

GLOBAL BEVERAGE TRENDS 2023

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Welcome to Finlays' Global Beverage Trends 2023



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When we launched last year's report, we were emerging, blinking and readjusting to the light after a global pandemic that had caused fundamental shifts in consumer behaviour and the beverage industry. The events of the last twelve months feel no less seismic, with continued volatility in global economics, supply chains and politics continuing to cause major changes in how consumers purchase beverage products.

The cost of living crisis is, of course, front and centre of everyone's minds. This is a double-edged sword for the beverage industry – on the one hand we expect to see consumers exercising spending caution. But on the other hand, we're seeing the return of the beverage as an 'affordable indulgence', creating opportunities for innovation and value creation.

This desire to treat themselves, coupled with concern for their health, and that of the planet, is driving the trend toward conscious consumerism. We're seeing how each purchasing decision is carefully evaluated in terms of financial, health and environmental cost. Throughout this report we've sought to encapsulate this broad sentiment under the banner of 'mindfulness', as people mindfully allow themselves indulgences, choose healthy products, and opt for brands with a lower environmental impact.

So we're excited to say that despite the macro-economic scenario, the outlook for the beverage industry is positive, with consumers making good choices for the planet, and for themselves, and it's with a renewed sense of optimism that we look forward to the next twelve months.

We hope you enjoy this year's report, and if you'd like to discuss any of these trends further, please get in touch with your local Finlays team or [contact us here](#).

Global Beverage Trends for 2023



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#1

Selective Spending

Following the boom in 'revenge spending' which saw people splurge as COVID lockdowns eased, consumers are now facing a raft of financial challenges from inflation, to stagnating wages, to slowing GDP growth.

Spending caution will therefore be a major trend in 2023 (and beyond), but we also expect to see a focus on 'affordable luxury' as consumers seek cost-effective ways to keep their spirits up. Beverage brand owners who can offer consumers a gloom-busting taste of indulgent luxury will be in an advantageous position.





#1 Selective Spending

Key Drivers

Shock waves from the pandemic and conflict in Europe have disrupted global supply chains, resulting in higher cost of goods and a decline in disposable incomes.

Consumers across the globe are anticipating this challenging economic environment persisting over the next twelve to eighteen months, significantly impacting their spending confidence.

Value for money has always been a major driver of consumer behaviour and is increasing in importance but, emerging from a pandemic, consumers are still looking to try new products and experiences. While discretionary spend might reduce, 'affordable indulgence' - the trend for small, relatively inexpensive treats that consumers are still able to afford - is likely to make a comeback.



62% of global consumers are concerned about their financial situation in 2022^[1]

Implications

The cost of living crisis is driving several shifts in consumer spending behaviour:

Affordable Indulgence: Consumers want cost-effective ways to treat themselves and beverages can represent an inexpensive luxury. Products such as hot tea and coffee are often seen as premium and indulgent.

'Inspiriences': With reduced spending on social and leisure activities, at-home consumption is on the up. This is driving greater innovation in products replicating the coffee-shop experience, and premium beverages such as bubble tea kits and nitro cold brew coffee cans.

Bulk-buying: Though this trend is global, one example is the US ready-to-drink (RTD) coffee retail market, where multi-serve products have increased from 16% to 27% of consumer spend 2019-22YTD^[2]. Consumers are stock-piling to drink at home, and looking for cost-effective ways to buy their favourite drinks.

Cost-effective Nutrition: Products that offer tangible, multiple benefits and maximise value for money will appeal to consumers not wanting to compromise their health.

Growth in Private Label: One in five APAC consumers are expecting to buy more private label products^[3], matched by 20% of US consumers^[4] and 33% of consumers in the UK^[5]



Three in ten (31%) global consumers associate 'good value for money' with high quality products and ingredients when buying non-alcoholic drinks^[7]

What's Next?

Brand owners are going to be under pressure to hit certain price points - whether through reformulation, new pack sizes or formats.

