

DEPOSIT RETURN SCHEMES (DRS): WHAT'S IN STORE?

What does it mean for
shoppers and retailers?



SUNTORY

BEVERAGE & FOOD GB&I

We're working towards making all of our packaging **100% recyclable by 2025.**



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WHY WE SUPPORT DEPOSIT RETURN SCHEMES

By creating Deposit Return Schemes (DRS), governments want to increase the recycling rate of drinks containers and reduce littering. Introducing such schemes will aim to help change consumer behaviour to encourage higher levels of drinks container recycling. While we currently have poor recycling rates in the UK – approximately four billion plastic bottles in the UK are not recycled every year¹ – the success of Deposit Return Schemes is proven in other countries. For instance in Germany, where a mandatory Deposit Return Scheme has been in place for over three decades, an incredible 98% of recycled plastic, cans and glass bottles are returned.² Having more of our packaging recycled means we can use more recycled materials in our bottles.

The impact of the introduction of Deposit Return Schemes on consumers and by extension, you as retailers, will be significant – this will be one of the biggest changes in shopper behaviour in generations.

Suntory Beverage & Food GB&I (SBF GB&I) is one of the leading soft drinks businesses in the UK, with a portfolio including much-loved brands like *Lucozade Energy*, *Lucozade Alert*, *Lucozade Sport*, *Ribena* and *Orangina*, which together account for 7%³ of the UK soft drinks market. We take our responsibility to our retail partners seriously. We're here to help guide you through the changes and maximise the opportunities that Deposit Return Schemes might create for your business.

Our Growing for Good vision inspires us to use our position in the soft drinks industry to drive positive change. By continuing to do good things for society and the planet we will help create a better, brighter future. This is because commercial and societal good go hand in hand; equally consumers are increasingly looking for and interacting with brands that have robust sustainability credentials. Therefore, this matters to retailers of all sizes.

We're passionate advocates for effective Deposit Return Schemes, which is why we're a founding member of Circularity Scotland – the new scheme 'administrator' for Scotland's DRS, which is the body set up to manage Deposit Return Schemes. DRS will stimulate a circular economy for soft drinks containers, ensuring precious PET (the plastic we use for our bottles) is turned back into bottles and cans back into cans so that food-grade quality packaging can be used again and again. This circularity mindset will ultimately help the whole category to reduce litter and its greenhouse gas emissions. For it to be successful in these aims, interoperability between devolved nations is key. The schemes will also create a quality supply of recycled plastic so that more soft drink brands can follow in Ribena's footsteps and make their drink bottles from 100% recycled material.

While the aims of Deposit Return Schemes tally with our business mission and vision, we know that understanding how they will impact the behaviour of shoppers is vital for our customers.

Right now, we are the only major soft drinks company to have a

"We're a positive driving force behind circularity of our bottles and cans, which when used appropriately play a key role for soft drinks. And we're committed to environmental sustainability because we know it's the right thing to do."



