A TOPICAL TREND REPORT FROM

THE BEVERAGE LANDSCAPE
WHAT THE CURRENT BEVERAGE MARKET MEANS FOR INNOVATION
“Coca-Cola and Pepsi have introduced smaller formats and are slowly launching new naturally-sweetened products. They are also expanding their innovation in categories like energy/sports drinks and packaged coffee beverages, the only two categories showing steady growth.”

CHANGING TASTES
Carbonated soda sales are down – spurring a rush of innovation and customization throughout the industry

The American soda market isn’t what it used to be. For nearly the past decade, carbonated soda sales have been declining, both for full-calorie and diet soda. In recent years the decline has only accelerated, and is expected to continue through this year, while some estimates have reported declines across all non-alcoholic beverages.

But there’s another side to the story -- while carbonated soft drink sales are down, innovation is exploding throughout the industry. Operators of every size are handcrafting new non-alcoholic beverages, from house-made sodas to functional juices, sometimes taking inspiration from the mixology movement, where it's cool to take drinks seriously (and charge a premium for the resulting product). Artisanal producers are popping up across the country, reviving old-fashioned favorites or seeking out the most unusual ingredients to craft into the next hit beverage - there are already waters made from artichokes, birch trees, and barley on the market, all attempting to dethrone coconut water.

The new beverage landscape has also spurred innovation within the big beverage manufacturers themselves, in an attempt to diversify their portfolios and cater to consumer concerns about carbonated soft drinks. Coca-Cola and Pepsi have introduced smaller formats and are slowly launching new naturally-sweetened products. They are also expanding their innovation in categories like energy/sports drinks and packaged coffee beverages, the only two categories showing steady growth (though even growth in energy drinks is slowing, prompting some manufacturers to begin introducing lighter versions of their products). Pepsi has increased funding for research and development; the New York Times recently reported that the company is testing a juice made from cashew apples under the Tropicana brand in India, with the hopes of adding it to products around the world. Coca-Cola has purchased a number of small, innovative beverage companies, including Zico coconut water and Honest Tea. And both companies are investing in more technology and customization initiatives, which are combined in technology like the Coca-Cola FreeStyle and Pepsi Spire.

In this issue of FoodBytes, we bring you a look into the state of the current non-alcoholic beverage market, from sales trends and innovation at the world’s largest beverage manufacturers to the opportunities that the current market and trend landscape offers operators.
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When PepsiCo CEO Indra Nooyi was asked about declining soft drink sales, including consumer "self-regulation," at a conference last year, she was characteristically forthcoming in her response. If the company didn’t address barriers to consumption – namely, high sugar levels and artificial sweeteners – in three to five years consumers could "walk away" from carbonated soft drinks completely. And she noted that consumption may never return to previous levels.

To overcome these barriers, the major players are working hard to replace their products with natural sweeteners, like cane sugar or stevia, following overall industry trends. The cane sugar-sweetened "Mexican Coke" is a must-have at many chef casual and fast casual restaurant; according to Datassential’s MenuTrends Database, Mexican Coke appears on an astonishing 611% more beverage menus vs. four years ago. Pepsi introduced their "Throwback" line of beverages, sweetened with beet sugar (earlier this summer Pepsi replaced the product with "Pepsi-Cola Made With Real Sugar" in some markets).

Many manufacturer’s have embraced stevia, a plant-derived sweetener (known as Truvia at retail). The low-calorie Pepsi Next is sweetened with stevia in some markets, while Coca-Cola introduced the green-labeled Coca-Cola Life, partly sweetened with stevia, in Chile and Argentina last year, with plans to launch the drink in the U.S. later this year. But a low- or no-calorie sugar substitute that is indistinguishable from the real thing has long been the holy grail of the industry, and it won’t come easy. Coca-Cola recently reformulated its VitaminWater brand to include a mix of sugar and stevia, but protests from consumers who reported a "metallic" or "bitter" flavor have prompted the company to announce a return to the original formula by the fall. It also says it is working on alternatives that don’t exhibit the bitter taste some consumers experience with stevia.

