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RTD teas, flavor options expand tea category

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Functional herbal teas that offer health benefits are resonating with consumers, experts say. (Image courtesy of Mountain Mel's Essential Goods)

June 14, 2018

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KEYWORDS [black tea](#) / [functional teas](#) / [green tea](#) / [herbal teas](#) / [non-alcoholic drinks](#) / [Ready-to-Drink \(RTD\) Tea](#)

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Originally sung by Ethel Merman and Bob Hope in the 1936 musical “Red Hot and Blue,” “It’s De-Lovely” highlights words that have the prefix “de,” leading to the creation of the neologism “de-lovely.” As more consumers turn to [tea](#) and its various forms for functional refreshment, another neologism could be in the making: “tea-liciousness.”

Driving the category, refrigerated ready-to-drink (RTD) teas generated dollar sales of more than \$1.34 billion in U.S. multi-outlets for the 52 weeks ending March 25, an 8.1 increase compared with the prior-year period, according to data from Chicago-based Information Resources Inc. (IRI).

In its April report titled “U.S. Beverage Market Outlook 2018,” Rockville, Md.-based Packaged Facts estimates that total retail dollar sales of the U.S. tea and RTD tea category had a compound annual growth rate (CAGR) of 4.5 percent between 2012-2017. “Retail sales totaled \$7.8 billion in 2017, up almost 4 percent compared to the previous year,” it states. Refrigerated RTD teas accounted for about 75 percent of category sales, it adds.

Kevin Weissheier, consumer insights executive at New York-based Kantar Worldpanel US, also points to the success of RTD teas. “With many companies opting to reformulate their offerings to align with health needs, the category has seen a turnaround (some of which can be attributed to overall convenience store growth),” he says. “Loose-leaf tea has performed relatively well, as it wins in the premium market, but bagged tea has suffered along with declines in iced tea.

Top bagged/loose-leaf teas

(Individual brands)

	DOLLAR SALES	% CHANGE VS. PRIOR YEAR	MARKET SHARE	% CHANGE VS. PRIOR YEAR
Lipton	\$230,015,872	-6.1	19.4	-1.5
Bigelow	\$161,325,952	3.0	13.6	0.3
Private label	\$89,332,832	5.0	7.5	0.3
Celestial Seasonings	\$83,903,992	5.0	7.1	-0.1



Twinings of London	\$78,321,672	1.1	6.6	0.0
Yogi	\$62,107,024	7.5	5.2	0.3
Luzianne	\$58,816,444	-4.3	5.0	-0.3
Tazo	\$30,614,246	7.4	2.6	0.2
Tetley	\$27,580,756	-3.3	2.3	-0.1
Traditional Medicinals	\$25,924,864	21.4	2.2	0.4
Category total*	\$1,185,514,368	1.0	100.0	—

*Includes brands not listed.

Source: Information Resources Inc. (IRI), Chicago. Total U.S. supermarkets, drug stores, mass merchandisers, gas and convenience stores, military commissaries, and select club and dollar retail chains for the 52 weeks ending March 25.

“Reformulation and ingredient clarity has been a major driver as to why RTD has rebounded so strongly,” Weissheier continues. “Consumers see health and hydration values with RTD, which nicely complements the taste.”

Despite a “somewhat sluggish performance” for the overall U.S. tea market, Gary Hemphill, managing director of research at Beverage Marketing Corporation (BMC), New York, says the RTD segment is the only segment experiencing growth. “On a dollar basis, performance was better in 2017 with total retail dollars up nearly 2 percent,” he says. “Consumers want convenience, which has made RTD tea a big winner. Most of the other segments have experienced lackluster performance.”

For example, RTD tea, bagged teas, iced tea mixes, loose-leaf tea and single-serve tea pods had total unit volume of 3.78 billion gallons in fiscal year 2014, while in fiscal year 2017, the category experienced contraction to 3.68 billion gallons, according to BMC data. Broken down by segment for fiscal year 2017, RTD tea had a unit volume of 1.72 billion gallons; bagged teas (1.58 billion gallons), iced tea mixes (312 million gallons); loose-leaf tea (27 million gallons) and single-serve tea pods (37 million gallons).

In U.S. multi-outlets for the week ending March 25, canned and bottled tea generated sales of nearly \$3.7 billion, while tea bags and loose-leaf tea had sales of more than \$1.2 billion, increases of nearly 2 percent and 1 percent, respectively, for the comparable time period, IRI data states.

