



OPPORTUNITIES IN FUNCTIONAL BEVERAGES

Presented by Laurie Demeritt, CEO, The Hartman Group

The COVID-19 pandemic—as both a public health crisis and shock to the economy—is creating renewed attention on some key consumer trends

Consumer reactions and adaptations to the current crisis will have long-lasting effects. These include:

Focus on personal empowerment

To combat current feelings of powerlessness, consumers are focusing on **things they can control**, such as the use of finite resources like time and money AND what they consume.

Reassessment of connectivity

There is a new emphasis on the **connectivity of communities** in myriad ways, including concern about protecting essential workers, caring for vulnerable populations, and supporting local businesses.

New emphasis on resilience

Individual and collective well-being is severely at risk, underscoring the need for economic, physical and mental resilience going forward.

Surge in calls for systemic change

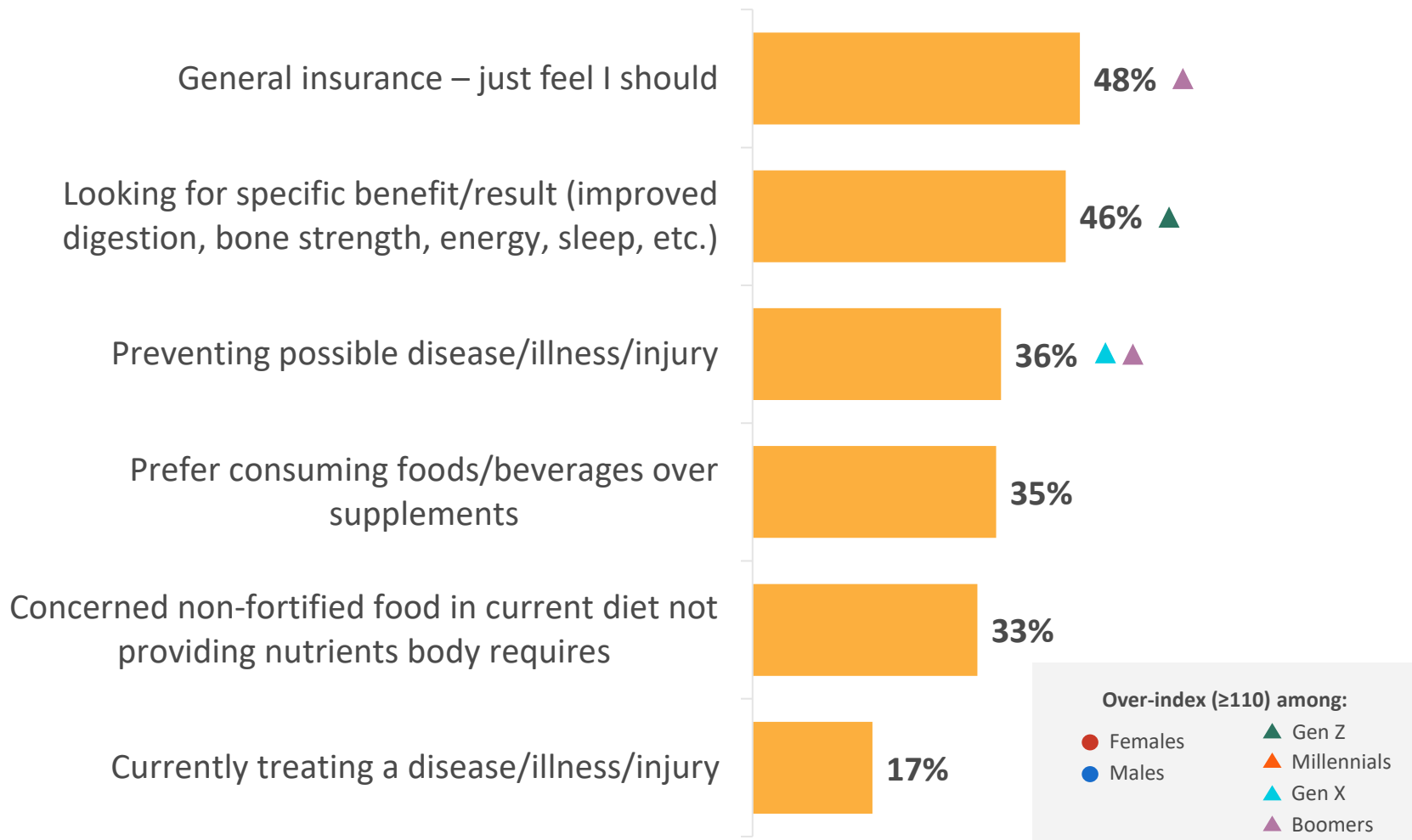
An **erosion of consumer trust** in both government and large corporations had already emerged, and renewed interest in self-empowerment reflects a further **questioning of these institutions' ability** to do right by consumers.



