



# HYBRID THEORY:

## *Tea Brands Embrace Cross-Category Definitions*

By Brad Avery

Iced tea can at times be among the simplest of refreshments. The category conjures up images of a tall, cool ice-filled glass of sweet (or not-so-sweet) drink. But as ready-to-drink tea sales rebound from pandemic challenges, the market for traditional-styled products remains crowded and dominated by a handful of brands. As tea startups look to stake out their share of stomach, they increasingly have to do more than just refresh.

According to SPINS, the ready-to-drink tea category (plus select mixes and iced tea bags) grew 8.2% in MULO to \$4.2 billion during the 52-week period ending June 13. Of that, refrigerated products made up \$1 billion (up 7.3%), while shelf stable drinks accounted for \$2.7 billion (up 10%).

But those numbers don't necessarily represent a broad range of high-performance companies.



Over \$3.5 billion of those sales come from just the top five brands: Pure Leaf, AriZona, Lipton, Gold Peak and Snapple. According to IRI, Pure Leaf (which is manufactured by Lipton and PepsiCo) leads the category, with sales up 13.5% to \$910 million in the 52-week period ending June 13, followed by AriZona, which grew 2.2% to \$598 million in the same period. Even among the other high performing brands outside the top five, the category is still weighted towards the same select conglomerates. The Coca-Cola Company, for example, also owns Peace Tea (up 20.8%) and Honest Tea (down 20.4%) in addition to Gold Peak.

While RTD tea sales in retail have remained solid, the pandemic also had a significant drag on the category last year by hitting the pause button on the businesses of restaurants and other

on-premise accounts. A December report by Euromonitor International stated that the RTD tea category had faced declining sales in 2019; while the retail business rebounded in 2020, the closure of on-premise accounts resulted in double digit declines for the category's total sales. In particular, unit price growth suffered since prices are typically higher for on-premise stores and consumer stockpiling led shoppers to focus on multipack formats -- bringing down the overall average.

But as the category is steeped in broader beverage trends towards wellness, functionality, and low and no sugar products, which could help during the recovery, the Euromonitor report noted.



image credit: Anja Liotta for Shaka Tea

“In general, the COVID-19 pandemic has strengthened brand movements which were already present within the category,” the report stated. “More indulgent RTD tea brands with higher sugar content have continued to lose share in 2020, whilst kombucha brands and more health-positioned brands have increased.”

Likewise, Whipstitch Capital managing partner Mike Burgmaier, speaking from an M&A perspective, pointed to strong growth in the kombucha category as one of the most promising avenues for tea-based beverages, while tea-based energy drinks and yerba mate likewise are poised for strong growth. Acquisitions of traditional iced tea brands are sparse, he said, and two of the most high profile acquisitions in recent memory -- Honest Tea by Coke and Sweet Leaf by Nestle -- are now a decade in the past.



But products like Hoplark HopTea and yerba mate brand Guayaki, that bend category definitions, are both posting strong growth and present a path forward, he said. In particular, Burgmaier praised Hoplark, which makes a line of teas brewed with hops, giving the drinks the texture of a full-flavored, non-alcoholic beer, as providing a major point of differentiation in the category that is resulting in strong sales. While they all service different niches, kombucha, yerba mate and more unique brewed products like Hoplark are all expanding the use occasions for tea, helping put them in a different space than other tea startups fighting to draw market share from Coke, Pepsi and AriZona.

“Basic tea is a very difficult prospect, because there’s so many big players that just absolutely dominate,” Burgmaier said. “It’s a relatively low-priced product that is available everywhere. So you obviously have to differentiate your offering. Being extremely low calorie, low sugar or zero sugar -- that’s almost a must have if you’re going to break out and differentiate. Having some type of functional angle, I think, is also very important.”

