The quest for a better beverage

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Consumers are now much more savvy about staying hydrated… and they want more than empty calories from the beverages they buy. So the beverage market is now about much more than just wetting your whistle. When it comes to the RTD space, "function" is now the operative word.

It may have started with smoothies, but consumers these days expect much more from beverages and are looking for added value, such as digestive support, immune benefits, a boost of energy (both physical and/or mental), support for bone health or maintaining a healthy weight.[1,2] However, the demand for such benefits has also created a highly fragmented market, not to mention the formulation challenges spawned by adding ingredients like antioxidants, prebiotics, probiotics, amino acids or fruit extracts to beverage formulas. Innovation is now expected, and product formulators have their work cut out for them.

Wide world of beverages

At the same time, no one can argue with the booming market. Demand for better beverages is global, as consumers show growing health concerns and lifestyle shifts to address these concerns. According to data from Mordor Intelligence, the global functional beverage market – which includes everything from energy drinks and dairy (including alternative dairy) to coffee, tea and water – is predicted to reach $208.13 billion by 2024, with a compound annual growth rate of 8.66% for the next five years.[3] North America is widely considered the largest market, offering a wide variety of innovative options for a broadening consumer base. But it is not the only market that is thriving: Asia-Pacific (APAC) and Europe are second and third respectively, with strong growth expected as the economies in these regions expand, especially for APAC and the Middle East.[4]

In North America, growth of this segment is expected to be somewhat more moderate, but steady, at about 5% annually.[5] The most common functional beverages here include sports and performance drinks, yogurt and dairy beverages, functional milks, enhanced waters, energy drinks, enhanced fruit drinks and juices, as well as soy beverages and ready-to-drink teas.[6]

Overall, these beverages are widely consumed in North America. In the United States, for example, 80% of adults now consume caffeine beverages daily, according to the North America market forecast from Mordor Intelligence. But that said, the report noted that younger consumers tend to be driving demand for many of these beverages. For example, 40% of consumers aged 30-39 consume energy drinks daily, while energy shots are also popular with these older millennials (age 27-37). The drinks' growing popularity among younger consumers is due to the attitude that energy drinks are now more than just a post-workout strategy, but also a way to provide energy, build lean muscle and improve performance.

The United States is a hotbed of beverage innovation, according to SPINS analysts, with data indicating several high performing segments in 2018, including:

- **Shelf-stable energy and functional beverages:** $3.3 billion (+11.7%)
- **Shelf-stable enhanced waters:** $2.2 billion (+12.8%)
- **Refrigerated kombucha and fermented beverages:** $699.8 million (+15.7%)
- **Refrigerated coconut and plant waters:** $60.7 million (+10.2%)

Source: SPINscan Natural and Specialty Gourmet Channels (proprietary). Conventional Multi-Outlet (powered by IRI): 52 weeks ending April 21, 2019.

Eat, drink and be healthy

Certainly, consumer awareness of beverages' impact on their health is driving this overall shift. Specifically, concerns about added sugar in beverages is one of the key motivators to seek out different beverage options.[7] Digestive health is another expanding consumer interest that is prompting growing appeal for kombucha and other fermented beverages.[8]

And in general, consumers simply want their beverages to be healthier. While this means different things to many people, some of the ways this is evidenced in the market is with demand for dairy-free, alternative protein beverages. Data from research firm Packaged Facts, for example, predicts that alternative dairy drinks could make up 40% of the total dairy/alternative milk beverage market by 2021.[9]

But the category is also changing quickly, giving rise to other trending beverage options. One example is beverages named for the process in which they are made – think cold-brew coffees that are made using room temperature or cold water to enhance the flavor and make the taste more chocolaty and sweet, as opposed to acidic and bitter.[10]

Waters, particularly sparkling waters, are also on the rise as people look for new and unique ways to drink more water. Waters with added carbonation have done well at keeping consumers interested and engaged with strong stories of health, purity and sustainability, while also maintaining a premium perception.[11] Alkaline waters, waters that contain alkaline minerals such as calcium and magnesium, giving them a higher pH than regular drinking water, are thought to help neutralize acids in the body to provide health benefits. While the physiological research on this is not robust, the products are trending.

The challenge for manufacturers

All this innovation, however, also generates plenty of challenges for product formulators. First and perhaps foremost, functional ingredients can make a product more healthful, but they don't always enhance a beverage's taste. Some ingredients, like proteins or high-intensity sweeteners, can create bitter off-notes or earthy flavors that don't meet current consumer expectations. Stability and solubility are also important functions that can impact flavor, color and cloudiness of the beverage, as well as its shelf life.

In addition to all this, the demand for label-friendly ingredients in beverages also presents challenges. Product formulators are left to balance the importance of taste and the naturalness of a product with technical function and product cost. Suppliers and brands are responding by experimenting with combinations of ingredients that bring both function and health to the picture. From probiotics to plant-based proteins, there are now numerous ingredients that have good functional track records, as well as a label-friendly perception in beverage formulation. Pea protein, for example, brings much-desired protein content, as well as a clean flavor to beverages. Fiber ingredients, like chicory root fiber, can reduce sugar content while also adding dietery fiber benefits and prebiotic effects that can work well with dairy drinks and other probiotic-fortified beverages. Custom hydrocolloid blends can also help build back what is lost by reducing sugar in beverages like juices by adding back mouthfeel, stability and taste optimization.

It takes a new mindset among brands and formulators to experiment in this quickly evolving category. With so many ingredient solutions available to provide health benefits for consumers and new ingredients that help deliver them, the sky's the limit. And consumers seem very willing to go along for the ride.

SOURCES:

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