Top canned/bottled tea

(Individual brands)

	DOLLAR SALES	% CHANGE VS. PRIOR YEAR	MARKET SHARE	% CHANGE VS. PRIOR YEAR
Lipton Pure Leaf	\$721,312,128	10.7	19.7	1.6
Arizona	\$589,517,056	-8.1	16.1	-1.8
Gold Peak	\$392,651,072	10.4	10.7	0.8
Lipton Brisk	\$372,260,992	11.8	10.2	0.9

Lipton	\$288,272,608	-7.5	7.9	-0.8
Snapple	\$235,573,680	6.3	6.4	0.3
Lipton Diet	\$179,313,328	-7.4	4.9	-0.5
Diet Snapple	\$148,765,024	-12.4	4.1	-0.7
Arizona Arnold Palmer	\$125,864,088	-7.4	3.4	-0.3
Peace	\$84,210,744	59.4	2.3	0.8
Category total*	\$3,655,572,736	2.0	100.0	—

*Includes brands not listed.

Source: Information Resources Inc. (IRI), Chicago. Total U.S. supermarkets, drug stores, mass merchandisers, gas and convenience stores, military commissaries, and select club and dollar retail chains for the 52 weeks ending March 25.

Susan Viamari, IRI's vice president of Thought Leadership, notes that the tea category experienced mixed results, while highlighting the strength of the RTD segment. "Market growth is being supported by a number of factors, including price inflation ([consumer price index of] 2.1 percent), as well as consumers' desires for healthier beverage solutions," she says. "The bagged and loose-leaf tea sector posted reasonable growth — on par with total [consumer packaged goods] (CPG) industry average.

"Stronger growth (units, plus 4.8 percent) is seen in the ready-to-drink sector, underscoring the strength of trends in the area of on-the-go and turn-key solutions, Viamari continues. "The drug channel saw the strongest growth, at 15.2 percent — not surprising given that assortment in these stores is newer/growing quickly."

Facing sluggish sales, instant tea mixes saw a percentage-point decrease of 5.6 percent and dollar sales of \$259 million for the 52 weeks ending March 25, according to IRI data.

In its August 2017 report "Tea and RTD Tea," Chicago-based Mintel also points to the deceleration of instant tea mixes. "The small, instant tea mixes segment has seen dollar sales decline in each of the years covered in the measurement period, with overall declines of 30 percent from 2012-2017," the report states. "The segment struggles to match the convenience of RTD offerings, and likely appears more processed than other options in the category."

Relating to grocery store sales, New York-based Nielsen's Dec. 20, 2017, Insights titled "Top of 2017 Packaged Groceries," highlights that for the second year in a row, liquid tea led sales growth in the United States with an increase of 18.9 percent. Also making the Top 10 list of growing categories were liquid coffee (7.6 percent), bottled water (3.5 percent) and new age beverages (2.3 percent).

"This could be due to the plethora of flavors and ingredients often found in these drinks that appeal to consumers who crave a variety of drinks for in-home consumption or on-the-go," the Insights states.

Tea also provides a caffeinated kick for consumers, according to a September 2017 Insights titled "Americans Get Their Caffeine Kick on National Coffee Day." "When it comes to opportunity in the caffeine realm, liquid tea is leaving dry and liquid coffee in the dust. In fact, the liquid tea category has grown from just under \$404 million in mid-2013 to nearly a \$708 million category this year. Its counterpart, the refrigerated liquid tea category, has seen dollar growth of almost 5 percent and sales of nearly \$1.2 billion," the Nielsen Insights states.

In fact, one in five consumers are drinking more tea than they did a year ago, according to a Tea Report from London-based Tetley and CGA, a market research consultancy firm that specializes in the foodservice drinks market.

The study also notes that competition between tea and coffee is fierce, with coffee out-of-home consumption occasions rising to 3.8 billion in the United Kingdom. On the other hand, 31.4 million cups of tea are consumed outside of the home in the U.K. compared with 11.6 million cups in 2015.

Packaged Facts' report also points to the growth of tea products on foodservice menus. The market research firm reports that from 2008 and on, tea offerings have been represented on menus in the United States in a range of 86 to 88 percent. For 2017, teas representation stood at 86.8 percent, Packaged Facts reports. At 90 percent, restaurants in the southern regions have the highest level of menu penetration by tea, it adds.

Products featuring blends of tea and coffee could be the next evolution for the beverage industry, Kantar Worldpanel's Weissheier says.

"Producers have already begun to explore these areas," he says. "Brands such as Javazen have combined coffee and tea leaves to create a more holistic beverage that could appeal to both consumers. Cascara, which is essentially a tea made from coffee fruit, has seen mainstream success with the likes of Starbucks and will only continue to grow in importance."

Functionali-tea

Macro health-and-wellness trends are impacting the popularity of functional teas. "As is common, consumers are expecting their beverages to do more than deliver on just taste. They want benefits such as health, hydration and functional factors," Kantar Worldpanel's Weissheier explains. "Some products that are really nailing this area are ones that put function at the forefront. Brands such as Traditional Medicinal and Yogi have led the charge, while industry leaders such as Lipton have followed suit and are beginning to catch up."