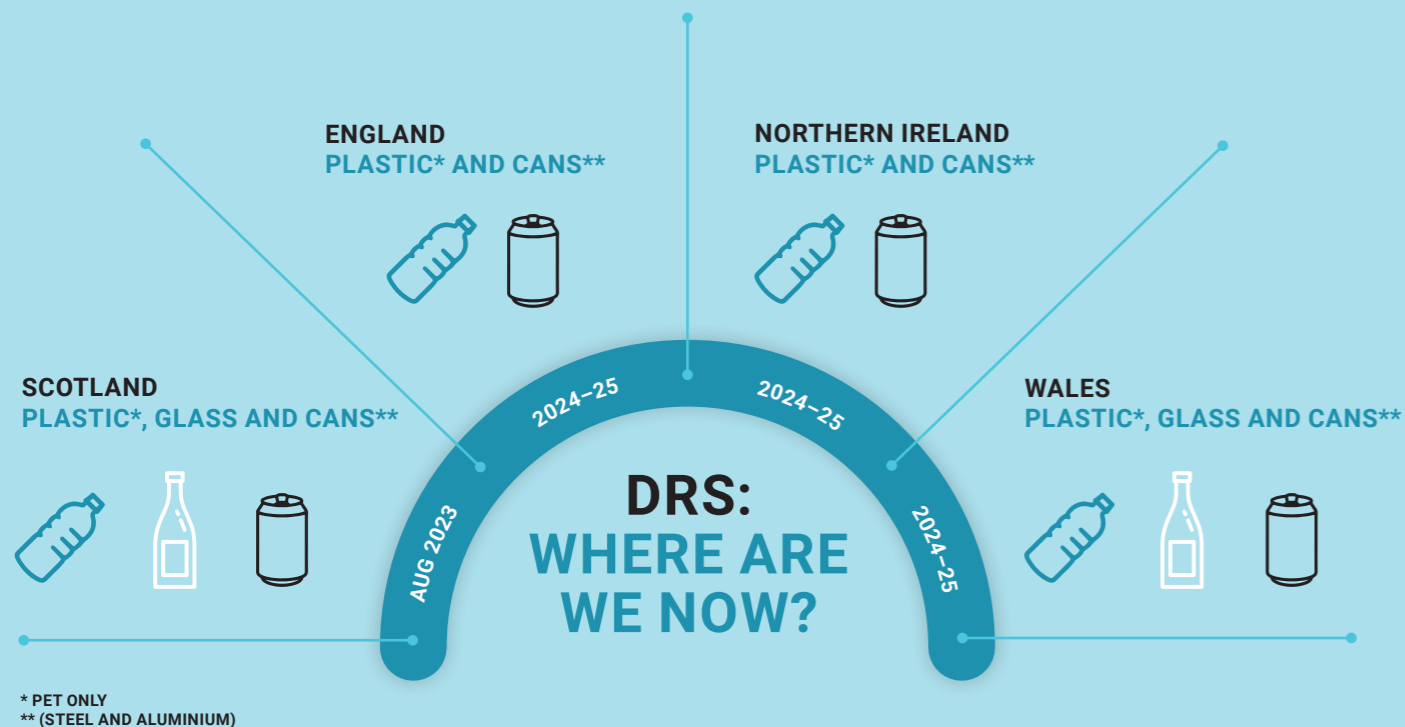
ALPESH MISTRY, SALES DIRECTOR, SBF GB&I

comprehensive understanding of how shoppers are going to react to Deposit Return Schemes due to a major study we recently carried out involving almost 8,000 people. We are sharing some of our findings here.

While there are still many unanswered questions – and much of the practical detail around Deposit Return Schemes and their implementations are subject to change over the coming months and years – we know preparation is key. We will work with you to minimise disruption and maximise value. The scheme administrator appointed to operate the scheme in your country will also be on hand to guide retailers through the process.

This study aims to give you an early steer and reassurance on how your business can embrace and thrive through the introduction of Deposit Return Schemes, and how you can play your part in securing a better future for generations to come.

¹ https://consult.defra.gov.uk/environment/consultation-on-introducing-a-drs/supporting_documents/Impact%20Assessment.pdf
² Germany: Wie funktioniert das deutsche Pfandsystem? | Wissen & Umwelt | DW | 17.11.2021
³ Nielsen GB Total Coverage including Discounters - SOFT DRINKS - Latest 52 Weeks - WE 30 April 2022



WHAT ARE DEPOSIT RETURN SCHEMES?

Deposit Return Schemes help to encourage a circularity mindset for consumers by rewarding recycling. The schemes put a small returnable fee on the cost of an item of packaging which is given back to the consumer when the item is returned to a dedicated return point. Such schemes have seen widespread success across Europe in countries including Germany and the Netherlands where there are now redemption rates as high as 98%.¹

Across all of the nations in the UK, some elements of the planned Deposit Return Schemes will remain consistent. However, there is variation across the different countries regarding the timing of the implementation and what container or material types are likely to be included within the schemes.

The elements that we know are likely to form the basis of each scheme are:

The majority of stores that sell soft drinks will be required to take back used drinks containers. One method used by shops for collection is a reverse vending machine (RVM), which can identify the item being returned and ensure the appropriate amount of money is returned. Alternatively, retailers can choose to accept manual returns.