But what do consumer concerns about sugar and artificial sweeteners mean for operators? It will certainly affect purchasing habits, both in the types of beverages that restaurants and retailers purchase and the sizes that are purchased and sold. In fact, one of the bright spots in recent earnings reports from PepsiCo and Coca-Cola has been sales of mini cans, which are up for both companies (and which carry a larger profit margin).
“Consumers may now view soda strictly as a treat or indulgence.”

But rising sales of smaller formats may also indicate another trend – consumers may now view soda strictly as a treat or indulgence, as opposed to a thirst-quencher to drink with a meal or during the day. Current consumer sentiment is the result of years of media coverage and political lobbying, during which soda was sometimes portrayed as the central cause of the country’s obesity issue. Drink size was often a prime focus -- considered so central to the issue that former New York Mayor Michael Bloomberg attempted to ban large servings (the ban was later overturned). When Coca-Cola first introduced their 7.5 ounce cans, the company prominently noted the product's "built-in portion control" and ability to help consumer's manage calories.

Operators menuing their own beverages, meanwhile, will have to decide whether to try and beat traditional soft drinks with health claims, or join them, marketing directly to consumer indulgence. For some consumers, an away-from-home meal occasion may be the perfect opportunity for an indulgent beverage. Or, operators may temper the indulgence by using fresh, local ingredients and incorporating other "health halo" terms into their beverage menu – innovative, fresh flavors like cucumber, hibiscus, blood orange, and lychee are all up on restaurant menus. Starbucks proudly markets their new Fizzio sodas as "handcrafted," "carbonated fresh" in-store with no artificial flavors, preservatives, or high-fructose corn syrup. The company notes that, unlike existing sodas or even at-home carbonation machines, their proprietary Fizzio machines directly carbonate flavored beverages (as opposed to other machines, which carbonate water with the flavoring added after). Because of this process, every ingredient "receives the same level of carbonation," according to Starbucks, though it also means that customers can carbonate other cold drink options on the chain’s menu, including tea and iced coffee (though for an additional charge).

Starbucks’ Fizzio Handcrafted Sodas are available in Lemon Ale, Spiced Root Beer, and Golden Ginger Ale varieties. Customers can also add fizz to other iced drinks for $.50.
PepsiCo CEO Indra Nooyi also noted that, in part, sales declines may be attributed to consumers making food at home, instead of buying packaged foods and beverages. Those at-home carbonation machines that Starbucks is referring to, for instance, have become big business. Last year SodaStream sold 4.4 million carbonator units, and companies like Hamilton Beach and Cuisinart have also entered the home carbonation space. Next year Coca-Cola will enter the segment through their partnership with Green Mountain Coffee Roasters, with plans to introduce the Keurig Cold, which will include both the flavor and carbonation in the pod itself.

Both the home carbonation and coffee/drink pod markets have expanded at a time when customization is key for many consumers. Customization has been a key growth driver in foodservice for the past five years, and these products allow consumers to personalize products that have historically limited customized options. With their own soda maker, consumers can add as much or as little syrup as they prefer, combine soda with their favorite juice, and make their own syrups – recipes abound on blogs and in new soda cookbooks. And the trend extends to other beverages -- MiO "liquid water enhancer" tells consumers to "put water at your mercy" because "it's truly all about you."

Customers can choose how much flavor they want and combine flavors and share recipes on Facebook. Nestle recently announced they would offer a coffee-on-demand product in a similar squeezable, liquid concentrate bottle.

In the restaurant segment, both McDonald's and Wendy's are testing build-your-own sandwich options – at some restaurants it's now possible to order and completely personalize every aspect of a meal from screens at the counter and fountain dispenser. Independent operators have made in-house soda fountains and soda rails trendy again, with customers choosing their preferred flavors from classic and more avant garde options. Stanley, in New Orleans, has an Italian soda fountain with twelve different flavors, while Nashville's The Pharmacy features house-made syrups in flavors like ginger and Kentucky mint to be mixed into on-trend "phosphates." Some of these operators are clearly inspired by the new generation of serious mixologists who use fresh, unusual ingredients in daring, yet historically-inspired, ways. In April's issue of Creative Concepts: The New Speakeasy, we covered a number of bars that don't even offer a menu, like Drink in Boston – simply tell the bartender your preferred spirit and flavors and he or she will craft something unique catering to your tastes.
At convenience stores, beverage customization has long been a differentiator, with flavorings for both coffee and soda available at the beverage bar. In 2011 7-Eleven encouraged customers to create customized flavor mixtures with their "Slurpee MixMaker" promotion (acknowledging that customers were doing it anyway). 7-Eleven's new concept stores include prominent signs marketing the "made to order" espresso-based beverages and a "My Kind Beer" craft beer wall. Today c-store chain Stripes advertises that customers can make over 2.1 billion flavor combinations from their mix of flavor shots and beverages. And, as with the FreeStyle and Spire, technology is getting into the game, with convenience stores installing make-your-own smoothie, juice, and milkshake machines. The "f'real" milkshake machine found in many c-stores even allows customers to choose their milkshake's thickness level.

