2022 Beverage Industry Trends

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The beverage industry, often grouped into food and beverage, is a behemoth in the consumer product goods sector. As a constantly evolving industry, beverage companies are tasked with responding to diversifying palates, innovating new products to drive market growth and remain competitive, and sustaining ever-changing consumer and market demand. The post-pandemic world will continue to bring changing consumer profiles and emerging trends, and it's essential for beverage companies in this space to carefully decide where to invest themselves to better keep up with and meet the needs of their consumers.

TREND #1

Expansion of Functional Beverages

Sustained consumer demand for health and wellness products in the beverage industry has opened the doors for innovation beyond the kombucha frenzy. Years ago, the idea of a beverage being more than just "empty calories" seemed farfetched. Most consumers were only pushing for drinks without excess sugar and calories; however, the market has shifted toward a demand for functional beverages that are not only guilt-free but have added nutritional and health benefits.

Particularly in the wake of the COVID-19 pandemic, consumers are more concerned with their health than ever before. This increased concern for immunity has pushed consumers toward a new awareness of what health and wellness truly means. This concern for health has driven the functional beverage trend, including probiotic and prebiotics, energy and sports drinks, and meal replacers, among others,

The global probiotic drinks market size is expected to reach $25.2 billion by 2026, rising at a market growth of 9.5% CAGR during the forecast period.
SOURCE

Companies in this space have a unique opportunity to target an audience that is already seeking out their products and is aware of their benefits. The consumers that were once pigeonholed into kombucha as their only functional beverage option are now being exposed to new choices, creating a huge space for companies to tap into. Companies like Poppi and Olipop, which offer prebiotic and probiotic sodas, have jumped into this space and are making waves among groups looking for tasty soda alternatives that differ from a classic kombucha flavor palate.

As consumers increasingly prioritize their health and wellness, functional beverages will continue to be relevant in the industry.

TREND #2

Blurring of Beverage Industry Lines

The traditional walls of category within the beverage industry are coming down as mature companies continue to seek growth in the market. Traditional beverage companies are moving into the alcoholic beverage space, alcohol companies are exploring non-alcoholic drink options, food companies are moving into the beverage space, and so on.

We see this "blurring" of industry lines as a result of increased competition in the market and the need to be innovative in order to retain a competitive advantage in the industry. Take, for example, beverage giant PepsiCo – in summer 2021, it announced its plans for a joint venture with Boston Beer to produce an alcoholic version of Mountain Dew called "Hard Mtn Dew." PepsiCo and Boston Beer – two recognized leaders in the non-alcohol and alcohol industry, respectively – have now established a partnership to drive further innovation to address the changing tastes of consumers. PepsiCo is also now better positioned to compete with The Coca-Cola

Company, who entered the alcoholic beverage scene in summer 2020 with its launch of the Topo Chico Hard Seltzer, and the company has plans to explore additional opportunities in this alcoholic beverage space in the future to provide more choices for their consumers.

Monster Energy, best known for its namesake energy drinks, has moved into the beer and hard seltzer industry with its recent purchase of CANarchy Craft Brewery Collective. The acquisition was a result of Monster Energy's desire to develop more beverages in both the non-alcoholic and alcoholic market – another example of how this blurring of industry lines is spurring growth and innovation in this space.

We're also seeing food companies step into the beverage market, such as Chobani, best known for its Greek yogurt. Entering the ultrafiltered milk segment with lactose-free Chobani Ultra-Filtered Milk as well as the half and half segment with Chobani Half & Half, the company aims to expand its footprint in the refrigerated beverage aisle. Noting its consumers' satisfaction with its coffee creamer and an uptick in sales for both product segments, Chobani recognized the opportunity to expand its presence beyond Greek yogurt and be a competitive entrant in the beverage space.

"Chobani is experiencing rapid growth across many of its newer product lines, including oat milk and cold brew coffee, while continuing to post 17% year-over-year growth in yogurt — far outpacing the 6% to 7% increase for the category as a whole."