Consumers have multiple motivations for using functional foods and beverages, each with its own opportunities and challenges

Reasons for Using Functional Foods/Beverages

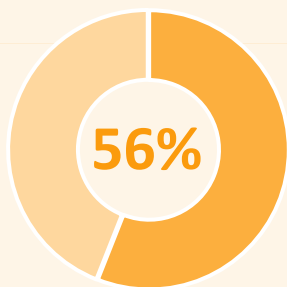
- Functional Food/Beverage Users -



Profile of the Functional Beverage User

Functional Beverage users make up 56% of the adult population, skewing younger, Hispanic, African American, and are more likely to have children in the household.

PERCENT OF POPULATION 18 - 74



ATTITUDES

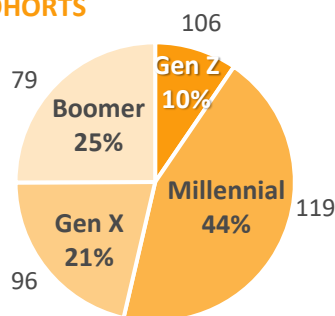
- Given their younger age, it is not surprising that users of functional beverages are more likely than non-users to rate their health as good or excellent (64% vs. 57%).
- Functional beverage users actively seek out functional *food* (especially inherently functional food) as well.

| Race | Percent of Users | Index |
|------------------|------------------|-------|
| Caucasian/White | 77% | 99 |
| African American | 15% | 111 |
| Asian | 7% | 92 |
| Ethnicity | Percent of Users | Index |
| Non-Hispanic | 84% | 98 |
| Hispanic | 16% | 110 |

US REGION

| | | |
|-----------|-----|-----|
| Northeast | 17% | 101 |
| South | 37% | 98 |
| Midwest | 21% | 103 |
| West | 24% | 100 |