THE GOVERNMENTS' DRS AIM TO:

1. INCREASE RECYCLING RATES
2. INCREASE THE QUALITY OF RECYCLING TO ENCOURAGE "CLOSED LOOP" RECYCLING I.E. TURN PLASTIC BOTTLES BACK INTO BOTTLES
3. REDUCE LITTER

On the return of each container, the consumer will receive the charge back. This is set at 20p in Scotland while these amounts have yet to be finalised in other nations. A separate and standalone Deposit Return Scheme is also due to go live in the Republic of Ireland which SBF GB&I is actively supporting. The return charge may take the form of a voucher, cash or even an optional donation to charity. The retailer will also receive a Retailer Handling Fee (RHF) for every container they accept and process.

The ambition is that DRS achieves a 90% redemption rate after 3 years or sooner.

OUR SHOPPER RESEARCH

To understand how stores can manage the implementation of a Deposit Return Scheme, SBF GB&I conducted an in-depth analysis of potential consumer behaviour.

THIS RESEARCH ENGAGED ALMOST 8,000 PEOPLE IN TOTAL AND HAD FOUR ELEMENTS.

FIRST RESPONSE

The first pulled together a micro community of 25 people over a two-week period to look at how consumers reacted to a Deposit Return Scheme. The community was made up of 13 women and 12 men, spread across the UK, and split to ensure there was a mix of people aged 18-70, with and without children, from rural and urban locations and with varying buying habits split across "on-the-go" drinks and "drink-at-home" behaviours.

25

IN-STORE BEHAVIOURS

The second used Virtual Reality technology to analyse how people shopped the soft drinks category with the addition of a 20p charge on drinks. More than five and a half thousand people were tracked as part of this research segment.

5,534

PRODUCT PREFERENCES

Third, we pulled together a nationally representative study of more than 2,200 people to look at whether there were preferences for new SKUs that would appeal more to shoppers. This research segment asked shoppers whether there were perceived preferences for paper bottles and cardboard cans, refill stations, refillable cans and cartons and pods, tablets and gels, among other options.

2,267

HOUSEHOLD HABITS

And finally, a community of 104 people were brought together to form a qualitative "Mini Public" study in a DRS world. The eight-week long project combined the learnings from the shopper behaviour with consumption and household habits and introduced socialising with DRS 'rules' in place. This fed into, and refined, an overall model to help predict consumer and shopper behaviour over time.

104

This thorough multi-pronged approach allowed us to forecast how shoppers might behave at every stage of the implementation process through the introduction of DRS. It is thanks to the depth of this methodology that we are able to help predict how shoppers will interact with the schemes, once they are introduced.

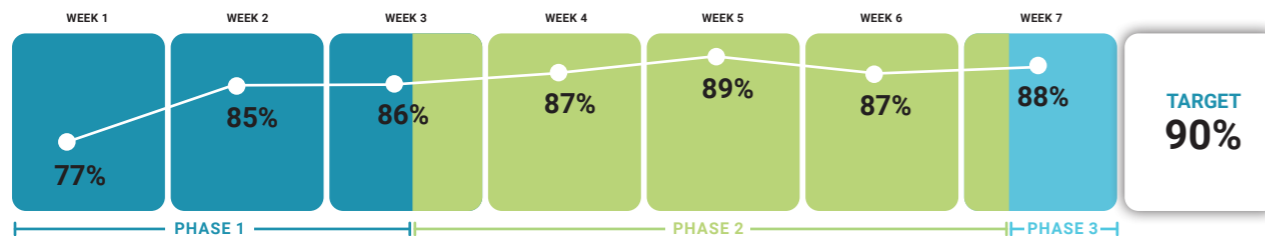
HOW WILL SHOPPERS REACT TO DEPOSIT RETURN SCHEMES?

Our research shows that behaviour can be split into three distinct phases. Each phase is short, but impactful, and it won't take long for shoppers to change their behaviour once they get accustomed to a DRS world.

In a controlled mini-public study of 104 people living with DRS rules, we discovered that people changed their relationship with drinks containers in just seven weeks. Shoppers were incentivised to return their empties and redemption rates hit 88% in this time.

