



Executive Insights

Healthy Opportunities in U.K. Food and Beverages

Healthy and natural — two words whose importance is growing fast in the food and beverage (F&B) market. Consumers are increasingly switching to products such as natural and alcohol-free drinks, meal replacements, and vegan foods which promise health benefits and may be produced from sustainable sources.

The impact has been substantial.

For F&B brand managers and investors, the trend towards healthy and natural foods represents a significant opportunity. In this *Executive Insights*, L.E.K. Consulting examines five F&B categories offering strong potential for development and growth, summarising the characteristics and prospects for each market segment. We also outline our recommendations for how players can successfully build the profile of up-and-coming brands and scale them through effective promotion and distribution.

Five major consumer categories to watch

Consumer tastes are evolving. Healthier, natural foods are in vogue and heightened environmental awareness is driving increased demand for sustainable production. Furthermore, millennial consumers are on the hunt for niche and artisanal brands that provide new experiences or that offer new interpretations of well-established categories.

L.E.K. research into the U.K. F&B market has highlighted five categories of particular interest.

1. Natural soft drinks

Natural soft drinks are some of the most promising F&B brands, with significant potential to expand into mainstream distribution.

While traditional soft drinks typically contain high levels of sugar, preservatives and synthetic ingredients, natural soft drinks, such as Purearth, No1 and Square Root, use organic ingredients including natural colas, tea extracts and juices.

This market segment also includes fermented drinks such as kefir and kombucha, which are probiotic and marketed as promoting a healthy gut. Kombucha is already well established in the U.S.,

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with a wide range of SKUs in many supermarkets (notable brands include Equinox Kombucha and Rhythm Health), and the U.K. is likely to see international entrants — the Portuguese brand Captain Kombucha is already making waves, having won the Best New Organic Drink Product of 2019 at the Natural & Organic show in London.

2. Healthy meal replacements and complements

A significant barrier to healthy eating has been the lack of convenient options, but meal replacements are emerging to help busy consumers maintain nutritionally balanced lifestyles on the go. Products such as Huel and Mana offer a complete balanced serving with all the required vitamins and nutrients, and can substitute for whole meals, while Lacka Foods prides itself on specialising in “nutritional convenience”, offering breakfast shakes, protein drinks and popped chips.

Meal complements such as protein snacks and drinks are more established, with the category increasingly crowded and competitive. More recent additions to the space include brands Barebells and Indie Bay, which offer vitamin drinks and pretzel snack packs, respectively.

Healthy Opportunities in U.K. Food and Beverages was written by **Dominic Miles, Geoff Parkin** and **Romain Maitret**, Partners at L.E.K. Consulting. Dominic, Geoff and Romain are based in London.

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3. Alcohol alternatives

Alcohol alternatives are receiving increasing investment attention. Consumer events such as Dry January and the growing social acceptance of going alcohol-free are boosting demand for a range of alternatives to spirits and beers. Multinationals are showing the way for these once niche concepts to become mainstream — Diageo recently bought a majority stake in Seedlip, and Pernod Ricard acquired exclusive distribution for Ceder's in the U.K.

While many non-alcoholic spirits popular in the U.K. are alternatives to gin, such as those offered by Spirits of Virtue and Surendran & Bownes, other brands are beginning to develop a wider portfolio — U.K. brand Stryk, launched in 2018 by the founder of Funkin Cocktails, offers a range of non-alcoholic gin, rum and vodka replacements.

Larger brewers have offered low-alcohol beers for some time, and the trend has caught the attention of the craft beer scene: Infinite Session offers pilsner, IPA and American pale ales; Big Drop Brewing Co. specialises in 0.5% ABV beer; and Nirvana Brewery in London focuses solely on alcohol-free beer. In addition to offering an alternative to alcohol, products may also contain healthier, nutritional ingredients. FitBeer, for example, lists its only ingredients as water, hops, malted barley and yeast, and is marketed as low-calorie, rich in vitamin B and folic acid, and containing no added sugar or chemicals.

4. Artisanal beverages

Though consumers are increasingly health conscious, many still seek an artisanal treat from time to time as an occasional indulgence (see L.E.K.'s *Executive Insights*, Talk Thin, Eat Fat: The Paradox of Indulgent Food Trends). As a result, they are willing to pay a premium for products such as high-quality coffee.

