

# How to win in the better-for-you beverage market

by Alex Smolokoff



**T**hey say you are what you eat, but recent trends indicate it may be time to amend that to include “... and drink.” Today’s health-conscious consumers not only are looking for tasty beverages to quench their thirst, they also are seeking products containing beneficial and functional ingredients.

Data support this shift in consumer priorities. [One study conducted by Kerry](#) showed 58% of consumers reported maintaining a balanced diet was the top way to proactively manage their health, more so even than physical exercise (57%). Kerry reported 60% of U.S. consumers were familiar with the term “clean label,” with 44% saying clean label is important to them. Finally, the report noted 65% of consumers said they seek functional benefits from their food and drinks. The Hartman Group came to similar conclusions based on its [Modern Beverage Culture 2018](#) report that showed 44% of consumers actively want benefits from the products they consume, including providing energy, relaxation, nutrients, digestive help and more.

Knowing what consumers are looking for is important, but knowing whether, and how, those consumers are acting on those desires is just as crucial. And there is plenty of data showing these are not just empty wishes; consumers are changing the ways they shop for beverages.

An FMCG Gurus survey conducted in Q4 2019 showed 36% of respondents consumed a functional water or juice at least once per week, with one-third of those consumers reporting an increase in their consumption of functional beverages over the previous six months. [Future Markets Insights](#) (FMI) data show this is playing out in the grocery aisles. Between 2015 and 2018, based on an assessment of price and demand, fusion beverages, sports/energy drinks, specialty drinks and bottled water saw moderate to strong growth, while beverages such as carbonated soft drinks (CSDs) and dairy milk saw declines. That same data showed convenience is growing in importance, with ready-to-drink (RTD) beverages growing 11.2% during the period.

[Grand View Markets](#) put that kind of growth into perspective; the research firm reported the global functional drinks market to be worth \$US69.88 billion in 2014, growing to \$93.68 billion by the end of 2019. [Research and Markets](#) was even more bullish, projecting the market to reach more than \$200 billion by 2024 with a compound annual growth rate (CAGR) of 8.66% over the next five years.

### Clean label driving energy drinks sector

Energy drinks remain the standout of the functional beverage category, with Euromonitor International data showing a sales increase of 9.5% from 2018 to 2019, and [Research and Markets](#) data showing about 31% of 12- to 17-year-olds, and 34% of 18- to 24-year-olds consume them regularly. While traditional energy drinks remain popular, the growing clean label trend is impacting that segment in exciting and innovative ways.

“It may seem crazy, but even with energy drinks, consumers still look for—and buy—organic, non-GMO, ‘natural’ options, if they’re available,” said Antje Collman, food scientist, Wixon.

## Adaptogenic ingredients like ashwagandha, cordyceps and *Schisandra* are also becoming popular beverage ingredients to promote mental acuity.

Those options include innovative ingredients to “promote internal energy rather than stimulation,” according to Gary Augustine, director of marketing, Van Drunen Farms. This includes replacing synthetic caffeine with natural sources, such as green coffee and tea, as well as energy-boosting natural ingredients like guarana, guayusa, ginseng and yerba mate.

Even the definition of “energy” is changing, with recent focus on mental energy and alertness in addition to physical endurance. As Rikka Cornelia stated on [page 22](#), “cognitive support is one of the fastest-growing subsectors of sports nutrition,” a shift she described as “sports nutrition to active nutrition.”

Ingredients that aid in these areas are referred to as nootropics, with popular options including L-theanine (from green tea), choline, omega-3 fatty acids and creatine. Holly McHugh also noted the long-chain omega-3 docosahexaenoic acid (DHA) is expected to be a rising star in this growing segment. Adaptogenic ingredients like ashwagandha, cordyceps and *Schisandra* are also becoming popular beverage ingredients to promote mental acuity.





## Market opportunities

Emerging segments are also seeing a boon due to consumer preference for healthy, clean label beverages. Plant-based milks, despite having been on store shelves for decades, are seeing a newfound boost as consumers seek beverages that are not just healthier, but more ethical. [A 2019 study](#) by the International Food Information Council (IFIC) found more than 70% of Americans consider plant proteins healthy, and 25% are consuming more than in prior years.