- Peter McGuinness, Chobani's president and chief operating officer.

TREND #3

The Sparkling Water Craze Continues

Sparkling water has exploded in the beverage industry in the last couple of years and shows no signs of slowing down. As a result of consumers' increased awareness of their health, sparkling water has quickly become a preferred guilt-free option.

There are strong front runners in the market such as La Croix, Spindrift, Waterloo, and Bubly, yet there is little differentiation between products. This has forced companies to tap into the different sectors of sparkling water and figure out what their unique factor will be. A variation in flavors, minerals, health benefits, and caffeine additives are some of the most popular ways companies are attempting to diversify themselves from competition. Additionally, brands like Spindrift are trying to differentiate themselves by using real fruit versus chemical add-ins for their flavoring.

The sparkling water trend may be a result of consumers wanting a healthy soda alternative, but it has also become a great option for non-alcohol drinkers. The portability of the aluminum can, carbonation, and flavor variation provides consumers with an alternative option in social settings.

Sparkling water is not new to the beverage industry – it has been a prominent player for years now. What we have seen trending, however, is the demand for innovation in this area. Due to market popularity, comparable products are constantly emerging, forcing companies to think two steps ahead of competitors.

"The global seltzer market was at $29.7 billion in 2020, growing at a CAGR of 12.6% through 2028 to a market size of more than $75 billion.

SOURCE

TREND #4

Spiked Seltzers and Ready-to-Drink Products Take over the Alcohol Market

Alcoholic beverages make up a significant portion of the beverage industry, and spiked seltzers are a major component. The hype around spiked seltzers comes from a culmination of many trends. In terms of meeting market demand for healthier options, spiked seltzers maintain their competitive advantage by being low calorie, low carb, and gluten-free. Not only do these qualities serve from a health standpoint, but those claims have become excellent marketing strategies and are extremely attractive to today's consumers.

Along with the advertised health benefits, spiked seltzers fill a unique gap in the market: the space between beer and mixed drinks. Spiked seltzers have created an optimal product for many consumers. For those who aren't beer lovers and don't want a mixed drink, spiked seltzers have become the perfect option. They allow for the convenience of a beer, yet they offer a completely different flavor pallet. Most seltzers come in multi-packs that are easy to transport, ready-to-drink, and recyclable, making them incredibly versatile as well.

Spiked seltzers' takeover of the alcohol industry has also opened the doors for other read-to-drink products to shine as well. Alcohol companies have jumped on the bandwagon and joined the flourishing ready-to-drink sector. Canned cocktails, for example, have shown major growth in the market by positioning themselves between cocktails and seltzers. They offer the convenience of seltzer with the elevated flavors of a cocktail, filling a market gap and providing yet another beverage option.

The global ready-to-drink market is expected to grow by 192.10 billion during 2022-2026, progressing at a CAGR of 7.06%.
SOURCE

The consumer demand for ready-to-drink options comes from the desire for convenience. People want more options with less hassle. Adding alcohol to beverages like seltzer, coffee, and kombucha is a creative way to provide consumers with beverages that accomplish more than one thing. Spiked coffee creates a two-for-one deal, which is attractive to consumers who are strategic about when they choose to indulge. Hard kombucha provides gut immunity benefits with alcohol, a convenient combination for your health concerns or gut-sensitive consumers. Hard kombucha also has a unique position in the market because it appeals to consumers interested in seltzers and flavored beverages but has a flavor pallet that appeals to craft beer drinkers.

Consumers' demand for innovative alcohol beverages that satisfy diversifying preferences has created a marketplace where ready-to-drink options can and will continue to thrive.

TREND #5

Sustainability Guides the Beverage Industry

Not only are consumers wanting products that are better for their health, but they are demanding companies make strides to be better for the environment as well. Health and sustainability trends root from growing awareness amongst consumers who are questioning companies about their products and production processes and how they align with their desire for sustainability.

