



DRINKS THAT DO MORE:

What's next in
functional beverages?

Beverages have always been ahead of the curve in product innovation, being among the first product categories to reduce sugar and add function. So it follows that these products continue to push the envelope to meet rapidly changing consumer demands for liquid nutrition.

As consumers take more of an active approach to their diets, they have rising expectations for beverages – which are now expected to provide much more than just hydration. The beverage industry is responding with next-generation functional beverages designed to support energy, digestive health, physical performance and cognitive function.

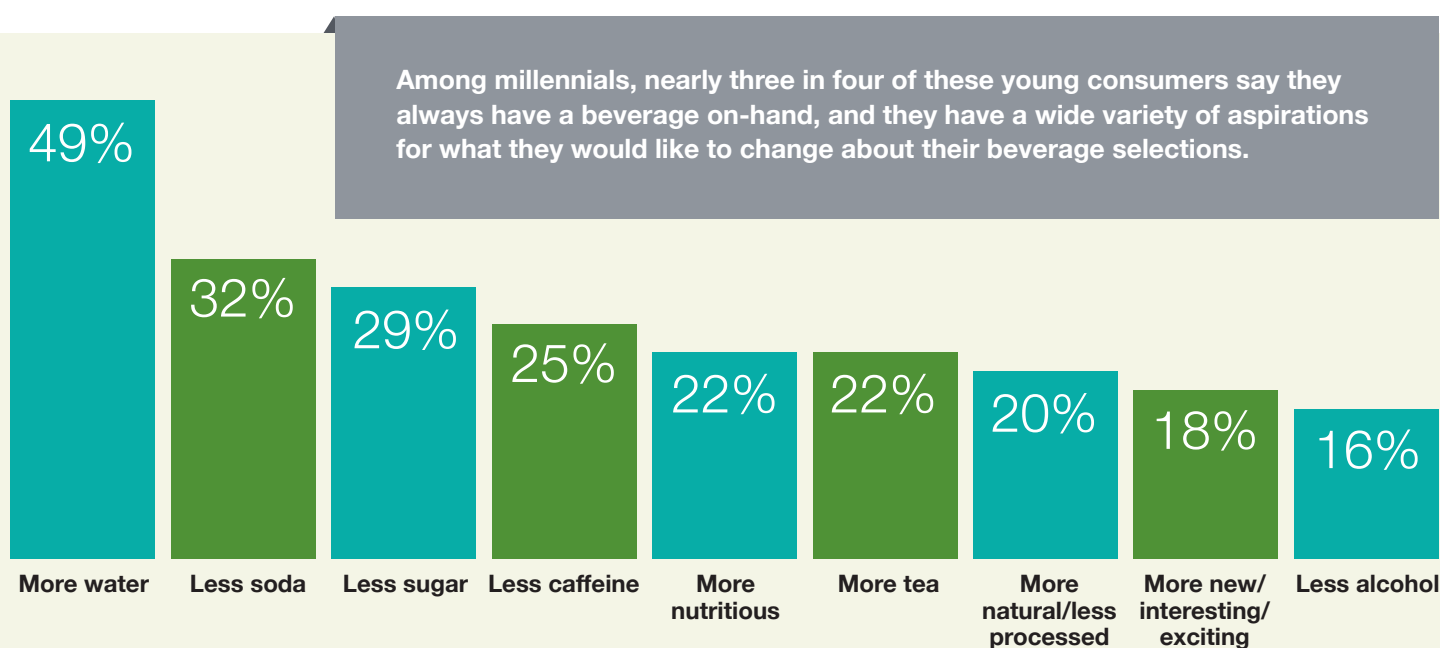
These efforts are paying off, according to data from SPINS, which showed that the category, including refrigerated juices and functional beverages, as well as shelf-stable functional beverages and water, reached \$27.2 billion between 2018 and 2019 on nearly 6% growth.¹ But specific beverage categories offering added function looked even better with growth in the low-double digits.

While these figures bode well for the future of functional beverages, the category is evolving quickly as consumers see what they drink in a new light. This is prompted by a combination of relaxed norms around eating and drinking, coupled with elevated importance of health and wellness in food and beverage choices... all of which have expanded the role of beverages in everyday life.² These attitudinal shifts are most common among younger consumers (primarily millennials) who are more likely than older counterparts (Gen X and baby boomers) to say that beverages are an important part of their daily regimen, noting that they play a role in their health and wellness and are expected to provide nutrients and energy.³

Functional Beverages Showing Double-Digit Growth

	\$ Volume	% Growth
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 water	\$60.7 million	+10.1%

Source: SPINS Functional and Enhanced Beverages Infographic



Source: The Hartman Group. Millennials' Beverage Habits & Aspirations Infographic, "Modern Beverage Culture." April 25, 2019.

