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2023 BEVERAGE INDUSTRY TRENDS

The beverage industry is in a state of constant evolution to meet rapidly changing consumer needs. No longer can manufacturers rely solely on taste or a well-known legacy brand on the bottle. These shifts in consumer preference and increased competition from trendy startup brands have caused even the most established beverage companies to reassess their portfolio and strategy to better align with new market realities.

As 2023 unfolds, the next wave of industry trends is taking hold and reshaping established norms about the beverage industry as outlined below:

CONSCIOUS CONSUMPTION IS SHAPING THE BEVERAGE INDUSTRY

COMPANIES INVESTING IN BRAND BUILDING ARE LEADING THE PACK

RTD EXPERIENCING EXPLOSIVE GROWTH IN AND BEYOND COCKTAILS

FUNCTIONAL BEVERAGES CONTINUE TO ADDRESS SPECIFIC CONSUMER NEEDS

CONSCIOUS CONSUMPTION IS SHAPING THE BEVERAGE INDUSTRY

Conscious consumption, which refers to the growing trend of consumers making purchasing decisions based on their personal values, continues to accelerate changes in the beverage industry. Consumers are seeking information about the nature of a product they buy and what was involved to create it, at every step in the value chain. Because consumers seek out brands that align with their ethical and environmental values, beverage companies are continuously adopting more sustainable and responsible practices.

Numerous initiatives have resulted across the industry. Some of the most common include sustainable packaging, responsible and ethical sourcing, greater transparency, and carbon footprint reduction.

While sustainable packaging is not new, companies are going beyond reducing packaging material to transform the product. For example, JUST Water is a sustainable water company that uses fully biodegradable packaging made from plant materials such as sugarcane and bamboo. And Carlsberg Group, the global beer company, has developed a biodegradable beer bottle made from sustainably sourced wood fibers.

85% of consumers have started to shift their beverage purchasing behaviors toward more sustainable options.
SOURCE

Responsible and ethical sourcing continues to be top of mind for consumers, and companies are going beyond fair-trade certification to drive it. Beverage companies are mimicking food companies in direct trade agreements where companies work directly with the raw materials providers in their environment to promote sustainable agriculture. For example, Nespresso has developed partnerships with farmers in various countries, including Colombia, Costa Rica, and Ethiopia, to provide training and resources to help farmers implement sustainable agricultural practices. These range from using natural fertilizers to practicing water conservation. Nespresso also pays a premium for sustainably sourced coffee beans, which incentivizes farmers to adopt these practices.

Companies are also continuing to innovate in their carbon emission reduction efforts beyond purchasing carbon credits. Announced in 2018, Heineken continues to make headway on their “Drop the C” program, aiming to reduce carbon emissions by 30% by 2030. To support the goal, Heineken has built wind turbines and solar panels at several breweries and has signed long-term agreements to buy renewable energy. Another example is ABInBev, which has partnered with Permian Global, a UK-based forestry management company, to invest in the restoration and conservation of forests in areas where the company sources agricultural commodities, such as barley and hops. The reforestation efforts are focused on degraded and deforested lands, with the goal of restoring biodiversity and sequestering carbon.

Companies are putting all these actions together in their operations and their marketing messages for consumers. This is in line with the need to also comply with recent guidelines from the FDA around the labeling of products deemed “healthy.” The new set of definitions is more comprehensive and multifaceted than in the past and is driving label or claims changes for many beverage companies that coincide with an opportunity to revisit how they message their sustainable operations.

2 COMPANIES INVESTING IN BRAND BUILDING ARE LEADING THE PACK

Beverage companies are increasingly re-focusing their time and energy on brand building in 2023. Several highly successful companies like Liquid Death, Prime Hydration, and Black Rifle Coffee Company have demonstrated tremendous growth on the back of hyper-focused brand building.

Perhaps the best example of growth through a brand in the last several years in the beverage industry has been Liquid Death. Initially, the water product gained significant attention due to its unique branding and packaging. The cans feature a skull logo and taglines such as "murder your thirst" and "death to plastic,” and the packaging design helped Liquid Death stand out from more traditional bottled water brands and appeal to a younger, more edgy demographic.

Liquid Death paired this with an equally aggressive and targeted marketing approach. The company has focused heavily on social media, leveraging Instagram and TikTok to connect with consumers and promote its brand. They have gone viral numerous times with edgy brand campaigns and other digital marketing tactics. Behind it is a core product that is plain water; however, they’re tapping into the same personal self-image vein that has proven highly successful with Monster Energy and Red Bull.

While influencer marketing isn’t new to the industry, several new beverage brands have recently launched where the influencer and the brand are one and the same. Instead of paying the influencer to promote the brand to their followers, increasingly, these brands are co-owned by influencers who will pour a greater number of resources and time into demand generation for the brand.

For example, the beverage Prime Hydration is a sports drink co-founded by Logan Paul and KSI, two popular online influencers. It has grown to become one of the fastest-growing CP products on the market due to its social media presence and advertising within every element of the influencer’s published life. Instead of having to pay an influencer like Paul for a marketing event, he’s constantly advertising the product to his followers throughout every element of his online presence. And they are not alone; MrBeast, a top YouTuber, has been rumored to be launching his own beverage in either the hydration or energy space.

As this trend continues, the space will grow even more competitive. This also poses an interesting challenge for venture capital and private equity firms that traditionally help drive a beverage company's growth. While VC and PE companies traditionally help fund the early growth of companies and leverage their connections to help drive demand, an influencer-backed beverage company can do much of the same, often to a greater extent, without the need for external backing.