He adds that herbal tea is much more popular than it was in past years. "Consumers are not only drinking it hot but iced as well, which is another variable to consider," he says. "Blends, both herbal and otherwise, have evolved so drastically over the past years as well.

"Consumers are no longer seeking out single-flavor teas. They prefer more complex profiles that will keep them engaged and feel as if their tea is 'going beyond' what they've gotten in the past," he adds.

To meet consumer demand for on-the-go drinking and easy energy, beverage-makers are releasing new products. For example, Mountain Mel's Essential Goods, Welches, Ore., recently launched a line of seven medicinal-quality, loose-leaf herbal teas that are good for the body and the earth, the company says. The functional tea blends include Where is My Mind???, for mental clarity and focus; Unfrazzle Your Dazzle, to calm nerves and decrease stress; and Chaga Chia, to improve immunity, the company says.



At Natural Products Expo West, Zevia launched new organic ready-to-drink teas in eight flavors. The shelf-stable teas contain zero calories and are naturally sweetened with stevia, the company says. (Image courtesy of Zevia)

At Natural Products Expo West, Los Angeles-based Zevia showcased a line of new organic RTD teas in eight flavors, including black tea, green tea and herbal flavors. Featuring two caffeine-free options, the line will launch nationwide in 12-ounce slim cans in late summer. The non-carbonated shelf-stable teas contain zero calories and are naturally sweetened with stevia, the company says.

Scheduled to hit store shelves in December, Sparks, Nev.-based Davidson's Organics will launch a new line that contains seven Ayurvedic-inspired functional teas, which are designed to aid with sleep, sliming, energy and decongestion, it says.



Davidson's Organics is launching a new line that contains seven Ayurvedic-inspired functional teas to aid with sleep, energy, digestion and decongestion, the company says.

When it comes to new tea products, real, re-fusion and benefits-based products are winning with consumers, IRI's Viamari says. According to the 2018 IRI New Products Survey, 29 percent of consumers look for new food/beverage options that offer benefits beyond basic nutrition, she says. Tea meets this important need, so the sector is well-positioned for continued growth, Viamari adds.

Kantar Worldpanel's Weissheier echoes similar sentiments. "Natural and organic are so important to tea that they are moving past the point of being a brand enhancement and are becoming more of an expectation. Nearly every tea brand has an organic option. These two attributes, which used to be huge points of difference for product and story, have been commoditized.

"I see this as a great 'floor' for the quality of the tea market, but it also means that the price of tea will likely have a floor as well," he continues.

Natural and organic drive demand

Like many other beverage categories, natural and organic trends are influencing the tea category, experts note. Twenty-two percent of consumers look for new food/beverage products that are made from natural ingredients, and 38 percent look for food/beverage solutions that are made with easy-to-understand ingredients, IRI's Viamari says, citing IRI's 2018 New Products Survey.

"Unilever's Pure Leaf Tea is an example of an IRI New Product Pacesetter entry into the tea sector in 2017," Viamari says. "The brand is brewed from real tea leaves, not powders or concentrates. Real is a huge consumer trend that is driving successful product innovation in the marketplace today." IRI's New Product Pacesetters are an industry-recognized benchmark analysis of exceptional first-year CPG sales success for newly launched products, Viamari explains.

While RTD tea continues to grow because of its positioning as a healthy beverage option and solid innovation track record, BMC's Hemphill notes a slowing growth rate in 2017, but adds, "it slowed for all refreshment beverage categories compared to 2016."

The growth of super-premium RTD teas, tea's health positioning and consumers embracing hybrid product innovation containing tea are all trends that will lead to continued growth for RTD teas, Hemphill says.

Packaged Facts' April report also predicts growth for the tea and RTD tea category, which it estimates will reach \$19.5 billion in 2022, increasing by a CAGR of 4 percent between 2017 and 2022. "Growth will continue to be below peak gains in 2014 and 2015," the report states. "Consumer concerns about sugar will challenge growth in the category, although [will be] partially offset by the health halo of black and (especially) green teas. The refrigerated RTD tea category will slow down as the category begins to mature, but the segment will remain the fastest grower."

When it comes to flavor innovation, Kantar Worldpanel's notes that citrus and tea has been a budding trend for a few years, but only as a partner. "Lemon and lime are less standalone flavors and more partners now," he says. "We're also seeing an increase in ginger as well as new herbal flower offerings.

“The future of tea will be very different than the past few years,” he continues. “With functional desires for tea growing, ... tea will be able to play the role of wake up, detox, satisfy hunger and relax. The ideation will be implemented with Americans more and more as the market continues to evolve.” **BI**



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Barbara Harfmann, managing editor of *Beverage Industry*, visits beverage companies for cover stories and facility tours, and writes and edits for the magazine's print and online components. She also represents the magazine at trade shows and events. She earned a Bachelor of Science in Mass Communications and Public Relations from Illinois State University.