This could be a road map for developing trends in the beverage sector in 2020 and beyond, which is sure to include beverages offering label-friendly ingredients and healthier credentials, less alcohol and more function. But it is also interesting to note that while sustainability doesn't necessarily make top beverage trend lists, it does seem to factor in as part of the new normal for beverage product development. While the concept of sustainability encompasses many things to many people, overall these beliefs have become mainstream. More than half of consumers (53%) say that knowing where their products come from is "somewhat" to "very important" and many (43%) expect transparency from manufacturers about their commitment to the environment and sustainable production.⁴

For beverage formulators, this creates opportunity – especially in the alternative dairy category, which is moving beyond the first stage of plant-based dairy beverages to a second stage using more sustainable ingredients such as pulses, grains and nuts. The push toward more sustainable beverages may also create new challenges for beverage brands, such as increased scrutiny of supply chains, water usage and packaging waste.⁵

Beyond sustainability requirements, the beverage category will continue to break ground on new ideas and trends reflecting these changes in consumer attitudes and expectations. Following is an overview of some of the upcoming trends in functional beverage formulation.

Back-to-basics beverages

Beverage sector experts are predicting a return toward ingredients with a proven track record that will resonate with consumers who have become somewhat skeptical of claims and now want more bang for their buck. More basic functional ingredients that are well-known and understood, such as dietary fiber, omega-3s, collagen and essential vitamins and minerals, will likely be additions in beverages touting overall health support.

Sugar and sweetener content will also continue to be a point of focus as consumers continue to limit their sugar intake and check product labels for the amount of sugar. This has already prompted a drop in use of traditional sweeteners, although consumers clearly still want their beverages to taste sweet, according to a report from Mintel on Consumer Trends in Sweeteners.

But this is complex ground for formulators, because consumers are somewhat unclear in their understanding of alternative sweeteners and health. For example, 6 in 10 believe that artificial sweeteners are bad for health, but they also see these sweeteners as a good way to keep their calories in check.⁶

Americans tend to skew negatively overall on most sweetener ingredients, although they do have a neutral perception of many.⁷ Alternative sweeteners with a perceived natural halo, such as stevia-based extracts, monk fruit and coconut sugar, seem to have rising desirability in beverage products and an overall positive perception of better health benefits. The point is that a formulator's choice of sweetener ingredients will continue to be essential for not only the taste it provides, but also its health perception.

More focus on function

The basics may be back, but that does not mean that new, exciting and different won't have a place in the

innovative beverage category. As noted earlier, younger beverage consumers, in particular, want more from their beverages. Those that offer some health benefit or function will be poised for success. Beverages with added protein (especially from plant-based proteins), as well as products with probiotics and prebiotics/fiber, have been gaining momentum and have helped pave the trail for the next level of drinks touting whole foods for meal replacement, botanical ingredients for relaxation and sleep, and fruit ingredients for preventive health.⁸

Consumers also have access to health information like never before... together with the ability to generate personal health data with wearable technology and home wellness kits. This is prompting interest in new beverage ingredients, what they offer and how they might help consumers reach personal diet or fitness goals. Ingredients with scientific support for addressing mood and relaxation, supporting stress response or enhancing sleep, as well as promoting brain health, are expected to gain market share in the coming year.



Alcohol “light”

As consumers move to a more holistic approach to their diets, they are also taking a more mindful position on alcohol consumption. This is opening the door for low- or no-alcohol beers, wines and spirit-based RTD beverages, as well as new mashups of traditional beverages. Coffee and tea, for example, can have a health halo and show noteworthy appeal as better-for-you, flavorful mixers for hot alcohol beverages, as well as inspiring a low-alcohol approach in RTD cold coffees, teas and high-end coffee cocktails.⁹ There are two approaches to enhancing these beverages: One is to create a warming, soothing effect with alcohol in a hot beverage, as in the classic Hot Toddy. The other is a more indulgent approach, which offers light indulgence and enjoyment similar to an Irish Coffee.

Some formulators are extending innovations such as cold brew and creating spiked versions to change things up. In that same vein, fermented drinks like kombucha, which is already a naturally alcoholic beverage, are offering competition to beer with both a solid health perception and a bit of fun. Hard kombucha is now staking a claim as a naturally healthy alcoholic drink, capitalizing on the appeal of more responsible alcohol consumption, although these beverages do tend to steer clear of claims common with traditional kombucha, including their probiotic, antioxidant and B vitamin content.¹⁰

From holistic wellness beverages to responsible indulgence, the functional beverage category is likely to see continued evolution. Brands that can innovate to close the gap between indulgence and health in beverages will be poised for a solid future.

See how Cargill can help you develop innovative new beverages:
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SOURCES:

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⁷ Cargill IngredientTracker 2020 Report.

⁸ Euromonitor Passport. “Beverage innovation and Trendspotting at Natural Products Expo West.” March 2019.

⁹ Euromonitor International. “Hot Drinks: Alcohol, Coffee, and Tea—Blurring the Lines and Mindful Drinking.” March 2019.

¹⁰ Ibid.