The result: “Innovation in the plant-based beverage space has taken off, as consumers look to alter their diets for health and environmental reasons,” noted Niki Kennedy, senior strategic insights and analytics manager, Glanbia Nutritionals. While ingredients such as soy and almond are hardly new, innovation in this space has seen a rise in plant-based milks sourced from pea, oat, flax and hemp to achieve the taste and texture consumers expect from milk without the underlying health and environmental concerns. That innovation is quickly turning into dollars; domestic sales of plant-based milks grew 61% from 2012 to 2017, [according to Mintel](#), as U.S. sales of dairy milk fell by more than \$1 billion from 2017 to 2018.

Probiotics are increasingly being incorporated in beverages as consumers look for innovative ways to improve their digestive health. In fact, 57% of consumers want to use beverages as a vehicle for digestive health benefits compared to just 23% who prefer pills and tablets, noted John Quilter, vice president and general manager, Kerry. In her article, Cornelia deemed kombucha the “breakout star” of the tea segment, noting the fermented tea is rich in probiotics, and works well with functional botanicals such as ginger, cayenne and turmeric. Other probiotic-rich drinks such as water kefir are also hitting store shelves, as described by Adrienne Smith on [page 46](#).

To highlight the growing popularity of this segment, Informa Market's NEXT Data & Insights team reported kombucha products saw share growth among digestive health products at Natural Products Expos East and West increase a staggering 828% between 2016 and 2018 while other probiotic nondairy drinks share growth increased nearly 36%.

## Healthier ingredients

Today's better-for-you beverages are defined just as much by what they lack as what they contain. High-fructose corn syrup (HFCS), artificial sweeteners and natural cane sugar are falling out of favor as consumers become more aware of their reported association to diabetes, obesity and heart disease.



### Kombucha products

saw share growth among digestive health products at Natural Products Expos East and West **increase a staggering**

**↑828%**

between 2016 and 2018 while other probiotic **nondairy drinks share growth increased nearly 36%.**

*Source: Informa Market's NEXT Data & Insights team*



These concerns open the door for new ingredients and technologies to deliver the taste consumers want without the drawbacks.

Stevia has long been a popular nonnutritive sweetener. Its popularity is driven by a negligible number of calories, highly intense sweetness and glycemic index of zero. Stevia comes in many different extracts, allowing formulators to choose which specific rebaudioside fraction to use depending on the traits desired in the final product, as different extracts can produce off-notes and result in a considerable loss of total volume.

Monk fruit, an extract of the *lo han guo* melon, is another zero-calorie sweetener being increasingly utilized, often paired with stevia to create a perfect balance of sweetness intensity and duration free of off-notes. Sugar alcohols such as erythritol and xylitol, which naturally occur in small amounts in certain fruits and vegetables, are also becoming more popular due to their minimal effect on glycemic index. Allulose, a rare sugar found in wheat and certain fruits including jackfruit, figs and raisins, is growing in popularity as well. With consumers becoming increasingly label-conscious, allulose offers the additional benefit of being exempt from FDA's new "Added Sugars" requirements on the Nutrition Facts label and therefore a clean label option.

### Sustainability in action

Beyond clean labels, consumers desire products that allow for a clean conscience as well. Consumers increasingly have the health of the planet top of mind and are shopping for brands that line up with their values. For example, [a study](#) by the Yale Program on Climate Change Communication and the Earth Day Network found 71% of consumers choose plant-based products because they are concerned about the environment, and 64% want to reduce global warming. Brands are responding in turn.

Coca-Cola is using recycled PET (polyethylene terephthalate) to bottle many of its biggest brands, and many companies, such as Pathwater and RightWater, have ditched plastic altogether. Many brands have also taken to donating portions of proceeds to environment-forward charities and organizations. Supply chain transparency is crucial as well; consumers want to know the farmers and workers throughout the supply chain are working in fair, humane conditions. Brands that can not only ensure this, but prove it to consumers, will have a leg up. Certifications such as Fair Trade can help promote these values directly on packaging.

### Supply chain disruption

Like the rest of the global economy, however, it would be impossible to discuss the beverage market without discussing the impact of the COVID-19 pandemic.

Supply chain disruptions have left even the biggest brands struggling. For example, Coca-Cola experienced COVID-19-related issues, writing in [its 2019 annual report](#), "Our supply chain for nonnutritive sweeteners and certain other ingredients for our products includes suppliers in China. As a result of the outbreak of the novel coronavirus COVID-19, beginning in January 2020, our suppliers in China have experienced some delays in the production and export of these ingredients."