Interactivity is particularly relevant on kids' menus, not only to keep kids engaged, but to steer them toward healthier options. In June's issue of Creative Concepts: The Kids' Menu Grows Up, we covered Purple, a Washington-based wine bar that offers a "Milk Flight" for kids, with four options served in goblets, all for $5. At East Coast-based Friendly's, the kids' menu features a Sharks in the Water drink, with blue raspberry Sprite filled with gummy sharks, which is served with a side of "shark bait" red syrup that kids can pour into the drink. Hotels and resorts have also been aggressive in courting families through revamped, often interactive kids meals.

While customization and personalization may be a hit with consumers, there is another benefit for both operators and manufacturers – data. Both the Coca-Cola FreeStyle and Pepsi Spire report the types of flavors and drinks that consumers are creating back to the respective companies, with Coca-Cola even manufacturing and introducing Fanta Cherry after it became a hit at the FreeStyle. When Keurig Cold launches, it will also report information back to the company (with customer permission), so the company will know what consumers are drinking at home. And restaurant operators are also learning from their customers – at Boston-based Clover Food Lab, the data-driven company monitors the popularity of unusual house-made soda options like popcorn soda and Mexican candy soda.

Of course, mixing your own flavor combinations is nothing new – customers have been mixing and matching flavors at the soda fountain for years, creating "suicides" or "swamp water." But now it’s becoming a central part of the business plan – some favorite customer creations have even made it onto official/unofficial "secret menus" at operators like Starbucks and Jamba Juice.
Live Kombucha’s partnership with Target is aimed at capturing soda drinks who have already defected, or may be willing to defect, by offering familiar flavors with the “health halo” of kombucha.

With customers consuming less traditional soda, health-focused beverage manufacturers and operators are rushing to take their place with new products, hoping consumers feel less guilty about consuming nut milks, liquid grains, teas, kombuchas, and plant-derived waters (aloe, maple). Target has been particularly aggressive in testing new beverages in their stores – last year the chain began testing products like Sneaky Pete's Oat Beverage and Chia'Vie ground chia smoothies, while their Made to Matter program, which selects brands that are "making things better for you," includes a partnership with Vita Coco. The coconut water company recently worked directly with the retailer to develop the soon-to-be-released Vita Coco Sport energy drink, utilizing all-natural ingredients and juices. And last month Target announced an agreement with LIVE Soda Kombucha, which will expand the brand to stores nationwide. The brand aims to capture soda drinkers who have already defected, or may be willing to defect, by offering familiar soda flavors (root beer, ginger ale) with the health connotations of kombucha, according to BevNET. The product is sold in the produce section at Target, next to bottled juices and smoothies, in order to promote the drink’s fresh and healthy perception. A Whole Foods representative recently told CNBC that kombucha now occupies one-third of the chain’s refrigerated functional-beverage shelf space, and they only expect the category to grow. Wellness drinks and teas have also been a popular category at the Fancy Food Show in recent years – at this year’s show Republic of Tea introduced a stackable two-week supply of cleansing teas, with flavors for morning, daytime, and night.

Kroger, meanwhile, includes a "Taste of Tomorrow" cooler in nearly 100 stores, with innovative beverage options curated (and sometimes stocked) by L.A. Libations, an emerging beverage category incubator. Kroger is not only ramping up their natural and organic offerings, but trying to remake itself as a store where customers can "discover new, on-trend drinks and other products" and be "more first-to-market" with innovation, according to BevNET.

