

Prime candidates for clean label reformulation?

As the claim proliferates on store shelves, evidence suggests that 'natural' beverages are likely to be subject to more scrutiny from both consumers and regulators in the near future, writes Alan Rowan.

Carbonated soft drinks face a turbulent future. Global volume growth has shown a steady decline in recent years as consumers continue flocking to bottled water, RTD tea, RTD coffee and alternative beverage options perceived as both healthy and natural. Major carbonates brand owners are consequently making investments in their still brand portfolios, attempting to diversify into higher growth categories and to shed any negative stigma that might be associated with carbonated soft drinks (CSDs).

Even well-established brands aren't immune from consumer criticism and regulatory adjustments, and this has contributed directly to the emergence of the clean label movement, the industry defined shift away from artificial ingredients toward natural alternatives, where feasible. In 2015, the first year of Euromonitor's Ethical Labels research, products bearing at least one clean label within packaged food, soft and hot drinks saw value sales globally of USD165 billion, with soft drinks making up US\$34 billion of this.

In 2015, of all clean label soft drinks, no artificial preservatives was the most prevalent claim in terms of overall value sales, with US\$14.3 billion, marginally better than no artificial colours which saw US\$14.0 billion, while all natural claims saw US\$11.2 billion, no artificial flavours US\$8.0 billion, and no artificial sweeteners US\$7.0 billion.

Consumer scepticism continues to be a key ingredient

However, the equation for winning consumer confidence isn't solved simply by the inclusion of any of the above claims on product packaging, especially when unregulated and ambiguous natural claims remain commonplace. Despite products claiming to be natural extending across all beverage categories, from plain spring water to 100% juice to carbonates containing cane sugar or plant-derived sweeteners, consumers



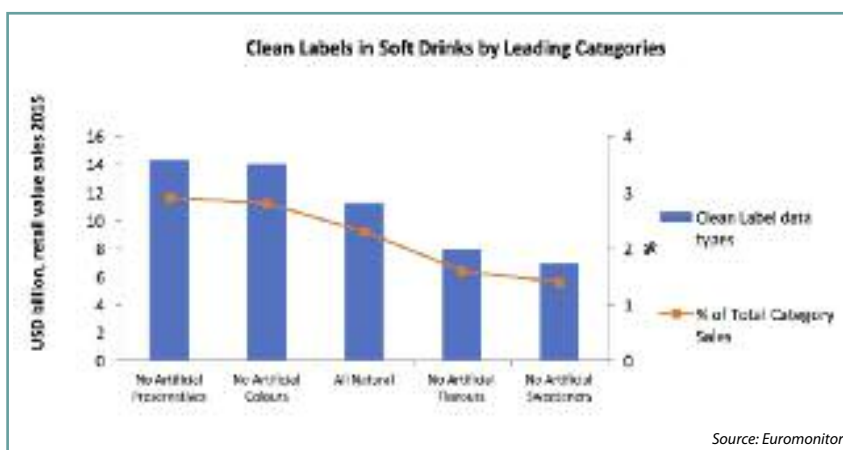
are sceptical. Unlike organic products requiring official certification, the word natural can be a nebulous marketing term rather than a true regulatory label. The term natural, unless paired with other explicit benefits, does not convey a meaningful wellness message. As the claim proliferates on store shelves, evidence suggests that 'natural' beverages are likely to be subject to more scrutiny from both consumers and regulators in the near future.

The source of the momentum driving clean label expansion is the manifest recognition that consumers want to better understand what's going into their food and beverages and make informed decisions. As such, leading soft drinks players continue to expound their efforts to address this consumer demand, fuelling the now flourishing abundance of clean label claims in a wide variety of categories in both food as well as beverages. In 2015, the PepsiCo CEO declared that she had "never seen the consumer as confused as they are today" in terms of health and wellness decisions in food and beverage options. When trying to convey a more natural or authentic product to the beverage consumer, simplicity in terms of production, ingredients and distribution offers the best chance of success and the closest approximation of a 'natural' soft drink.

On top of this, the major brands in soft drinks face a trust deficit with many consumers, that often lack confidence in the motives of large food and beverage global brand owners and remain sceptical about ingredient quality (particularly in terms of artificial sweeteners).

An enhanced comprehension of 'clean'

The clean label opportunity in soft drinks extends far beyond the borders of developed markets. Peripheral markets are beginning to cotton on to the trend, although currently it has yet to be leveraged to full effect. Naturally healthy beverages will continue to perform well, and in many cases aren't under the same pressure that carbonated soft drinks are to align with the clean label trend. In China the opportunity for naturally healthy beverages continues to exhibit strong



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growth, overtaking the US market in 2014 and ultimately seeing absolute growth of US\$16 billion over the review period (2011-2016).