We're also expecting to see increased scrutiny on unnecessary or wasteful elements of the supply chain.

This may lead to growth in beverages that are cheaper/easier to ship such as powder or concentrate formats.

Consumer scrutiny of food waste is also likely to be a component, with 76% of US consumers saying retailers should do more to prevent food waste^[6]. Products that use all of an ingredient (e.g. Cascara spirits) may see a boost from this increased awareness.

#2

Mindful Drinking

Millennials and Gen Z are drinking alcohol less – and more mindfully – than previous generations. They're also much more receptive to new beverage concepts, spurring the development of new niche and hybrid categories.

The beverage industry has been highly responsive to changing consumer behaviour, with innovations spanning the alcohol-alternative, low-alcohol and RTD alcohol categories looking to capture share in this fast-growing market segment.



#2 Mindful Drinking

Key Drivers

There are several interconnected factors changing the way younger consumers engage with the alcohol sector, as terms like 'sober curious', 'mindful drinking' and 'Cali sober' become part of the zeitgeist.

For many younger consumers, this trend is simply about making conscious and positive choices, without having to compromise on experience. There is a desire to reduce alcohol consumption and respect individual choices, almost as a response to the culture and pressure associated with drinking experienced by previous generations.

Consumers are also increasingly aware of the physical and mental impacts of alcohol and sugar consumption. This is driving demand in two key areas; low/no alcoholic beverages, and 'healthier' alternatives such as hard seltzers that contain less sugar, calories and 'unnatural' ingredients vs. their predecessor, the 'alcopop'.

66% of US Millennials are actively reducing their alcohol intake^[8]

Implications

Hard seltzers have seen value growth of +165% CAGR 2016-21, and are forecast to reach \$17bn^[11] by 2026. The single-serve format of these beverages appeals to consumers looking to moderate their alcohol intake, while many of these brands are also positioned as low/no sugar, low-calorie, natural and 'clean label' to attract their health-conscious consumers.

Sales of non-alcoholic spirits reached more than \$140mn in 2021, up from \$60mn in 2016^[12]. Although this category is less-established than hard seltzers, it's becoming increasingly popular with consumers seeking a sophisticated 'adult' alternative to soft beverages. Industry giants Bacardi and Diageo are just two examples of the increased activity and investment from major players in the burgeoning segment. The message is 'less is more', allowing these brands to balance sales of both alcohol and non-alcoholic sales.

Tea and coffee ingredients have been central to this trend, with brands looking to create healthy/functional alcohol alternatives. Hard seltzer brands, operating in an increasingly competitive market, are also looking to differentiate with new hybrid products, combining the 'health halo' and accessibility of tea with the premium branding and occasion targeting of hard seltzers.

25% of Millennials globally find alcoholic drinks with low/no alcohol 'very appealing'^[9]

18% of global consumers only drink alcohol when socialising, increasing to 23% of Gen Z^[10]

What's Next?

While any health claims in the alcohol sector remain tightly regulated, brands in the low/no alcoholic space may look to maximise the health positioning through inclusion of ingredients perceived as functional by consumers.

Consumers would therefore not only be avoiding alcohol, but also increasing consumption of 'healthy' or 'functional' ingredients such as CBD, L-theanine, antioxidants when they choose not to drink.



#3

Mood Boosting Beverages

“Permacrisis” was named Collins Dictionary’s word of the year for 2022 for good reason. After the challenges of COVID, and with financial pressure mounting, consumers are increasingly looking to ease their stress with products that support mental wellbeing. These range from products that create a sense of treat and relaxation, to those that promise functionality.

Beverages can be central to this trend. The role of hot tea & infusions in moments of relaxation is prevalent in most cultures globally, while caffeinated beverages such as iced coffee are often consumed for a different, more active, boost.



#3 Mood Boosting Beverages

Key Drivers

On World Mental Health Day in October 2022, the World Health Organisation announced that the COVID-19 pandemic has “created a global health crisis for mental health, fuelling short and long-term stresses and undermining the mental health of millions”^[13]. As consumers grapple with life in a post-pandemic world, facing a rising cost of living and environmental crisis the need to prioritise mental wellbeing has never been greater.