If retailers can get their shopper story, their range and their DRS messaging right at every stage, they can make DRS work for them, as well as the planet. We have broken the phases into 3 parts.

OVERALL REDEMPTION RATES



DELVING DEEPER: SURPRISE, REVIEW AND RESET.

We used Virtual Reality technology to track in-store behaviours of soft drinks shoppers when DRS is introduced. Here is some more detail on each stage.

1. SURPRISE

The first phase lasts around three weeks. Shoppers who aren't already aware of the legislation will be surprised at a potential increase in price at the point of purchase, and that they are being asked to return their container to earn back that increase.

The implementation of DRS will likely prompt consumers to pause and reflect on their purchasing and consumption habits, and how they become more sustainable.

To ensure that shopper surprise doesn't result in lost sales opportunities, and that DRS help to encourage the right behaviours, communication is crucial.

We strongly advise that communication from retailers must start around **six weeks** ahead of a Deposit Return Scheme going live and needs to be crystal clear. Regular shoppers need to be aware that they will see a returnable deposit added onto the price of their favourite soft drinks from a specific date, so that the new pricing doesn't come as a total surprise.

Retailers can help to tell a rounded story by ensuring that their own shop is a return hotspot. They need clear signage around return points, directions around how the process works and reassurance to shoppers that the scheme is to help the planet and not simply to make money from them. And to encourage responsible behaviour, retailers will benefit from a Retailer Handling Fee (RHF) to help manage the collection process whether it is via a machine or through manual collection.

Our research shows us that it is at this stage that shoppers need absolute clarity on the mechanics and aims of the DRS scheme. This ranges from

the purchase, through to storage, collection and redemption.

The questions that specifically need addressing – and that were raised in our research – centre around:

- How exactly is the fee applied to the drinks that I buy (especially for multipacks)?
- How do I transport the empty bottles/cans and where will they go?
- When do I redeem and how long will this take (fear of slow or faulty machines)?
- How do I encourage collection by the whole household (housemates, kids etc)?
- How do I manage the integrity of the containers and where to store them?
- How do I get my deposit back into my 'wallet' and in what form?
- Can I still use my kerbside service?
- What happens to my deposit if I don't redeem the fee?

We strongly believe that industry and governments need to work together to ensure that retailers have satisfactory answers to all of the above.

★ TOP TIP

Start talking to your shoppers at least six weeks ahead of DRS going live about what is coming. Let them know why it is being introduced, how they can interact with it and how it will impact them.

2. REVIEW

The 'Review' phase lasts around three-four weeks. Initially it overlaps with the 'Surprise' phase, but then plays out over time as the full implications of DRS become clearer.

Shoppers will learn new routines and make adaptations. Some consumers will learn how to manage the scheme to maintain their usage. For others, the dynamics of category usage will change as they adapt to new shopping habits.

We know that for most soft drinks consumers, learning is fast. Consumers will quickly learn that regular returns of their drink-at-home formats will avoid too many empties cluttering up their homes. Similarly, shoppers who are on the move will want to return their empty on-the-go containers quickly and conveniently wherever they are, to avoid having to take empties home with them at all.

For those retailers that have primed their customers and made their store into a "destination" for DRS, the 'Review' phase will be much simpler to navigate. Driving a dialogue in advance can help prime shoppers –

navigating them towards potential solutions for them.

Our research shows us that new routines will emerge quickly, so the window of opportunity will be short.

From our qualitative research we can see that some potential outcomes in this stage might be some behavioural shifts, such as:

1. Some will buy more cordial, squash and other dilutes
2. Some will think about refillable options, using no 'disposable' packs at all
3. Some will buy less plastic
4. Some will buy less bottled water

★ TOP TIP

Learning will be fast as consumers don't want to store used containers at home or carry them with them. Ensure you let everyone passing your store know they can come in to return their empties in your store.

3. RESET

Once shoppers have navigated their surprise over Deposit Return Schemes, and reviewed their purchasing behaviours, some revised shopping habits will emerge. The 'Reset' behaviour will consist of both new routines and new choices.

Our research shows that the key to these new routines is disruption, excitement and the optimisation of ranges, and a focus on pack sizes that will see less impact as the return fee is more "hidden".