Increased consumer awareness has pushed companies to follow suit and become more conscious of their pollution contributions, from sourcing to production to packaging. Plastic pollution is a leading environmental concern, and many people look toward consumer goods products as the main contributor. The degree of tolerance for single-use plastic, excess packaging, and other wasteful practices has greatly reduced in recent years, forcing beverage companies to keep up with sustainability efforts.

Though the demand for sustainability is increasing, it has proved quite challenging for many companies to maintain. Across all levels of the supply chain, some practices are not environmentally friendly, and changing those can be timely and expensive. The changes made on the back end of production may be slower, so it's important that companies are making quick and efficient sustainability choices to prove their commitment to long-term goals.

More than 21,000 U.S. households reported products that are environmentally friendly and use recycled packaging resonated most strongly with consumers overall.
SOURCE

Consumers are more aware and selective than ever when it comes to the brand that they're willing to support. A key factor in the decision-making process is ensuring company morals align with personal ones, and for many, sustainability is non-negotiable.

TREND #6

Companies Battle to Maintain Margins

Beverage companies are not immune to the significant increases in cost inputs being experienced by the CPG industry. Expenses for ingredients, manufacturing, packaging, transportation, and more continue to rise. Shortages and supply chain disruptions sparked by the COVD-19 pandemic continue to be a challenge for companies to recover from across the globe. This, inevitably, results in tough decisions to take price with to try to maintain gross margins and improve corporate performance.

In many ways, giant beverage companies like PepsiCo and Nestle were always fighting for the lowest priced product– it was a strategy to drive revenue and growth as well as gain a loyal brand following. The lower the product price, though, the harder it is to turn a profit, but previously, these brands were able to do so because of their strategic approach to stand out in a competitive market. However, the industry is now experiencing the biggest price increase yet, simultaneously battling cost surges and inflation, as well as trying to remain innovative and sustainable to meet consumer needs.

Recent data indicates Coca-Cola's bottled water volume was up 3.4% on a 10.9% average price hike, while PepsiCo waters accelerated an 11% volume gain with an average price increase of 8.4% for 4 weeks.
SOURCE

Beverage companies are having to take aggressive approaches to these price increases. Recent data, for example, shows both The Coca-Cola Company and PepsiCo raised their prices of bottled water (10.9% and 8.4%, respectively), yet they're still seeing an increase in volume (3.4% and 11%, respectively). If larger companies, like these two beverage giants, are being forced to implement price increases, so, too, are the smaller, less economically efficient ones.

As inflationary costs rise, companies – small and large – are now passing on the higher costs to the consumers, many of whom are still struggling with economic hardships as a result of the COVID-19 pandemic.

Conclusion

Consumers are more thoughtful, more aware, and more particular about what they drink than ever before. The COVID-19 pandemic has driven consumer demand for seeking out health, wellness, and convenience in all aspects of their lives. We're now seeing this trend translate into the beverage industry, as consumers are increasingly looking for healthier, cleaner, and more beneficial beverages.

The beverage industry is also seeing a blurring of lines, as traditional beverage companies make strategic moves to enter the alcoholic beverage space and food companies explore products in the beverage space – all efforts to drive innovation and remain relevant and competitive in an ever-changing and expanding industry. As the sparkling water craze continues, beverage companies are searching for ways to differentiate themselves amongst competitors. Spiked seltzers continue to dominate the alcoholic beverage market, too, as consumers look for alternatives to beer or mixed drinks. This is paving the way for other ready-to-drink beverages, as well, particularly as consumers continue to prioritize convenience in their purchasing decisions.

We're seeing consumers not only prioritize health, wellness, and convenience in their purchasing decisions, but sustainability, too. They expect brands to be more conscious of their environmental footprint and find ways to incorporate sustainability in all aspects, from manufacturing to packaging. The demand for sustainable practices is one that must be met in the eyes of the consumer, but it also presents another challenge for companies already battling rising inflation and increased cost inputs.

As we move further into 2022, we expect these trends, among others, to drive even further growth and innovation within the beverage industry.