This is fuelling demand for products that claim to support the full spectrum of mental wellbeing needs, from stress relief, relaxation and sleep through to energy and focus. Consumers are increasingly recognising the need to actively balance high productivity with intentional down-time, recharging for the demands of modern life. The link between our mood and the beverages we consume has never been stronger.



One in five global consumers is ‘extremely concerned’ about their mental wellbeing as a result of the pandemic^[14]

Implications

The need for relaxation and productivity is driving a wave of innovation in the beverage industry.

To support the rest and relaxation need, beverage brand owners are developing products that **create an emotional connection with consumers**. Hot tea and infusions are strongly aligned with this occasion for consumers around the world.

Product functionality is a growing aspect of this trend. Since 2017, the number of beverages launched with a ‘brain or nervous system’ claim has increased +41%, vs a 1% increase in the total number of beverage launches^[15]. Products are claiming to support brain functionality, sleep and stress-relief through inclusion of ingredients such as green tea, matcha, coffee, l-theanine and botanicals. It should be noted that claims made tend to be “soft” and are not supported by regulatory bodies.

When offering mood-boosting beverages, it’s also important deliver on increasing consumer demand for **natural and clean label products**. Coupled with a challenging supply scenario of synthetic caffeine from China, the world’s largest producer, consumers are seeking natural products fuelled by ingredients they recognise such as tea, coffee and botanicals.

30% of global consumers find products that promote relaxation ‘very appealing’^[16]

What’s Next?

The link between gut and brain health is becoming increasingly established; it’s believed that 95% of serotonin (the ‘good mood hormone’) is produced by gut bacteria^[17].

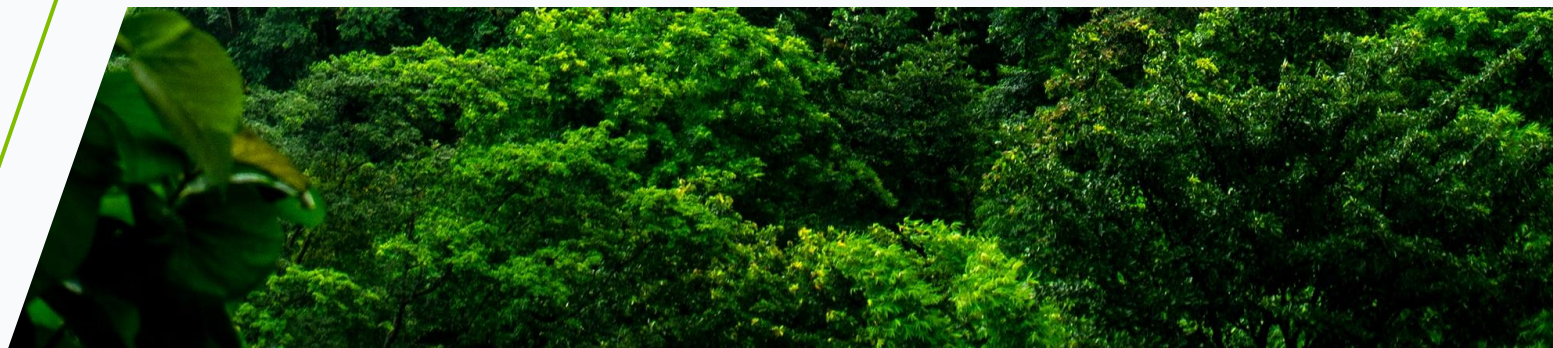
We’re expecting to see products that link cognitive function with gut health enter the mainstream as consumers look for different and more effective ways to improve their mental wellbeing. This year, for example, Unilever announced a partnership with biotechnology company Holobiome to identify food and drink ingredients that could have a positive impact on mental wellbeing by targeting the gut-brain axis^[18].

