

Edison Explains



Natural Flavourings

Why are natural flavourings so popular today?



Why are natural flavourings fashionable?

Increasingly concerned about their health, younger generations have steadily exerted pressure on the food and beverage market to produce natural, clean label (ie using as few ingredients as possible), calorie-free and sustainable products, especially in developed economies.

It is therefore no surprise that clean eating habits and health have become popular, or that consumers perceive non-synthetic ingredients as beneficial to our health, even when the evidence remains sparse.

Concurrently, a movement away from larger brands, especially in beverages, to niche 'artisanal' products often defined by their natural credentials, has also increased the demand for natural flavourings.

At the same time, interventions by regulators concerned by the rise of obesity, such as the recent sugar tax in the UK and Portugal, are also encouraging a move to natural sweeteners.

How are food and beverage companies trading up?

In response to consumer demand for premium products, larger companies have either acquired niche businesses or traded up in certain segments with their own premium products. The alcohol mixer market, a traditionally low value proposition, has, for example, seen many premium alternatives crop up. Natural flavourings in drinks like expensive gin, or premium craft beers, have also been a boon to the market.

Between October 2018 and May 2019 Diageo's start up investment unit, Distill Ventures, reported 271 'premium soft drink' launches.

Unsurprisingly, the demand for premium non-alcoholic and flavoured alcoholic products increased the demand for natural flavourings.

Are some flavours proving particularly popular?

Citrus is always popular, though it trends towards cyclical, with Japanese yuzu fruit and persimmons augmenting the traditional flavours of orange, lemon and lime.

Natural vegetable flavours, uncommon in the drinks of the past, are becoming increasingly popular due to their health affiliations. Similarly, the use of botanical flavours such as orange blossom, lavender, hibiscus, rose and the botanical champion, elderflower, are becoming increasingly common. However, the botanical resurgence might also be due to the growing popularity of gin.

Tea flavourings are also progressively sought after as beverage markets develop throughout Asia, especially in China. However, tea and tea-related flavours are expanding outside Asia also, with the tea market growing by 40% between 2011 and 2016, outpacing the growth of the carbonated soft drinks market. In the West this is mostly due to the same health-related perceptions present in botanicals and vegetables, especially in the case of green and ice teas.

The prevalence of flavoured iced coffee as a way of ingesting and benefiting from the caffeine is also growing. Taking market share away from energy drinks, which are seen unhealthy, chemical filled and unnatural substitutes.

Finally, increased regulatory pressure is likely to result in the rising popularity of natural sweeteners. That said, the actual health benefits over sugar have yet to be proven empirically.

What are some of the risks of the natural flavouring market?

In addition to the obvious risk of low consumer confidence, due to the US/China trade war, inverted yield curve and Brexit, natural flavouring companies share a number of sensitivities inherent to their market.

Compared to synthetic flavours, natural variants suffer from supply chain risk.

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'A common problem in the wellness space is that the better-for-you variants often have a compromised taste. To keep taste as close as possible to the regular product, complex formulations take centre stage and may require an ongoing iterative process to optimise the taste.'

Sara Welford,
Edison consumer analyst

The foundation of natural flavourings, fruits and vegetables, are somewhat subject to the whims of the environment. For example, the raw ingredient for one of the most popular flavours, orange oil, suffered from weak harvests in Brazil and Florida for several years due to diseases and weather patterns.

The raw materials are also rarely traded on commodity exchanges, which increases the risk of supply chain disruptions and reduces hedging options.

In addition, global supply chains often lead back to developing countries that may have poor track records on social issues, like labour standards. There is also increased governance risk. Mitigating these risks is especially important given the focus the average end-consumer of naturally marketed products tends to place on the importance of ethically upstanding products.

Companies that produce natural flavourings are also susceptible to fluctuating foreign exchange rates given their diverse raw material supply chains and various countries of origin

How are natural flavouring companies reacting to the changing market?

A significant proportion of flavouring and fragrance companies are investing in clean label R&D programmes in the production of natural flavours.

Sensient, a market leader in the field, recently reiterated the importance of its R&D programme, while the German producer, Symrise, has invested \$50m in a new site for natural food ingredients in the state of Georgia. Other companies are focusing on marketing their natural flavours, like Firmenich and its #NaturalsTogether campaign.

Flavour companies are capitalising on consumer trends and shifting their focus into the natural segment as well. For example, [Treatt](#) has undergone a transformation from a trading house to a provider of value-added, complex flavour and fragrance solutions, with an increased focus on its natural portfolio.

The sweetener market is also far from stagnant, as SweeGen recently received Canadian regulatory approval for its sweetener. All while Ingredion, producer of sweetener Stevia recently announced it is investing \$200m into its clean and simple ingredients, plant-based proteins and sugar reduction capabilities.