We envisage that retailers should expect to see new product development and new packaging innovations from manufacturers timed to land around this period, which will help drive shopper interest and ultimately keep them buying from the category. We have already committed to making future portfolio and format changes with DRS in mind to future-proof our much-loved drinks for retailers.

If the 'Surprise' phase (and the lead up to it) is all about education of shoppers and marketing stores as a DRS destination, the 'Review' and 'Reset' phases are real opportunities to capitalise on changing behaviours commercially.

From a retailer's point of view, there is one aim they should bear in mind to keep their shoppers coming back to store. It is about making consumers "happy" about the new systems that are in place; getting their buy-in to the role they are playing in making more sustainable choices. We call these enthusiastically engaged consumers: "Happy Doers".

From the next section it is worth noting that when we surveyed shoppers, almost two thirds (65%) were not happy with their personal sustainable 'efforts', suggesting there is a majority desire to become more sustainable.

The combined "forced effort" of DRS will create more of these "Happy Doers" by the end of the initial seven-week phase following the implementation of DRS. These "Happy Doers" are consumers who say they are content that they are "doing enough" towards becoming more sustainable. DRS will help them introduce another sustainable habit, to help them feel more like they are doing enough. The numbers of "Happy Doers" will increase threefold from Week One to Week Eight, showing the speed of the consumer learning curve and shoppers' appetite to play their part in being more sustainable by interacting with DRS.

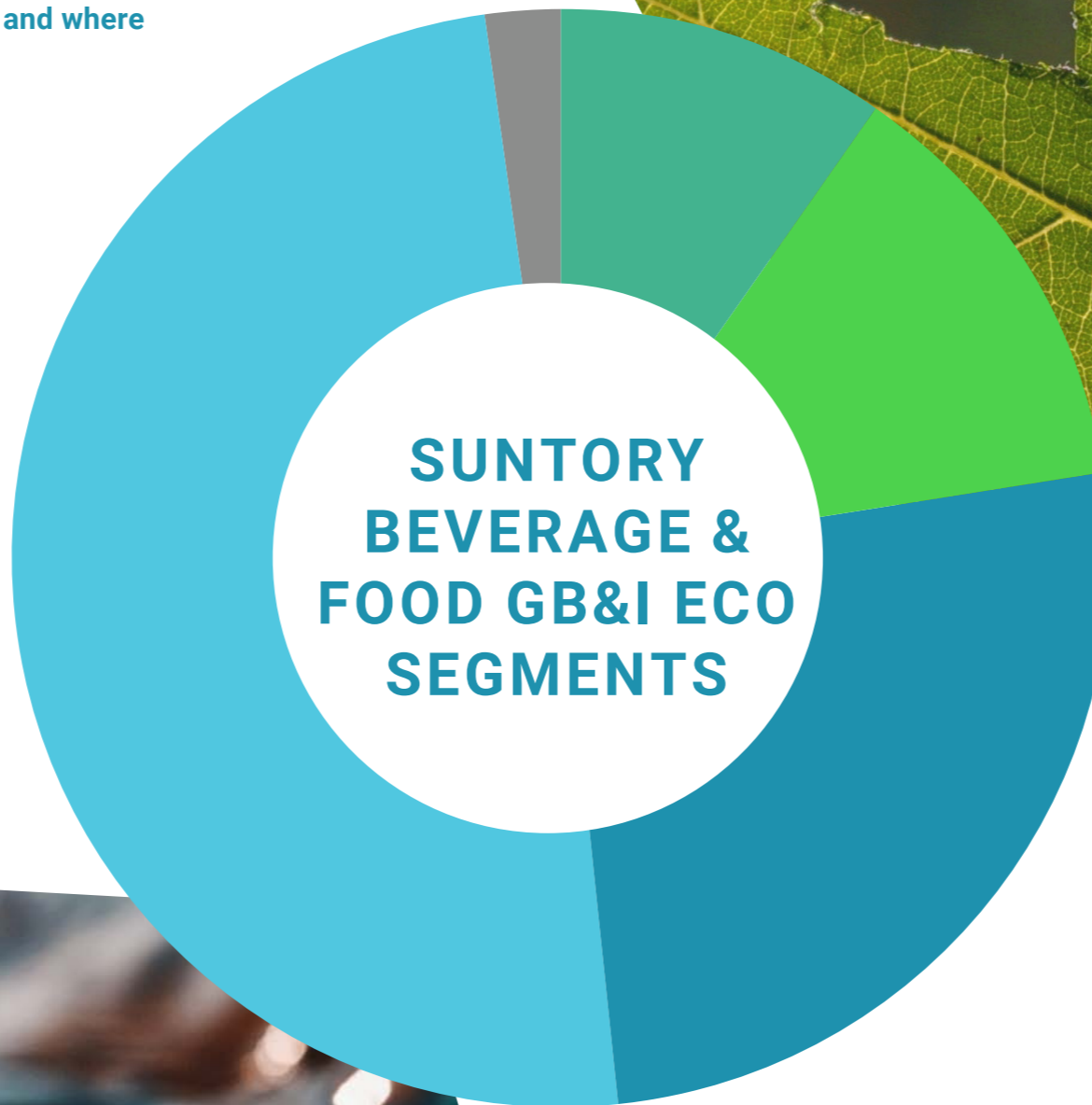
In Week One, 13% of consumers can be identified as "Happy Doers"; by the end of Week Seven, this rises to 36%. DRS is set to change consumer perceptions – and convenience retailers in particular are ideally placed to help shoppers feel happy about using their store as a DRS location.