AGE COHORTS



HH INCOME AVERAGE **\$87,987**
102

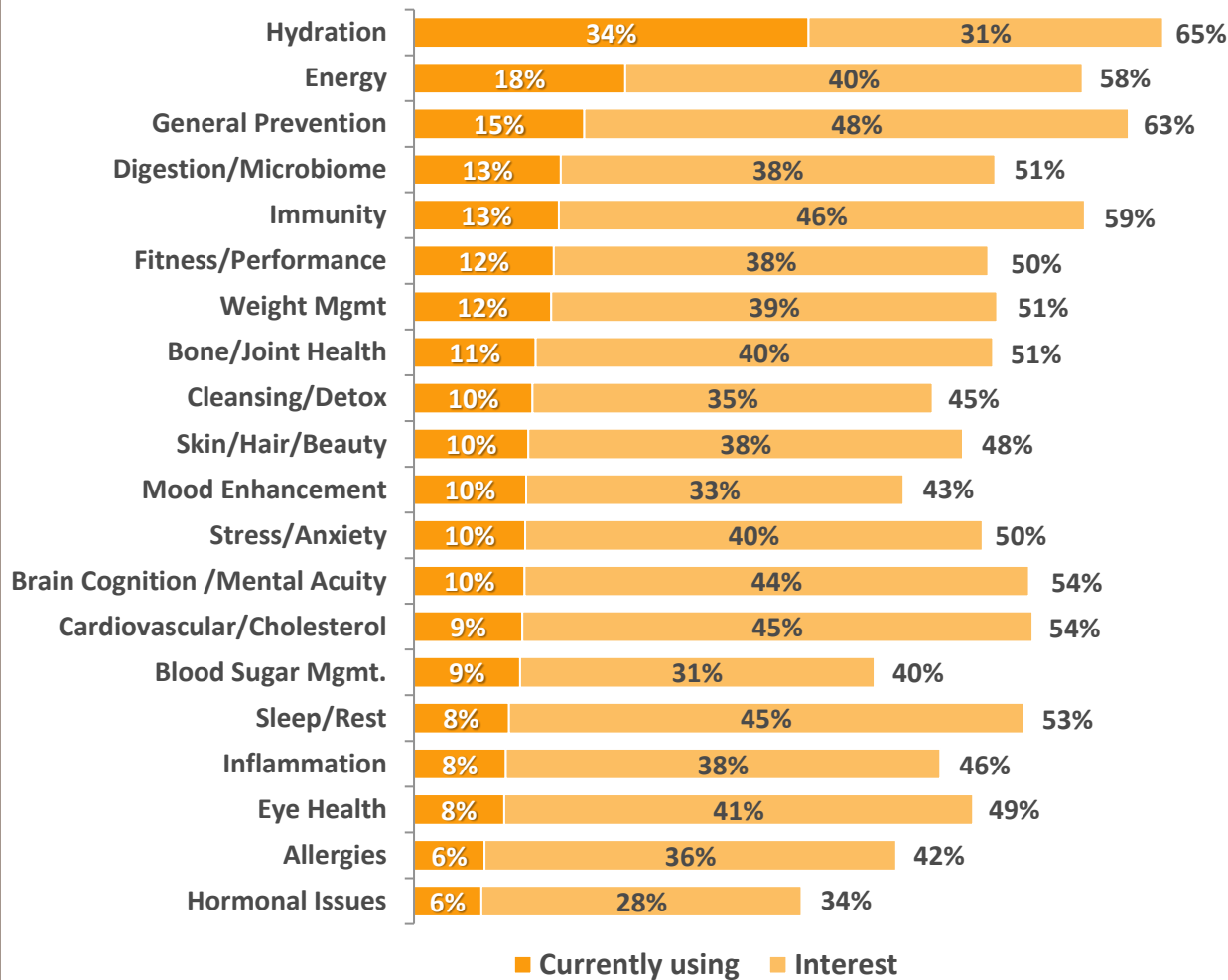
GENDER **MALE**
52%
106

EDUCATION COLLEGE GRADS **59%**
103

CHILDREN <18 IN HH **33%**
119

Although traditional and immediate effects like hydration drive functional beverage use, many consumers are open to a broader set of benefits

