i>Suntory Tennensui</i>	83.0	+11%	83.7	+2%
<i>BOSS</i>	88.1	+6%	89.7	+3%
<i>Iyemon</i>	52.6	+1%	52.5	+0%
<i>Pepsi</i>	29.9	-2%	30.3	+1%
<i>Suntory Oolong Tea</i>	29.5	-10%	26.3	-11%
<i>GREEN DAKARA</i>	23.6	+21%	26.2	+9%
<i>Orangina</i>	9.5	+6%	10.7	+12%
Total for FOSHU products	24.5	+45%	27.2	+11%
Total soft drink in Japan	415.0	+0%	419.0	+1%

■ (Mineral Water) *Suntory Tennensui*

In 2015, SBF will continue to carry out activities to once again position *Suntory Tennensui* as a core brand in the company's business in Japan. *Suntory Tennensui's* brand image stems from the rich, natural environment from where the water is taken, mainly the Minami-Alps. The company aims to strengthen its marketing activities further by promoting its "cool, clear, delicious taste" and "natural and healthy" characteristics as unique values. SBF plans to further solidify the product's No. 1*2 position in the mineral water market.

SBF also aims to energize the market through the further development of its strong-selling mineral water products (*Suntory Minami-Alps Tennensui*, *Suntory Aso Tennensui*, and *Suntory Okudaisen Tennensui*), and its brisk-selling unsweetened carbonated water products (*Suntory Minami-Alps Tennensui Sparkling* and *Suntory Minami-Alps Tennensui Sparkling Lemon*) and its flavored water product (*Suntory Minami-Alps Tennensui & Asa-zumi Orange*). Moreover, the company plans to generate new demand by rolling out a highly promising product in a new category in 2015 by using its product development expertise.

*2 Intage SRI on the mineral water market in January-December 2014

Cumulative sales amount for the (Mineral Water) *Suntory Tennensui* brand

■ *BOSS*

The company aims to foster and strengthen the *BOSS* brand, including revamping its lineup in February 2015, which now adds *PREMIUM BOSS* to its mainstay. In addition, in March SBF plans to launch *PREMIUM BOSS BLACK*, a new highly promising product that is a spin-off from the brisk selling *PREMIUM BOSS*. Utilizing R&D technologies, the goal is to nurture *PREMIUM BOSS* coffees, which feature the richest, most full-bodied flavor ever achieved in the *BOSS* brand.

SBF plans to continue to implement various measures, including buzzworthy TV commercials and consumer campaigns, and product development and promotions for each sales channel. Furthermore, the company is looking to undertake the development of products with new value to energize the canned coffee market.

■ *Iyemon, Pepsi, Suntory Oolong Tea, GREEN DAKARA, and Orangina*

SBF plans to implement aggressive marketing activities designed to suit the characteristics of each brand.

• *Iyemon*

The company aims to pour more energy into nurturing *Iyemon Tokucha* while simultaneously tackling the enhancement of the *Iyemon* brand, based on the concept of “tea connecting people.”

• *Pepsi*

In 2015, SBF plans to continue to conduct marketing activities based on the slogan “Forever Challenge,” which is garnering great reviews. The company also aims to revamp the *Pepsi* brand by incorporating new concepts.

• *Suntory Oolong Tea*

This is a popular long-selling item that has been on the market for more than 30 years. SBF plans to continue to promote the product as a tea that goes well with meals by leveraging its characteristics as a “healthy tea to drink with meals.”

• *GREEN DAKARA*

The company aims to continue to promote *GREEN DAKARA* for its value as a daily hydration drink, which includes its benefits for avoiding heat stroke and to protect from drying during the winter season. SBF plans to further strengthen the positioning of *GREEN DAKARA Yasashii Mugicha* in

the growing non-caffeine, unsweetened tea market. Aggressive marketing is scheduled, including product renewal and TV commercials for mugicha (barley tea).

- *Orangina*

In March, SBF plans large-scale marketing activities prior to the first launch globally of *Lemongina*, a new highly promising product that was jointly developed with the Orangina Schweppes Group utilizing SBF's R&D knowledge. The company plans to promote the distinctive value of this product alongside *Orangina* in the market for carbonated beverages that contain fruit juice.

- FOSHU and new category products

In 2014, SBF was the overwhelming market leader*³ in terms of sales volume for FOSHU teas, reflecting the popularity of *Iyemon Tokucha*. In 2015 the company once again aims to fully develop this product, which includes running TV commercials and conducting buzzworthy campaigns. Coupled with this, the company plans to revamp *Suntory Black Oolong Tea*, its pioneer FOSHU drink product, in March and fortify marketing activities throughout the year.

In addition, SBF is looking to introduce new FOSHU and develop products in completely new categories to further solidify Suntory's positioning in products with a high added value and create new demand.

*³ Intage SRI on the FOSHU tea market in January-December 2014

Cumulative sales amount for the *Iyemon Tokucha* brand

Retail channels: supermarkets, convenience stores, drugstores

- Further fortification of small-size format products

In response to diversifying consumer needs, SBF aims to enhance measures for small-size format products, for which demand is growing. In May, the company plans to launch a new production line at Suntory Minami Alps Hakushu Water Plant, and start up of the state-of-the-art beverage bottle preform line and a bottle-shaped coffee can production line at Suntory Haruna Plant. The company plans to put a stable supply system in place to ensure consistent source of containers for small-size format products.

Reflecting these and other activities we plan to implement during the year, we aim for sales of 417.4 million cases, a growth of 1% versus a year earlier, in 2015 in our business in Japan.

Reference: Suntory Group's environmental activities

We are promoting corporate activities that target coexistence with water and the natural environment that nurtures water. In addition, in line with our responsibility as a corporation that benefits from nature's gifts, we are promoting environmental management based on Suntory Group's corporate philosophy of "In Harmony with People and Nature." We are carrying out various activities, including creating lighter-weight containers and packaging, and the "Natural Water Sanctuary" project, which focuses on cultivating high-functioning forests to serve as a water resource cultivation forest.

In 2014, we began forestry management training at seven of the group's 17 Natural Water Sanctuaries located nationwide. Around 6,000 employees from the Suntory Group, including SBF, participated. The goal is to promote environmental management carried out by the Suntory Group as a whole by further instilling the common value of "Coexisting with Nature."

In 2014, SBF received a high evaluation from CDP*4 for its activities to "reduce greenhouse gas emissions and alleviate climate change risks" and "disclose climate change information." We qualified for listing on the Climate Disclosure Leadership Index (CDLI) and the Climate Performance Leadership Index (CPLI). We believe we received positive evaluations for our environmental impact reduction activities and environmental management disclosure.

In 2015, SBF, as main player in the Suntory Group, remains committed to actively undertaking measures to reduce its environmental impact. This includes controlling the amount of water used at its plants, reducing the amount of CO₂ emissions along the value chain, creating lighter-weight PET bottles and extremely thin labels, and reducing power consumption by vending machines.

*4 International NPO that provides a system for companies and cities to measure, disclose, manage, and share vital environmental information