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Juices have also become big business, marketed with premium, functional terms like "cold-pressed" and "detox" (and also likely to be found in the produce section at retail). Some chef casual and fine dining operators are adding juice menus to the breakfast and brunch daypart, with chef or mixologist-created blends of juices and herbs/flavors, while juice bars that take their functional blends very seriously continue to open across the country (often at premium prices – upwards of $5 a drink). But as trends move to market faster, operators will have to keep up. Campbell's V8 brand is introducing new flavors inspired by the juicing trend this fall, with options like carrot mango and purple power (a beet and vegetable blend), as a way to target what the company calls "fit and hip explorers" who are enthusiastic about health.

For many of those same consumers, green credentials are just as important. Target's says their Made to Matter program includes brands that are not only healthier for consumers, but improving "the place we call home." According to Bloomberg Businessweek, Kraft doubled their overseas sales of Tang in part by touting the product's small footprint – it requires nothing more than powder and water. Similarly, SodaStream prominently advertises the number of bottles and containers their machines save from landfills. And restaurants are doing the same, noting that on-tap wine cuts down on bottle use, for instance.

SodaStream recently announced that they, too, would begin to refocus the brand on health and wellness, with a line of SodaStream Free syrups (in flavors like green tea lychee and passion mango) launching this fall, each with no artificial flavors, colors, sweeteners, or preservatives. The company says they are looking to incorporate more natural sweeteners, including stevia and monk fruit, in the future.

Some restaurant operators are also using beverages as an opportunity to expand into retail. The Bay Area's beloved Blue Bottle coffee chain recently introduced cartons of New Orleans Iced Coffee, sweetened with cane sugar, and will soon introduce a product made from the coffee fruit that The Atlantic called an "intriguing Arnold Palmer-like drink." The aforementioned Clover inked a deal with Whole Foods to install "Clover to Share" coolers at supermarkets – they are currently testing prototypes for liquid standup bags to hold soda syrups and soups.

Both manufacturers and operators clearly see the current beverage market as an opportunity to innovate and test new products, adding excitement to menus and brands. It's a chance to offer premium beverages – at premium prices. Premium, customization, uniqueness, health, function – these trends define the current beverage landscape.

For more information about how Datassential can help you meet the challenges of the current beverage market, call us at 1-312-655-0596 to get started. Whether it's custom research, menu recommendations, or trend tracking and spotting, Datassential combines essential data with extraordinary insight.
TOPICS COVERED IN LAST MONTH’S TRENDSSPOTTING REPORTS

ON THE MENU
In July’s On the Menu, we looked at the bright, tart flavors of sorrel and phosphates, traveled the world to check out Mexican elote and Indian chai, discovered how chefs are menuing the gluten-free grain sorghum, and checked in on the innovative use of summer staple s’mores in both food and beverages. And in our coverage of new menu additions and LTOs at top chains, we brought you even more summer flavors.

UPCOMING: We cover bao, Welsh rarebit, oyster mushrooms, chorizo, beer as an ingredient, and dark roast coffee.

INTERNATIONAL CONCEPTS: SINGAPORE
In International Concepts, we brought you a look at the unique chains that are growing quickly in this multicultural market. You’ll find a toast-focused coffeehouse chain, a kiosk dedicated to Singapore’s favorite savory snack, a boutique bakery chain specializing in signature “floss buns,” plus the dishes that US chains have adapted for the market – like a Durian McFlurry.

UPCOMING: We check out the rich chain restaurant scene in France.

DINE AROUND: WASHINGTON DC
In this edition of Dine Around, we traveled to Washington, DC, where you can find a little bit of everything – from authentic Ethiopian to contemporary Indian, global street foods, an Italian restaurant utilizing American ingredients, a Greek restaurant getting creative with brunch, a recently revamped tapas restaurant, plus local favorites like half smokes and mumbo sauce.

UPCOMING: We travel to Santa Fe, New Mexico for a sample of their unique cuisine.

CREATIVE CONCEPTS: AIRPORTS GO GOURMET
In Creative Concepts, we took you to the restaurants, markets, and lounges that are redefining airport cuisine. Now you’ll find everything from oyster bars to French bistros and so much more at today’s airports. Discover how chefs manage the many regulations and requirements of an airport outpost, from no-knife policies to the need for breakfast and grab-and-go options.

UPCOMING: The first in our two-part series on restaurant revamps, from the menu to décor.

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