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New cold brew coffee, such as Sandows and Kuka Coffee, and matcha tea products, including those from Bloom, OMG Tea and teapigs, highlight the innovation taking place in this segment of the F&B market. Some artisanal brands (e.g., Bird & Wild) are also aiming to address socially conscious consumers' demand for ingredients that minimise environmental and social impact.

These innovations mean that artisanal beverages are starting to attract the attention of the large multinational companies that dominate the international landscape, such as Nestlé in coffee and Unilever in tea. This has led to some significant acquisitions in recent years. For example, in 2017 Nestlé acquired U.S. brands Chameleon Cold-Brew and Blue Bottle Coffee, and Unilever now owns both the Australian chain T2 and the U.K. organic herbal tea business Pukka Herbs.

5. Vegan ready meals

Vegan products, including Wicked Kitchen and The Vegetarian Butcher, have moved into the mainstream, buoyed by a backlash against animal-derived foodstuffs and endorsement by celebrities.

There were more than half a million declared vegans in the U.K. in 2016, compared with 150,000 a decade earlier, according to the charity "The Vegan Society"¹. Last year, the U.K. overtook Germany as the country with the most vegan food product launches, according to Mintel, and one in six food product launches in the U.K. were vegan, double the level of 2015².

A significant barrier to wider adoption has been lack of convenience. A strict vegan diet requires finding specialised ingredients and preparing them from scratch. Recently, however, food producers have begun to offer mainstream-type food products, such as ready meals — Quorn and Bol Foods offer a variety of pre-made vegan dinner boxes, salads and soups.

Discovering and growing early-stage products

These five market categories are vibrant and fast-changing, with new concepts and brands extending and broadening consumer interest.

For those operating and investing in this market, finding new brands is not difficult. Planet Organic, Whole Foods and other niche retailers often stock early-stage products, as do fashionable city districts and high-end supermarkets and department stores. The challenge comes in finding early-stage products with an enduring point of differentiation that can then be leveraged to achieve growth through the application of disruptive marketing models. Brand managers and investors must look beyond the traditional distribution channels centred around grocery retail and embrace novel concepts.

Digital marketing, social media platforms and PR are crucial to drive awareness and customer engagement, especially among millennials. Successful players need to learn how to develop and share creative social media content, and recruiting influencers to regularly post engaging videos and photos can be a powerful marketing lever — particularly when supplemented with effective PR. Fever Tree, for example, was lauded for its award-winning "Raise Your Glass. Erase Malaria" social media campaign³, and Hippeas regularly leverages its Twitter and Instagram following to promote new products, giveaways and points of sale. Ensuring that the product is highly observable and triggers discussion also helps raise a brand's profile, such as Bol's salad jars and soups, which clearly display the company name while consumers eat directly from the tub, or Higgidy's branded delivery vans.

As online retail spending continues to rise, creating a vibrant mix of new channels, including direct to consumer and internet-based subscription models, is vital to kick-start distribution. For example, both Huel and the meal supplement Form Nutrition offer a money-off incentive for subscribers. Partnerships with well-established brands may also provide a means for smaller players to cost-effectively promote, sell and deliver products directly to consumers. Examples include Fever Tree teaming

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up with British Airways in 2015 and BrewDog collaborating with the Co-op supermarket chain for the exclusive launch of its “East Coast Crush” IPA in July 2019⁴. Finally, quirky pop-ups in locations frequented by the target customer group help drive uptake, allowing consumers to sample products and learn where they can buy them again. Scottish brewer Innis & Gunn’s Edinburgh “winter sunshine bar” is a notable example — for three days in November 2017, visiting customers received a free pint of Innis & Gunn’s lager while being bathed in SAD light⁵.

Conclusion

The trend towards healthy and natural foods has created vibrant and fast-paced categories within the F&B market, offering significant opportunity for development and growth. Brands will need to deploy a combination of traditional and innovative marketing and distribution approaches in order to successfully position themselves to deliver strong, lasting and profitable growth.

Endnotes

- ¹ [Vegan Society](#)
- ² [Intel press office](#)
- ³ [PRWeek](#)
- ⁴ [The Drinks Business](#)
- ⁵ [Edinburgh Evening News](#)

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