#4

Crunch-time for Carbon

In 2022, we looked at the importance of traceability, and companies demonstrating tangible actions to reduce their impact on the planet, from packaging to sourcing strategies.

For 2023 there will be a laser focus on carbon emissions, as government legislation, consumer awareness and rising energy costs intersect to bring this trend to the fore.



#4 Crunch-time for Carbon

Key Drivers

A growing number of consumers are developing 'eco-anxiety' and becoming increasingly conscious of their own contribution to climate change^[19]. There is a rising sense of urgency in shifting to a low carbon economy, based on low carbon emissions, low pollution and low energy consumption. This is impacting individual lifestyle choices with consumers accepting a greater level of personal responsibility to make carbon-conscious decisions.

What was once dismissed as an eco-warrior niche is being brought to the global stage by policy-makers in the world's largest economies. The ambitious European Green Deal aims to develop the first climate neutral continent by 2050^[20], while Biden's Build Back Better programme is the "largest effort to combat climate change in American history"^[21]. Conflict in Europe, while detrimental to energy security in the short-term may "kick net-zero transition efforts into a higher gear" according to McKinsey^[22]

42% of global consumers are willing to pay more for products/services supporting climate change causes ^[23]

Implications

'Climatarian' consumers are monitoring their carbon footprint to minimise their individual impact, impacting which products and brands they choose.

A growing number of beverage brand owners are taking action to measure and reduce their carbon emissions, using **on-pack messaging** to communicate a positive, proactive message to consumers. In 2022, 1.5% of beverages launched carried a carbon neutral claim, up from 0.4% in 2017^[24]. Major brands in the tea and coffee space, such as Starbucks and Costa, have made **public commitments in line with science-based targets (SBTi)**^[25] that focus on reducing emissions, not just off-setting.

This is placing **greater pressure on sourcing strategies and throughout supply chains**. For example, Starbucks have committed to not only reduce their direct emissions (scope 1, scope 2), but have also committed to halve indirect emissions (scope 3) by FY2030^[26]. Similarly, Costa Coffee have committed to reduce direct GHG emissions 50% by 2030, and reduce indirect by 50% per coffee serving within the same timeframe^[27]. The inclusion of third party emissions necessitates beverage suppliers also meeting science-based targets. This is easier for those with **integrated supply chains and greater control over sourcing**.

Since 2017, beverage launches with a carbon neutral claim have increased +242%^[28]

One in five global consumers will stop buying a product if the company has an unsustainable supply chain^[29]

What's Next?

Carbon is just one aspect of climate change regulation. There is **growing recognition of the importance of nature-based solutions**, encompassing water, waste, bio-diversity and resource management in the fight to reduce carbon emissions.

This is an even greater challenge; while carbon is well understood, with established protocols and definitions, nature-based solutions are more complex, broader in scope and more difficult to measure.



#5

Retail Reimagined

COVID-19 hugely accelerated the uptake in online shopping, changing the way consumers purchase goods.

This trend is taking shape in a number of ways including 'Traditional' e-commerce (e.g. through retailers' building online presence), direct to consumer models (e.g. brand subscriptions), and the growing area of social media 'shopping' (e.g. TikTok shop).

This is a challenge for the beverage landscape, with beverages being tricky and expensive to ship, but brands are starting to adapt.



#5 Retail Reimagined

Key Drivers

COVID-19 accelerated digital adoption, especially in grocery shopping, and McKinsey highlighted this shift in behaviour as the most likely to endure post-pandemic, of all the changes consumers made between 2020-21^[30]

This trend is further accelerated by the growing consumer base of Gen Z – adding to the proportion of ‘digital natives’ among global consumers. Millennials and Gen Z now account for ~65% of the global population^[31], with spending power valued over \$165bn^[32] and an increased willingness to spend this through online channels.

