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## **TRADITION MEETS INNOVATION – THE EVOLUTION OF SPECIALTY BEVERAGES IN THE MENA REGION**

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## Overview & Key Developments Driving Demand

Beverages have always been an essential part of middle eastern lifestyle; the popularity of non-alcoholic beverages has always held significance. Consumers in the Middle East countries are willing to experiment with the available options in beverages. With this trend in place, new product launches in the beverage categories have led to product offerings in premium ranges along with innovations towards specialty beverages.

According to Frost & Sullivan analysis, the Middle East specialty beverage industry is estimated at USD 8 -10 billion in 2023; of which majority contribution is from non-alcoholic beverages including soft drinks, plant-based beverages, premium Ready-to-Drink juices including kombucha, bubble tea. The specialty beverage industry in the Middle East is anticipated to witness a CAGR of ~5%-7% during the period of 2023-2027.

## Developments in the Specialty Beverage Sector:

- **Sugar reduction** is one major development which is recently gaining significance in the Middle East countries. The regulatory stringency in countries such as UAE, Saudi Arabia and Oman (50% excise levy) in attempt to reduce and control the overall sugar intake among the population has led to entities emphasizing on product launches in the low-sugar, reduced sugar and low-calorie categories<sup>1</sup>.
- Consumers in the Middle East region have become highly conscious about health and wellness. The increasing awareness of health and wellbeing among the consumers has raised the demand for **botanical or herbal** ingredients in the countries. Entities such as Al Rawabi and Hayatna<sup>2</sup> based in UAE have already launched functional beverages including organic shots as a blend of herbal ingredients with fruits and vegetable extracts. Their product portfolios include botanical juices and immunity-linked beverages popular among the consumers.
- The **clean-label** aspect has led to consumers being highly conscious about the 'carbon footprint'. Demand for botanical and herbal drinks is supporting the organic and clean-label movement in the Middle East countries. Entities such as Koita offer organic dairy and non-dairy beverages and have gained consumers traction. Similarly, Dubai's beverage brand Saba has witnessed the sale of their organic kombucha surge by 30% post-pandemic owing to consumers demands.
- Product innovation and **premium** beverages hold high growth potential in the region. Consumers have a high inclination towards beverages that offer premiumization and those with innovative and refreshing flavors.

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<sup>1</sup>Food Navigator Asia

<sup>2</sup><https://hayatna.ae/products/>



## Key Opportunities & Disruptions

01

**Low-calorie/Reduced or No-sugar beverages for win:** The regulatory restrictions and sugar levies have increased the average price of these sugar-sweetened beverages since 2020. This in turn has opened opportunities for beverage manufacturers to enter the low-calorie, reduced-sugar segment. To reduce sugar and product costs, entities could also utilize sugar alternatives or natural sweeteners such as Stevia for their offerings.

02

**High focus on sustainability:** Consumers associate sustainable, clean label, organic and botanical beverages as premium products. For example, beverages which contain botanicals are appealing to consumers who prefer clean labels and sustainable ingredients<sup>3</sup>. The botanical ingredients in the drinks give aromatic formulas a natural “pop” which consumers perceive as energizing. This trend is not only restricted to beverages but is also prevalent across the food industry. Consumers want to experiment with various non-alcoholic beverages options available to them.

03

**Surge in fermented beverages amidst health trend:** Rising health and wellness trend and adoption of ‘better-for-you’ products into the lifestyle has led to consumers choosing their beverages mindfully. Renowned regional brands such as Saba, Almarai, Kdcow (Kuwait Dairy Company) offers beverages including kombucha and kefir where the demand for fermented beverages is seen as a lucrative opportunity based on the current health and wellness trends. The entities keep bringing products in new and innovative flavor variants to retain their consumers and strengthen their footprints.

04

**Product innovations to gain consumer traction:** Innovation in flavors, products are the key strategies to maintain a strong and healthy foothold in the middle east countries. Seasonal flavors and innovations tailored to the consumer requirement is seen as an opportunity to enter the beverage market in the Middle East.



<sup>3</sup>Kerry Digest- Botanical Beverages

## Current Challenges

01

**Product traceability seen as a potential challenge:** The government in Middle East have imposed stringent regulations<sup>4</sup> and is closely monitoring the production, processing, and distribution of the food and beverage products. In UAE, there are regulations to ensure that only the highest-quality items are reaching consumers with a limited scope for contamination or low-quality products. Penetrating the premium specialty beverage sector is more challenging in the Middle East and entities must ensure that they strategize their production in such a way that they give high emphasis to traceability of the supply chain and food safety to create their unique selling proposition.

02

**Surging prices and rising competition:** The beverage industry is highly competitive in the Middle East region and is becoming increasingly consolidated. It is also noteworthy that the labor costs are rising. Evidently few manufacturers in the premium and specialty non-alcoholic space along with few retailers hold the lion's share and have more control over cost. Consumers in the region are brand loyalists, which also tends to be a challenge for other SME's operating in the segment with an economical price point for their offerings. This scenario poses a challenge for smaller market players and entities operating in the space need to strategize their marketing accordingly to retain or expand their foothold in the region.



<sup>4</sup>Frost & Sullivan Analysis



## Future Strategic Outlook

In order to sustain in the Middle East specialty beverage market or to enter into the segment, a key strategy that needs to be followed by the entities is to closely monitor the evolving and dynamic shifts in consumption trends. Innovations should be the key to establishing a strong foothold in the region. Consumers in the region exhibit strong inclination towards innovative yet clean-labelled and sustainable products and consider them as premium. Established entities along with new entrants are focusing on offering health and wellness promoting specialty beverages labelled as low-sugar, fortified specialty beverages, herbal drinks/juices, fermented drinks which in turn is gaining consumers attention towards their offerings. Frost & Sullivan is indicative of investment in this space to be a profitable investment<sup>5</sup> for the specialty beverage manufacturers in the Middle East region.



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<sup>5</sup>Frost & Sullivan Analysis





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