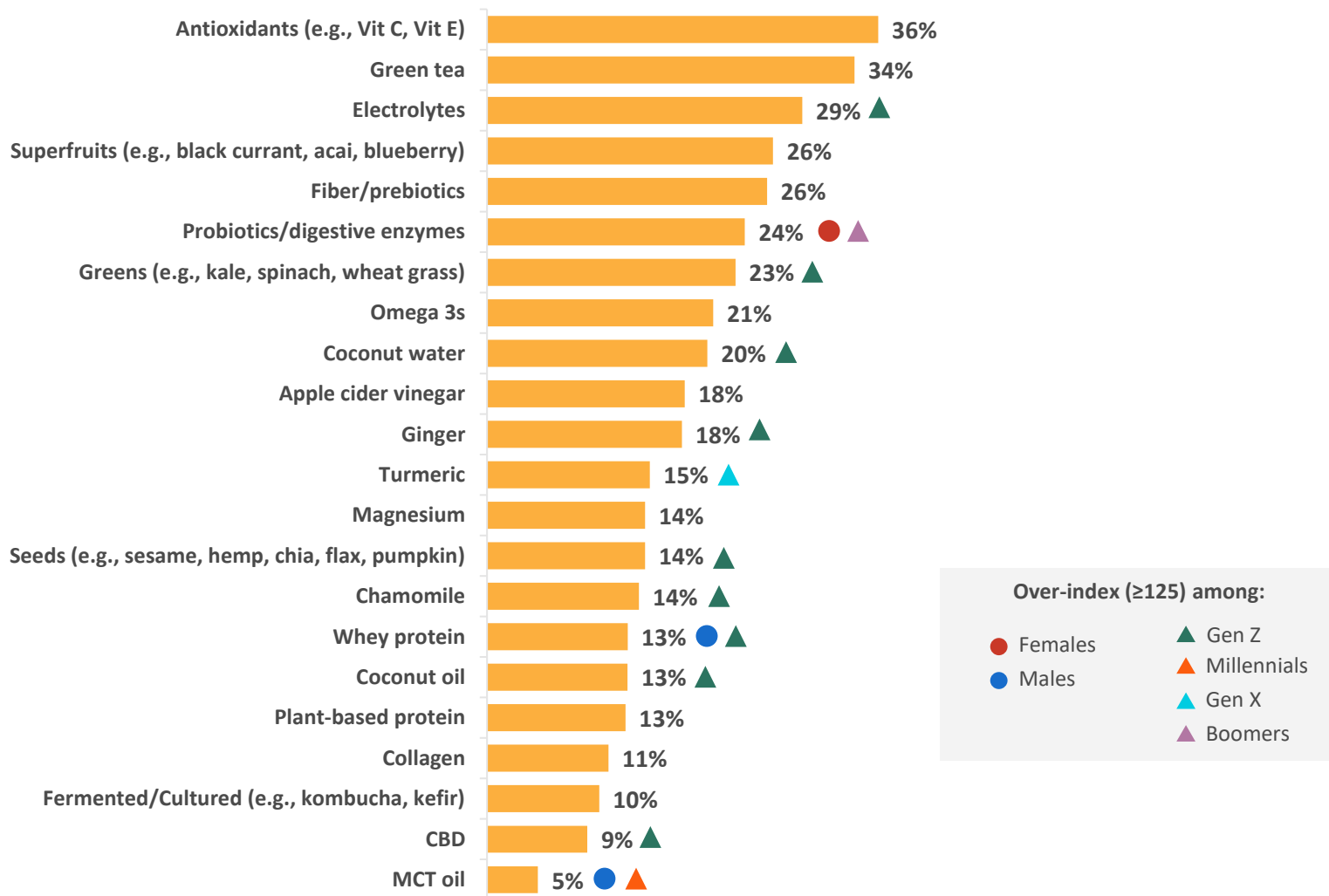
Current Use of/Interest in *Functional Beverages*
By Condition



Younger consumers' general interest in beverages as a format is reflected in the many ingredients they are more likely to look for in functional drinks