An additional factor is the increased pressure on social media platforms to monetise their product. In-app advertising has proven successful but increasingly operators are looking to replicate the WeChat model, where social media scrolling, browsing products and shopping can be done from one platform – with brands, platforms and influencers all able to take a cut – e.g. TikTok shop.



31% of global consumers are expecting to purchase more grocery products online in the next 3 months, up to 37% of Millennials and Gen Z^[33]



Implications

Direct to consumer models in the beverage industry are on the rise. Unilever makes 12% of its revenue through D2C sales on brand websites^[34]. Brands are investing in online presence and seeing e-commerce/social media as a viable sales channel. Subscriptions are increasingly popular, particularly with smaller brands to guarantee repeat purchase and deliver the most cost effective model.

This is increasing **investment in digital capabilities** and supply chains to deliver the product. But it's also impacting the beverage products themselves:

- **'Deliverable' formats** such as 'Just Add water' beverage mixes and concentrates that maximise product to minimise shipping costs are on the rise.
- **Subscriptions** allow consumers to try different products, while offering the experience of category experts to find and recommend a range of options. This is particularly effective in the tea and coffee categories with different origins, varieties and production processes (e.g. roast type) to explore.
- This may also have an impact on the development of **shelf-stable beverages**, vs. refrigerated drinks that require a cold-chain.

Mobile order transaction now account for a quarter of Starbucks total orders at US company-operated stores. Mobile order sales in China have also doubled year-on-year^[35]

What's Next?

Major industry players are continuing to invest in their digital capabilities to grow sales, improve consumer loyalty and build powerful consumer behaviour datasets.

Starbucks for example has developed 'Deep Brew' AI technology to improve customer personalisation and experience^[36]. Their in-app payment option has also positioned Starbucks against technology giants such as Apple and Samsung, for share of mobile payment dollars. It will become increasingly important for brands to offer digital solutions perhaps changing the way we define the world's beverage giants.



Ones to Watch for 2023 and Beyond



'90s Nostalgia

Linking with our 'Good Mood Food' trend, consumers have often turned to happier times with products that allow them to relive childhood memories through flavour and product innovation. But – rather than Coca-Cola in glass bottles or ice-cream floats – we're actually looking back to the '90s for inspiration this time. Google searches for "90s style" have increased 56% in the past two years^[37], the sitcom *Friends* has been re-released on Netflix and Disney+ has helped Millennials reconnect with the classics of their childhood.

In the beverage industry, this is driving growth in nostalgic sweet flavours such as the Chupa Chups flavoured milkshake launched in Japan, or Starbucks S'mores Frappuccino.



Inclusive Consumption

Consumers with a diverse range of needs and preferences are looking for brands that address these requirements and create a sense of inclusivity for all consumers wanting to enjoy and participate in experiences.

Cafes with variety of dairy-alternatives or bars offering choice between non-alcoholic options will be favoured by groups of consumers which are increasingly likely to have members drinking mindfully or avoiding dairy for health or climate-conscious reasons. Having the right range to address these ever-shifting consumer preferences will be crucial to brand owners, as social values shape purchase decisions more than ever^[38]. We're expecting this trend to continue driving consumer behaviour in the long-term.



Ingestible Beauty

Following China's 2021 approval of hyaluronic acid (typically found in beauty products) for use in food and beverage products, beverage launches containing this ingredient have increased 130%^[39].

Consumers are looking for functional beverages boosted with ingredients such as collagen, biotin, protein and superfruits such as acai-berries to provide beauty-boosting benefits. As we learn more about the gut-skin axis, probiotics, pre-biotics and other gut-healthy ingredients are likely to also play a role as this trend continues to develop.



TAP INTO 2023 WITH FINLAYS



Finlays is a leading global supplier of tea, coffee and botanical solutions to the global beverage industry.

Whatever happens in 2023 (and beyond), we're ideally placed to help you capitalise on the emerging trends shaping your consumers' behaviour both today, and tomorrow.

Ready to learn more?

To discover how Finlays can help you tap into these trends, [email info@finlays.net](mailto:info@finlays.net)

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