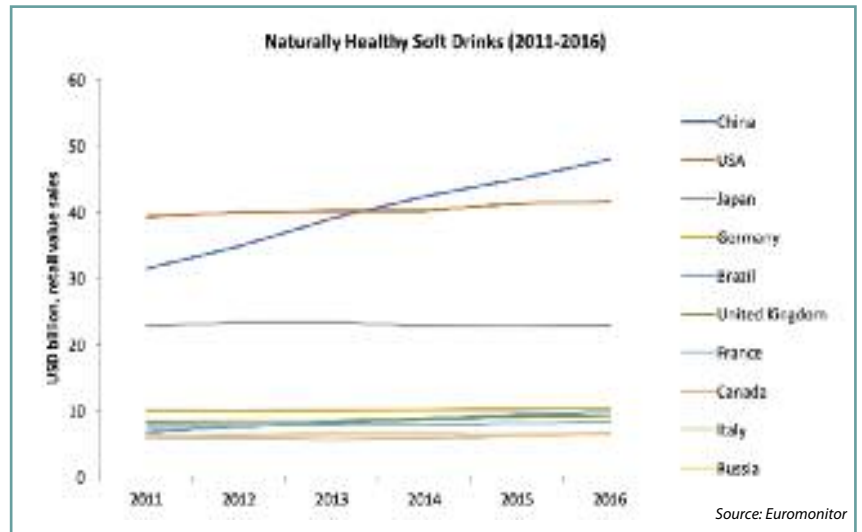
Sourcing locally and sustainably: An opportunity, and in some cases a necessity

The emphasis on local ingredients in soft drinks is expected to be a big focus in Brazil, China and India. Coca-Cola's February 2016 announcement that it intends to grow Maaza into India's first billion dollar juice brand by aiding India's mango farmers is certain to bring even more attention to locally-produced fruit. As Brazil is a large country with difficulties in transportation, it may be possible for regional players to market their use of ingredients grown in the region to emphasise freshness, familiarity and authenticity. Brands such as Amazoo Açaí are just one example of a brand that is capitalising on this in the Brazilian market, growing sales 50% in the years 2012-2015. China's history of traditional herbal medicine and tea cultivation can lend itself to the use of local ingredients in RTD tea.

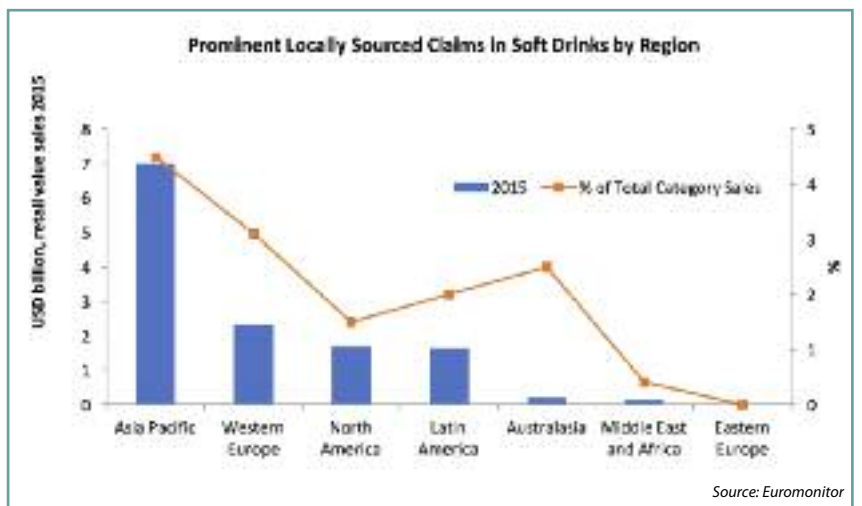
A cornerstone of the locavore movement is the stimulus of local communities. As such Global Brand Owners (GBOs) that align production with this trend where possible may see not only growth in sales, but also in status, as consumers begin to see the tangible benefits that these major players can bring, and doubles as good corporate social responsibility in practice.

In Asia Pacific, products with a locally sourced claim saw value sales of over US\$7 billion in 2015, illustrating that local players can leverage place of origin as a key to increasing sales. Asia Pacific also saw the highest percentage of total soft drinks sales bearing a locally sourced prominent claim, with 5% in the same year.

Clean label is a term that is in a constant state of flux, unregulated and malleable to the needs and wants of the global consumer. As such, global brand owners will continue to show a keen interest in not only keeping pace with frontrunners but determining what the next level of 'clean' could entail in a practical sense. Also, what combination of clean labels strikes the perfect balance with consumers. As the soft drinks players ponder the intricate details and narratives that underpin the multitude of variations of clean label reformulations currently taking



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place, and those detailed in black and white within corporate social responsibility reports scheduled for the coming years, the challenge will lie in finding the sweet spot between healthy, sustainable and natural, while not compromising on taste, cost and brand identity.

Passport: Ethical Labels Clean Label scope;

Clean Label figures includes aggregated value sales of brands that bear the follow claims; All Natural, No Artificial Additives, No Artificial Colours, No Artificial Flavours, No Artificial Preservatives, No Artificial Sweeteners, No Monosodium Glutamate, GMO Free, BPA Free

Passport: Ethical Labels market scope;

Western Europe: Belgium; Denmark; Finland; France; Germany; Italy; Netherlands; Spain; Sweden; UK

Eastern Europe: Poland

North America: Canada; US

Latin America: Brazil; Mexico

Asia Pacific: China; Hong Kong; Indonesia; Japan; Philippines; Singapore; South Korea; Taiwan

Australasia: Australia

Africa and Middle East: Israel; United Arab Emirates

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