Benefits/Fortifications Sought in *Functional Beverages*

- Functional Beverage Users -



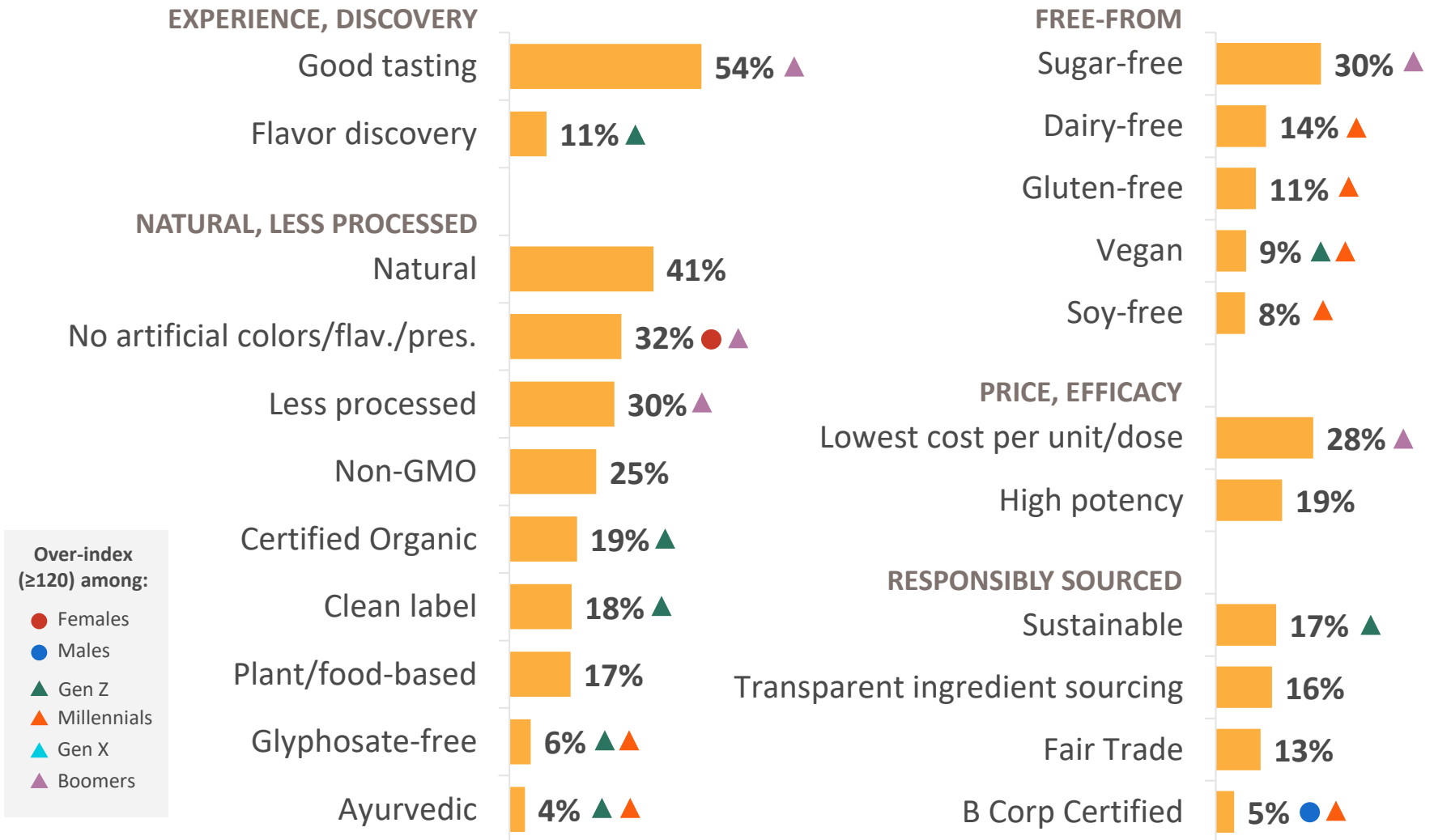
Over-index (≥125) among:

- Females
- Males
- ▲ Gen Z
- ▲ Millennials
- ▲ Gen X
- ▲ Boomers

Even for functional foods and drinks, desires for taste and “real food” cues lead consumer attribute preferences