★ TOP TIP

Win credit with your sustainability-minded shoppers by showing them how they can play their part in DRS in your store.

CREATING A WORLD OF "HAPPY DOERS"

As we know, not all consumers will react in the same way when DRS are implemented. In this section, we show the shopper profiles that consumers can be grouped into. The key aim of DRS, and the work of suppliers and retailers as part of that, is to move as many people as possible into the "Happy Doers" phase. To do this, consumers need to be engaged in DRS and know how they can play their part, and where they can return their used soft drink containers to.



UNHAPPY OR HAPPY NON-DOERS	2%
These people take 'no actions' towards sustainability	
Half (1% of total) of whom feel that they 'could do more'	

UNHAPPY DOERS	50%
These people take 'some actions' towards sustainability but feel they 'could do more'	
They are very likely to collect bottles / cans to get deposit back (62%)	

HAPPY SUPER DOERS	10%
These people take 'many actions' towards sustainability and are content that they are 'doing enough'	
Along with unhappy doer segments, they say 'a drink pack has to be resealable' so that they don't need to drink it all at once (88%)	

UNHAPPY SUPER DOERS	13%
These people take 'many actions' towards sustainability but feel that they 'could do more'	
Most interested in buying alternative packaging (89%) (with unhappy-doers) & to collect bottles / cans to get deposit back (65%)	
Online return is very appealing to current online shoppers (92%)	

HAPPY DOERS	26%
These people take 'some actions' towards sustainability and are content that they are 'doing enough'	
More likely to be male (56%) and buy a product that did not attract a DRS deposit	

DID YOU KNOW?

UNHAPPY DOERS ARE MORE LIKELY TO BE FEMALE
SUPER DOERS HAVE AN OLDER AGE PROFILE

OUR OPINION

MATTHEW DEANE (HEAD OF TRADE MARKETING)

"As the branded soft drinks manufacturer with the third largest market share in the UK it's important that we understand the impact of one of the biggest changes to shopper habits in recent times. It is going to revolutionise the way people shop. Placing an extra value on drinks containers to encourage more responsible behaviour is going to change the whole relationship between drinks manufacturers, shoppers and retailers.

Hopefully this study is something that retailers of all sizes find useful. Our team is on hand to help retailers through the process of implementing DRS while maintaining – and maximising – their soft drink sales."

KEITH ALLEN (COMMERCIAL SUSTAINABILITY LEAD)

"We know three things about shopper behaviour with regard to sustainability.

First, while there has been a small shift in general consumption and purchase behaviour over the past few years, we have not yet seen seismic shifts in actions despite a drive to encourage more sustainable actions.

