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RETAIL LANDSCAPE OF FUNCTIONAL & SPECIALTY BEVERAGES

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Many people in Middle Eastern countries like Saudi Arabia, UAE, and Iran consume healthy beverages, and the demand for low-calorie drinks is rising. Non-alcoholic drinks are gaining popularity as an alternative to caffeinated and sweetened beverages in the region. The increased adoption of a healthy lifestyle is driving the demand for various herbal and infused beverages with health benefits.



In this insight, Frost & Sullivan covers the current trends in the beverage sector. The top emerging trends as tracked by Frost & Sullivan in the Middle East include:



Surge in demand for energy drinks:

The trend of living healthy has boosted the demand for healthy beverages in the Middle East. The region is dominated by non-alcohol consumers, which makes the market for alternative beverages lucrative. Energy drinks with high caffeine content are gaining popularity, and players investing in the market would generate high revenues.

In terms of market attractiveness, not many entities in UAE and GCC have a strong foothold in the energy drink segment. This makes the entry of new players into the market easier, allowing them to gain traction. However, the introduction of a 100% excise tax on energy drinks in the UAE in 2017 created challenges for manufacturers, leading to the introduction of healthier alternatives in the segment. For instance, in March 2020, Dubai Energy Drink launched its energy drink comprising stevia, a natural, plant-based sweetener. It was labeled as a “zero-calorie” drink to attract health-conscious consumers.



Rise in sales of herbal and fruit teas:

The Middle East has many tea and coffee consumers. The black tea market holds the highest share of more than 90% in the region, followed by herbal and infused tea categories. The pandemic has positively influenced the demand for herbal and fruit teas. Retail sales of herbal and infused tea saw a rise in the region based on increasing demand for immunity-boosting beverages during the pandemic.

Consumers are more inclined toward teas that are infused with natural ingredients and offer health benefits. In April 2021, Taiwanese franchise Yi Fang Fruit Tea, which sells specialized fruit drinks in various categories, announced the opening of its new store in Burjuman Metro Station, Dubai, based on the rising demand for healthy drinks.



Non-alcoholic beverages gaining momentum:

The desire to socially drink while following a healthy lifestyle is driving consumers in the Middle East to opt for non-alcoholic drinks. Millennials and younger generations are open to experimenting with new non-alcoholic beverages. Consumers are now choosing the “better-for-you” options available in retail shops.

The non-alcoholic beverages segment has high-growth potential in the region because cultural and religious beliefs for a majority of the population do not permit them to consume alcohol. These beverages are anticipated to overshadow the soft drinks market as the demand for alternatives to sweetened carbonated beverages is declining. Established brands such as Heineken, Tanqueray, Gordons, and Guinness have invested in the segment and launched products with 0% alcohol. The non-alcoholic beverage segment is anticipated to register a CAGR of over 3% in the region, with UAE leading the market.



Flavored beverages are the new trend:

Consumers in the region pay the most attention to the taste of the products they consume. A similar trend is seen in the beverage sector, where the demand for flavored beverages is high in all categories. For instance, coffee and tea are two highly consumed drinks in the region and are considered traditional beverages. About 10% of the global coffee expenditure is estimated to come from the UAE. Increasing disposable income and a rising population of coffee and tea drinkers are propelling companies to invest in R&D and launch new flavors in the segment based on consumers’ demand. Another popular beverage in the segment is bubble tea, which has gained traction in the GCC countries. Bubble tea has emerged as a healthier alternative to various available beverages in the market. Consumers are also interested in the bubble tea variants with milk tea and flavors such as Oreo cream cheese, caramel, and lychee, among other fruit-based flavors.



Key Takeaways

The functional beverages category is expected to grow at a CAGR of over 8% in the Middle East from 2021 to 2025. The segment shows tremendous potential for entities wanting to enter the segment because the competition is not significant but is gradually growing in the region. The “free-from” beverages are gaining traction along with herbal beverages in the UAE. Fortified beverages with vitamins and minerals, flavored drinks and beverages with Omega-3 would be a profitable investment for beverage manufacturers in the Middle East based on the ongoing trend.

Consumers’ busy lifestyles have propelled the market for “on-the-go” products. The demand for ready-to-drink (RTD) beverages is surging, along with the “natural” label claims. The segment is anticipated to register a growth rate of more than 8% in the next five years. Consumers want beverages that are convenient to drink and offer health benefits. This has fueled the demand for healthy RTD beverages among consumers in the region, opening opportunities for new players to enter the segment.





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