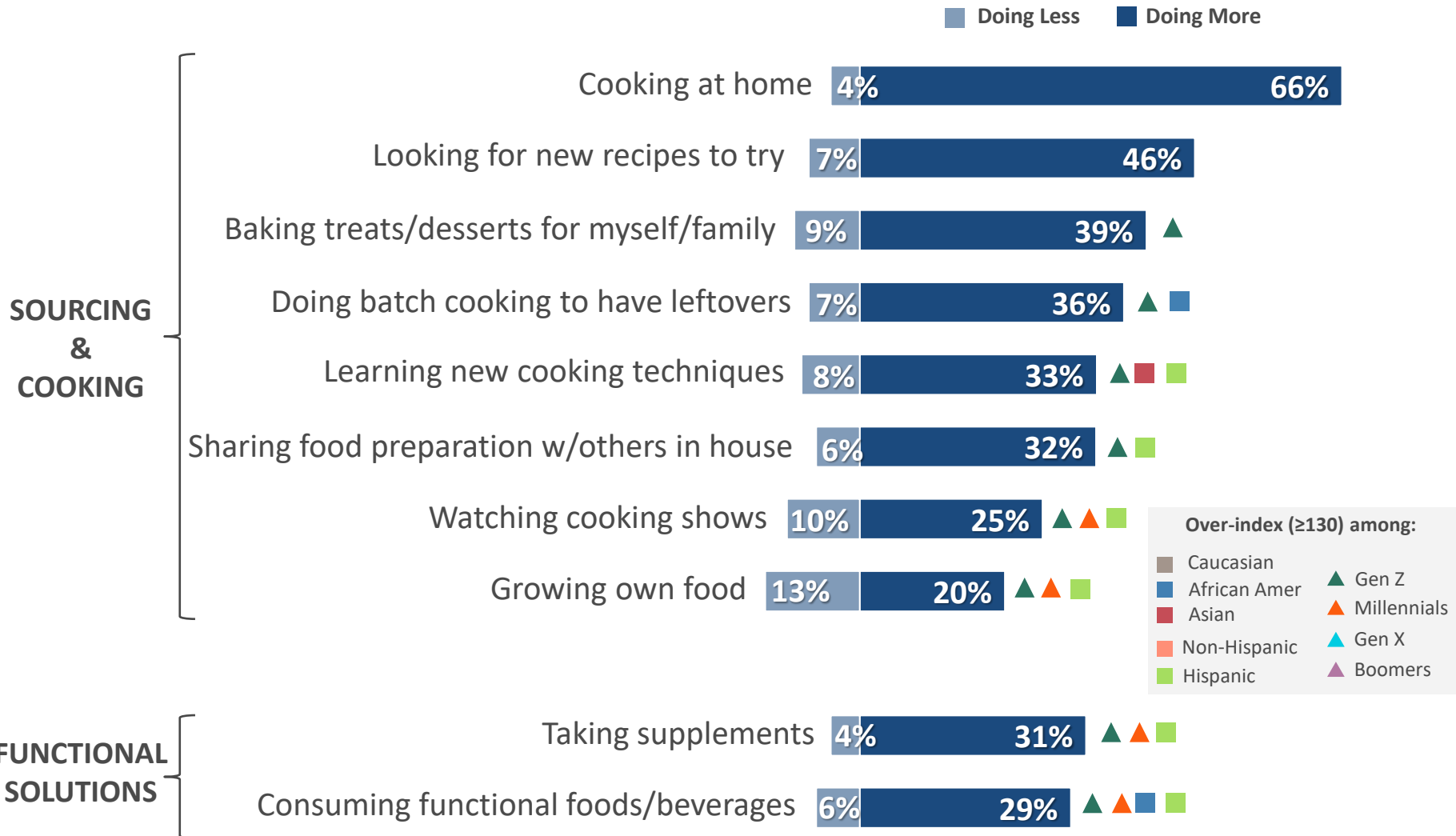
Attributes Looked for When Choosing Functional Foods/Beverages

- Functional Food/Beverage Users -



Almost a third of consumers are now consuming functional products daily as a result of the pandemic

Changes in Daily Routines Due to COVID-19



Functional Food & Beverage and Supplements April 2020. Base: Aware COVID-19 (n=2,347); Caucasian (n=1,751); African American (n=315); Asian (n=152); Non-Hispanic (n=1,733); Hispanic (n=614); Gen Z (n=292); Mill (n=797); Gen X (n=525); Boomer (n=733).

Implications for Functional Beverages

- Due to the pandemic, the evolving consumer values around **personal empowerment and resiliency** will help propel consumers to take more control over their health and is likely to open up new opportunities for functional beverages.
- Beverage solutions that lend **health and wellness support** while also solving for **resource constraints (time, energy, money, etc.)** and **aligning with current routines and rituals** are most likely to stick.
- There are a variety of daily health benefits that consumers are seeking and the platforms with the most resonance today include **immunity, cognitive health, energy, emotional health/stress management, digestive health and rest/sleep**. More nuanced potential platforms include **inflammation and hormonal health**.
- The consumer desire for functional solutions is robust and evolving. The advantages of beverage formats come with elevated expectations, however. Functional drinks must primarily deliver on **sensory experience (especially taste)** and consumer **definitions of quality**.

Thank You!



ABOUT THE HARTMAN GROUP

The Hartman Group is the premier food and beverage consultancy in the world. Companies and brands across all segments of the food and beverage industry benefit from our unparalleled depth of knowledge on consumers, culture, trends, and demand-side market strategy. We listen closely to understand our clients' business challenges and tailor solutions that deliver transformative results. Through a unique suite of integrated custom, primary research capabilities, market analytics, and business strategy services, we uncover opportunity spaces and avenues for growth. We deliver more compelling insights that fuel inspiration and ideas for innovation.

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