Second, sustainability is becoming increasingly important for many shoppers. There has been a shift in attitudes, and the topic has risen up the agenda.

And finally, this shows us that the gap between the intent to behave more sustainably and actual actions has not yet been successfully closed.

The introduction of Deposit Return Schemes will do a lot of good work in helping to close that gap. And from our shopper research, detailed in this report, we know that any initial surprise from a DRS scheme will kick-start a tidal wave of positive (accelerated) behaviour change.

From a sustainability point of view, this behaviour change is to be welcomed. Those stores that embrace DRS, and market themselves to their shoppers as a destination shop that delivers against the increasing narrative of sustainability, can win big commercially. We need the various schemes to be as simple and similar as possible across the UK. This will avoid complexity and confusion for retailers and shoppers, so they have every chance of succeeding."



A FINAL WORD: HOW WE THINK DRS SHOULD OPERATE

All four governments across the UK are looking to introduce Deposit Return Schemes. We've been working with them to ensure the schemes introduced deliver on our shared ambitions of a circular economy for soft drinks containers. We have been consistent in our asks over the past few years and have set out our thinking below for retailers.

Suntory Beverage and Food GB&I fully supports the introduction of well-designed Deposit Return Schemes across the UK. We believe they provide the opportunity to increase the collection and recycling rates of drinks containers, increasing the supply of recycle in the UK market and helping us to move towards a truly circular economy for plastic.

To be fully effective, we believe any DRS system should be based around the following points:

- ✓ Ideally, there should be a single, UK-wide DRS scheme. At the very least, if there are to be separate schemes in the different nations, they must be fully interoperable – to ensure consistency, minimise consumer confusion, and tackle potential fraud issues
- ✓ The scheme/s should be 'all-in' – covering both 'on-the-go' and drink-later containers
- ✓ At launch, the schemes should include a minimum of PET bottles and metal cans. There should be the option to add further materials at a later date if the evidence suggests they can be collected via a DRS in a sustainable measure. Any drinks containers not included should be accepted for recycling through kerbside recycling
- ✓ The scheme/s should be run by an industry-led, but independent not-for-profit entity
- ✓ Government should set clear collection and recycling targets, and the Deposit Management Organisation / Scheme Administrator should be empowered to set the deposit level/s needed to achieve this
- ✓ All unredeemed deposits should be kept within the system and reinvested to improve infrastructure and consumer communications, increasing efficiency and effectiveness of the scheme/s further
- ✓ Deposits should not be subject to VAT, as they are not part of the product or a service in itself, but a separate deposit held until redemption. VAT adds unnecessary cost and complexity to the schemes, undermining their viability and potentially increasing prices for consumers.
- ✓ Proposed reforms to Extended Producer Responsibility and local authority collections should be delivered in conjunction with the DRS and implemented at the same time to minimise complexity and consumer confusion

"We are designing our products for circularity and making sure that 100% of our packaging is recyclable by 2025 or sooner. We also want as many of our drinks' containers collected and recycled – and that's why we fully support effective Deposit Return Schemes – for the sake of the planet and future generations."

LIZ NIEBOER, HEAD OF SUSTAINABILITY AND EXTERNAL AFFAIRS

- ✓ DRS is a form of Extended Producer Responsibility, so scheme articles should not be subject to EPR or Packaging Recovery Notes, otherwise producers risk being charged twice for the same material

FURTHER RESOURCES

For more information on the details of DRS, you can visit:

THE BRITISH SOFT DRINKS ASSOCIATION:
<https://www.britishsoftdrinks.com/Position-Statements/deposit-return-scheme>

CIRCULARITY SCOTLAND:
<https://circularityscotland.com/faqs/>

ZEROWASTESCOTLAND:
<https://depositreturnscheme.zerowastescotland.org.uk/faqs>

SUNTORY

BEVERAGE & FOOD GB&I

Through the range and format decisions we're making now, we can assure our retail customers that our favourite drinks are fit for UK deposit return schemes.



Growing for Good

 **RECYCLE!**
AND HELP TURN BOTTLES
BACK INTO BOTTLES

Vitamin B3 helps reduce tiredness.
Lucozade Zero - zero sugar, awesome taste.
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