Overall, the beverage industry has been surging with new products that appeal to customers because of the individual behind the brand, and this will drive brand building within this industry.

In just over a year, Prime Hydration was already estimated to have about 1% of the market share in ready-to-drink beverages.

SOURCE

3 RTD EXPERIENCING EXPLOSIVE GROWTH IN AND BEYOND COCKTAILS

The ready-to-drink (RTD) beverage market continues to build momentum more than five years since the trend was first spotted in the industry. Of late, ready-to-drink has expanded far beyond its origins in mixed cocktail drinks into nearly every category within the beverage industry. The volume of RTD cocktails alone has increased by more than 226% over the last five years, making it one of the fastest-growing segments in the space. The convenience factor for consumers is a proven winner, and the opportunity to create easier consumption has been too big for beverage companies to ignore.

The broadest portfolio of RTD drinks continues to belong to the alcohol space, where it has expanded far beyond basic mixed drinks into high-end and other complex alcoholic beverages. Numerous companies have jumped on the trend, including recent launches from Jim Beam, ABinBev, Bacardi, and even SunnyD launching RTD vodka seltzers. The RTD alcohol market has demonstrated that consumers are also willing to pay more for high-quality products made with premium ingredients that offer a unique flavor profile. Along with this, companies are also looking to increase volume in the ready-to-serve category where the bottles are larger than a single serving, but there are still regulatory challenges for distribution in several states.

Many new players have also entered the market in the low alcohol by volume (ABV) space, often launching products made with vermouth, sherry, or other fortified wines. There's been significant growth of non-core alcoholic products, such as hard kombucha, hard yerba mate, and other products promising a new slant compared to traditional higher ABV beer and alcohol.

There's also a growing trend of non-alcoholic RTD mixed drinks promoting healthier living without giving up the taste or function. For example, the brand Mocktails continues to win awards with its non-boozy alternative RTD drinks. In addition, Molson Coors recently launched their Roxie line exclusively online, a channel rarely accessible to beer companies. Outside of alcohol, major growth is also occurring in other RTD beverage categories including craft sodas, energy drinks, sports drinks, tea, coffee, and juice.

One of the categories with the most RTD growth in 2022 was coffee, estimated to grow at 8.3% CAGR for 2022 to 2030. Several brands created coffee blended with different ingredients that were traditionally considered separate, and other more traditional brands made major investments in this space, including Danone's $65 million investment in a coffee and creamer plant in the U.S., and Nestle's $43 million investment in a RTD manufacturing operation.

Across all categories, RTD is expanding – and doing so across all channels. The convenience factor has become too much for brands to ignore, and now the lines between traditional and RTD are beginning to blur. We expect this will continue well beyond 2023.

FUNCTIONAL BEVERAGES CONTINUE TO ADDRESS SPECIFIC CONSUMER NEEDS

Functional beverages are drinks that have been formulated with specific ingredients to provide health benefits beyond just hydration or flavor. These drinks often contain natural ingredients like vitamins, minerals, herbs, and antioxidants that have been shown to promote wellness or improve physical or mental performance. In recent years, functional beverages have emerged in several beverage categories including coffees, teas, smoothies, juices, waters, wellness shots, and more.

Functional wellness beverages grew by over 29% in 2022.
SOURCE

Consumers are increasingly interested in functional beverages because they see them as a convenient and easy way to support their health and wellness goals. The industry has responded by introducing numerous new use cases and flavor profiles to address pain points that consumers have in their daily lives. Today, beverages offer to alleviate acute issues as well as more holistic consumer goals.

Hydration has been a major functional category of focus in 2023. Companies have expanded far beyond water plus products and expanded towards holistic health. In energy, companies are increasingly introducing energy products with no caffeine, offering alternative ingredients to offer similar energy effects without the downsides typically associated with caffeine. For example, mushroom-based drinks have been making significant headway and several new products have debuted over the last year.

Another functional beverage category with significant growth is adaptogenic products that promote calmness. Companies like Recess have made headway in introducing these products as an alternative for alcohol. These products and the more regulated adjacent category of CBD- and THC-infused drinks have continued steady growth through 2022, and several companies have planned launches in 2023 to expand the category.

Immunity drinks have unsurprisingly continued to dramatically grow in 2023 with launches from several major beverage companies. These offer immunity support infused with the drink versus added-in powders or other products that supplement or require a drink to mix it. Considering the recency of the pandemic, consumers continue to lean into promoting healthy choices that boost their immune functioning and prevent illness.

Regardless of category, functional drinks can provide a quick and easy way to get extra nutrients, energy, or other functional benefits without having to consume additional supplements or make major changes to their diet. As a result, functional beverages have become a popular choice for consumers who are looking for healthy and convenient options to support their busy lifestyles, and it’s likely that this trend will continue far beyond 2023.

CONCLUSION

The beverage industry is rapidly transforming to better serve consumers and seize the opportunities these trends can afford. Consumers care more today than ever before about what their product is made of and the business and ethical practices around its creation. Companies are seizing opportunities in brand building to create an experience around their product to an extent previously unseen in beverage. Opportunities in convenience and in the functional beverage space continue to force companies to challenge norms about what their portfolio could offer to address latent consumer needs. At the end of the day, alignment between product offering and consumer needs has never been more important, and this will only continue to grow in importance as the year unfolds.

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