#### EXPANDING TEA

For Hawaii-based Shaka Tea, positioning its line of organic, zero sugar and caffeine-free teas as a functional beverage has been key to the brand’s growth, according to husband and wife co-founders Harrison Rice and Bella Hughes. The five-year-old startup announced in July that its four SKU line of iced teas are now available in over 6,000 stores nationwide. Sales are up 240% year-over-year the company has grown to over 20 employees, its founders say.

While its glass-bottled drinks contain just Hawaii-grown tea, flavoring, and monk fruit -- putting it in that traditional iced tea category -- the company has leaned on other marketing messages, including friendliness to Keto and Plant-Based diets to drive trial and bring in health-minded consumers. As well, Hughes said the brand's focus on non-caffeination has been a consistent selling point, especially for consumers seeking midday refreshment that won't keep them up all night. While Shaka is hardly the only caffeine-free beverage on the market, the brand has married the trait into its overall clean label positioning to present the brand as something akin to a complete health package.

"Every single thing you put in your body has to have some health benefit now, because everything is about immunity," Hughes said, noting that the brand's retail expansion comes as buyers have been more "focused" in their selections.

Shaka Tea is now looking to expand its platform with a new 2 oz. tea-based Immunity Shot. Set to launch this fall, the passion fruit-flavored shot contains turmeric and antioxidant-rich tea mamaki. According to Hughes, the product will roll out in a limited run in Hawaii, including in the hospitality channel, before expanding elsewhere.

The better-for-you shots category has seen an influx of innovation over the past few years, including from brands like Ethan's and So Good So You, and the unique format has helped to drive sales growth for slowing categories like juice. But Shaka aims to be among the first to introduce a tea-based shot to the market, marking another way for a startup tea brand to expand its business.

An increasing number of brand marketed as better-for-you plays are also now hitting the mainstream. In March, startup brand Weird Tea launched into the convenience channel with a line of sweetened, organic canned teas. Founder Jason May -- the former CMO of Rockstar Energy

Drinks -- said he plans to disrupt the category by marrying the ethos of premium boutique teas with vibrant branding targeted towards the mainstream. Established tea brands are also now looking to extend their offerings with new emphasis on function and wellness: Rishi Tea, primarily a loose leaf and sachet tea seller, launched its ready-to-drink Sparkling Botanicals brand last year and Honest Tea debuted a yerba mate line in May.

Earlier this year, Novamex-owned canned iced tea Steaz announced a brand refresh that included new positioning as an "antioxidant brew," added zero sugar products and a new line of yerba mate based extensions. The products were also reformulated to remove ingredients that "didn't make sense," including inulin and erythritol, according to Mike Franz, director of marketing at Nova Naturals, the Novamex beverage division that also includes brands like C2O and Tio.

Historically Steaz's footprint has been deepest within the natural channel, but Franz said the rebrand is now helping to break deeper into the conventional channel, including Big Y, Giant Carlisle and HyVee, with several larger retail chains slated to go online this fall. The broader portfolio is also growing the company's place on the shelf within existing natural accounts: the yerba mate line, which launched as a Whole Foods exclusive in the fall, is poised to enter new accounts later this year, primarily within the natural and specialty channel.

"For the last 15, 16 years Steaz has really crafted what we call 'flavorful teas for the mind, body and soul,'" Franz said. "The introduction of yerba mate is just really the fun expansion of that and continuing to drive value to the consumer by focusing on great taste in a unique way that delivers upon something that fits their mind, body and soul."

That would be more than refreshment, indeed.



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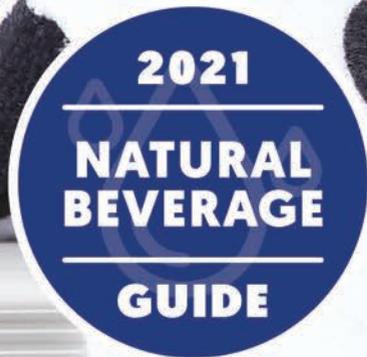
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