

The US Functional Drinks Market: Analysis By Type (Energy Drinks, Sports Drinks, and Nutraceutical Drinks), By Distribution Channel (Supermarket & Hypermarket, Specialty Stores, E-Commerce, and Others) Size and Trends with Impact of COVID-19 and Forecast up to 2028

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Abstracts

Functional drinks are a type of drink enriched with health-boosting elements such as vitamins, minerals, herbs, or probiotics, designed with the purpose of delivering specific health benefits. These drinks offer more than just basic hydration and nutrition, targeting aspects like energy enhancement, digestive improvement, cognitive function enhancement, or immune health support. Functional drinks offer consumers much more, including functional benefits (pre-/probiotics for gut health), low calories/ sugar, and all natural and organic ingredients. The US functional drinks market in 2022 stood at US\$45.32 billion, and is likely to reach US\$71.84 billion by 2028, while in terms of volume, the US functional drinks market in 2022 stood at 10.34 billion liters, and is likely to reach 15.32 billion liters by 2028.

In recent years, the popularity of these nutrient-packed drinks has increased, which mirrors the growing health awareness among consumers. These individuals are drawn to their potential for enhancing health, performance, and cognitive abilities, and value the wide range encompassing energy, sports, and nutraceutical beverages, catering to various dietary necessities and preferences. The US functional drinks market is projected to grow at a CAGR of 7.98% during the forecast period of 2023-2028.

Market Segmentation Analysis:

By Type: The market report has segmented the US functional drinks market into three segments namely, energy drinks, sports drinks, and nutraceutical drinks. In 2022, the energy functional drinks category dominated the market due to its versatility. Its widespread use stems from the instant energy uplift, physical performance enhancement, and concentration boost it provides. These benefits attract a wide array of consumers. Students use them for studying, athletes for improved performance, and professionals for sustained focus during work. This broad appeal is the primary factor for this segment's significant market share.

By Distribution Channel: Based on the distribution channel, the US functional drinks market can be segmented into four segments: supermarket & hypermarket, specialty stores, e-commerce, and others. In terms of distribution, the e-commerce sector is projected to be the fastest-growing channel. This trend is spurred by escalating digital penetration, consumer inclination towards online shopping owing to its convenience and extensive options, and a surge in home delivery services. The latter especially spiked during the pandemic, as lifestyles shifted dramatically towards home-based activities. These changes, along with the ease and efficiency of online shopping, make e-commerce an increasingly popular channel for purchasing a broad spectrum of products, including functional drinks.

The US Functional drinks Market Dynamics:

Growth Drivers: The functional drinks market in the US has been largely propelled by Millennials and Gen Z's heightened focus on health and wellness. This demographic, accounting for nearly 40% of the population, prefers drinks with specific health benefits. These groups significantly influenced market trends, leading to product innovation and marketing strategies aligned with their preference for healthier, purposeful drinks. Therefore, the health-centric values of Millennials and Gen Z have profoundly shaped the functional drinks industry, driving demand and spurring innovative development. Further, the market is expected to grow, owing to rapid urbanization, aging population, social media influence, rise of e-commerce, athletic performance and recovery, increased awareness of health risks, etc. in recent years.

Challenges: Regulatory compliance presents a notable challenge to the US functional drinks market. As these beverages often contain innovative ingredients and assert health benefits, the FDA closely scrutinizes their claims for accuracy and scientific substantiation, creating a complex regulatory landscape. Companies must dedicate resources to ensure compliance, including ingredient transparency and traceability. Non-compliance risks include heavy fines, product recalls, and reputational damage, hence

emphasizing the importance of regulatory adherence in maintaining consumer trust and legal risk mitigation. Additionally, other factors like consumer trust and education, etc. are other challenges to the market.

Market Trends: Functional beverage sector is innovating with new delivery formats and distribution strategies. Novel ways of consuming beneficial ingredients, like Jelly Drinks, Functional Drink Powders, Effervescent Tablets, and Edible Films, offer intriguing alternatives to traditional forms. Concurrently, subscription-based distribution models have gained prominence, offering regular, personalized deliveries to consumers, fostering customer loyalty and ensuring recurring revenue for businesses. These advancements in delivery and distribution methods are redefining the industry, providing competitive advantage and potentially driving industry revolution. More trends in the market are believed to grow the functional drinks market during the forecasted period, which may include increasing penetration of artificial intelligence and machine learning, health and wellness focus, mental health awareness, innovation in packaging, ingestible sensors, flavor innovation, branding and merchandising, market consolidation, etc.

Impact Analysis of COVID-19 and Way Forward:

The COVID-19 pandemic has fostered a favorable environment for the US functional drinks market by triggering an increased consumer focus on health, wellness, and immunity. This surge in demand has been further amplified by a shift towards online shopping due to pandemic precautions, solidifying the e-commerce sector's position as a vital distribution channel for functional beverages. Therefore, despite the global health crisis, the US functional drinks market has demonstrated notable resilience and adaptability, with factors such as heightened health consciousness, changing consumer behaviors, and product innovation anticipated to sustain market growth and shape its future trajectory post-pandemic.

Competitive Landscape and Recent Developments:

The US functional drinks market emerged as a dynamic hub of innovation, rivalry, and strategic alliances, featuring a consolidated landscape. Dominated by industry giants like PepsiCo and Coca-Cola, holding major market shares, the market is also bustling with numerous regional and international players. The market's competitiveness is fueled by a relentless drive for innovation, a focus on healthier beverage options, and strategic collaborations. Companies compete on various fronts, including price, quality, packaging, reputation, and distribution channels, which are increasingly moving towards online and direct-to-consumer models.

Further, key players in the US functional drinks market are:

The Coca-Cola Company

PepsiCo, Inc.

Glanbia Plc.

Mondelez International Inc. (Clif Bar & Company)

Nestl? S.A.

Keurig Dr Pepper Inc.

Campbell Soup Company

Paine Schwartz Partners (Suja Life, LLC)

Red Bull GmbH

GT's Living Food

The pursuit of uniqueness and larger market share in the US functional drinks industry has spurred significant mergers and acquisitions, with non-alcoholic beverages making up 11% of food and beverage transactions in 2022. Concurrently, a growing consumer preference for clean-label, organic, and non-GMO products has been shifting the market towards functional beverages and away from traditional carbonated drinks. This market dynamics has led to significant industry-wide changes. For instance, when a major player like PepsiCo acquired The Marley Beverage Company, known for its natural drinks, it not only increased its market share but also diversified its product offerings. This acquisition enabled PepsiCo to cater more effectively to the evolving consumer preference for healthier, natural beverages. Similarly, Coca-Cola's acquisition of a minority stake in Monster Beverage Corp. signaled its entry into the energy drink market, diversifying its portfolio and increasing competition. Such strategic acquisitions lead to increased competition and innovation, diversification of product offerings, expansion into new markets, and potential for increased profitability. They demonstrate the dynamic nature of the US functional drinks market, with both established and

emerging players continuously adapting their strategies for a greater share of this lucrative industry.

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