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BUSINESS

Dull Skin? Restless Sleep? There's a Drink for That

Beverage makers add aronia berries and fermented beets, promising to do everything from aid sleep to boost cognition



It can take several years to develop a recipe and find suppliers and a manufacturer to produce a new drink at scale.

PHOTO: F. MARTIN RAMIN/THE WALL STREET JOURNAL

By [Annie Gasparro](#) and [Patrick McGroarty](#)

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Money is pouring into developing beverages that claim to do much more than quench thirst. A lot of that funding ends up going down the drain.

Conglomerates and startups alike are placing bets on “enhanced” drinks that promise everything from better sleep to a more youthful complexion. While sales of such drinks are rising—up 11% in the past year to \$3 billion, according to market-research firm Spins—hundreds of new ones are launched each year, and the majority peter out within a couple of years. Finding success involves the right mix of funding, taste, health claims and luck.

“You have to figure out which trends will go mainstream, and that’s the risk,” said Brett Thomas, co-founder of CAVU Venture Partners, which has invested in Bai antioxidant drinks and Health-Ade kombucha. After [Dr Pepper Snapple Group Inc.](#) [KDP +0.19% ▲](#)

bought Bai in 2017 for \$1.7 billion, CAVU received three times the return on its investment in less a year.

Bai's success is the exception. As few as 3% of new nonalcoholic beverage companies manage to reach more than \$10 million in annual revenue, said Stu Strumwasser, managing director of Green Circle Capital Partners LLC.

#BEYONDSODA

Beverage makers are adding new flavors and new products as consumer tastes shift beyond traditional drinks like soda. The Wall Street Journal is exploring how the business is changing.

[Coke Adds Coffee to Its Drinks Mix in \\$5.1 Billion Deal](#)

[Starbucks' Frappuccino Gets a Sugar Makeover](#)

[Clear Beer? Don't Judge a Drink by Its Color](#)

[Liquid Diet: My Day of Drinks](#)

[How Seltzer Is Upending Coffee and Beer](#)

[Why Your Beverage Options Are Exploding](#)

[Coca-Cola Launched 500 Drinks Last Year. Most Taste Nothing Like Coke.](#)

- [Mixed Drinks: How Do They Taste?](#)

Overall, venture capital firms have invested more than \$170 million in functional beverage companies so far this year, according to data provider PitchBook. That's up from \$111 million in all of 2017.

It can take several years to develop a recipe and find suppliers and a manufacturer to produce a new drink at scale. Inventors and investors also need a brand name and marketing pitch that will attract customers and appease regulators. And that is all before catching the attention of a big retailer.

During that time, consumers' tastes can change quickly. Sales of beverages containing aloe vera and turmeric, which claim to ward off indigestion and inflammation, are already declining after several years of explosive growth.

Many drink makers are able to surmount these hurdles and secure funding.








Farmhouse Culture, maker of a fermented beet juice called Gut Punch that is flavored to taste like [Coca-Cola](#), received a \$6.5 million investment in March from a group led by

General Mills Inc.'s fund.

“There’s a little bit of a gold rush,” Mr. Strumwasser said. His firm helped raise \$2.3 million for “wellness water” maker Karma Culture LLC three years ago and last year represented Marley Beverage Co., a maker of ready-to-drink coffee and “relaxation drinks” named after singer Bob Marley, in its sale to New Age Beverages Corp. for shares worth \$19 million at the time.

Enhanced Sales

Sales of so-called enhanced beverages have mostly jumped over the past year.

| YEARLY SALES, MILLIONS* | | CHANGE FROM A YEAR EARLIER | |
|--|-----------------|----------------------------|--|
| Kombucha | \$525.83 | 38.2% |  |
| Alkaline water | 205.15 | 43.9 |  |
| Refrigerated cider vinegar drinks | 18.97 | 57.6 |  |
| Drinks with turmeric | 10.90 | -3.5 |  |
| Drinks with aloe | 2.44 | -16.8 |  |
| Drinks with memory, brain claims | 0.93 | 63.2 |  |
| Oxygenated water | 0.39 | 62.4 |  |

*For 52 weeks ending June 17

Source: Spins market research group

Mr. Strumwasser knows the challenges of developing a successful drink. His own startup, Snow Beverages, was launched in 2005 with a natural mint-flavored soda and expanded to thousands of stores on the East Coast before closing in 2011. “By the time we may have gotten it right our investors had fatigue,” he said. He founded Green Circle in 2012.

“What separates the winners from the losers is funding,” said Melanie Kahn, founder of Poppilu, a brand of antioxidant-rich lemonade made with aronia berries. Kraft Heinz Co. added her company to its incubator program in May, giving her \$50,000 in funding and access to business consultants and Kraft Heinz executives.

Poppilu still isn’t profitable. “It’s a cash-intense industry,” she said.

When there is success in a category, competition increases quickly. One of the fastest-growing new areas are fermented drinks like kombucha, a tea containing probiotics that advocates say help with digestion and gut health. Sales of fermented beverages jumped 37% in the past year.

The founder of GT's Kombucha, an entrepreneur named GT Dave, began selling his fermented tea more than 25 years ago, when many grocers didn't know what it was. Now there are more than 400 kombucha brands, pushing him to look for additional sales with a new type of tea made with plant adaptogens derived from medicinal mushrooms. Other companies are making artichoke, cactus, birch and maple waters that purport to offer benefits like clearing up skin and curing hangovers.

A key to success is how convincingly companies can phrase and support their healthfulness claims about burning calories, stimulating memory and aiding digestion. The founder of 120/Life, a blend of beetroot, magnesium, hibiscus and fruits, said he advertises that his juice helps "promote normal blood pressure," because the ingredients have been proven to do so in clinical studies. He stops short of claiming that his drink can help lower high blood pressure.

Such distinctions are important in avoiding the scrutiny of federal regulators, said Ivan Wasserman, partner at law firm Amin Talati Upadhye. He said the U.S. Food and Drug Administration has sent warning letters to drink manufacturers simply for "liking" customer testimonials on social media that stretch too far.

"These are the semantic games you have to play," he said.

The Supreme Court in 2016 rejected the Wonderful Co.'s appeal of a Federal Trade Commission ruling that the California-based fruit-and-nut company had deceptively claimed its pomegranate juice could help prevent prostate cancer and other ailments.

Edith Ramirez, FTC chairwoman at the time, said the decision showed that companies making claims about the healthful benefits of their products "must have rigorous scientific evidence to back them up."

The best-known soda brands once made similar health claims. In the late 19th century people thought carbonation conveyed health benefits. John Pemberton created Coca-Cola in 1886 as a medicinal syrup that he said cured headaches and impotence. Those claims were debunked, but people were hooked on Coke's sweet taste.

Coca-Cola Co. and PepsiCo Inc. have tried to keep up with the shift toward healthful drinks, buying coconut water and kombucha brands. Sales volume of carbonated soft drinks fell for 12 straight years through 2017, according to industry tracker Beverage Digest.

“The question was always how does it taste?” said Dino Sarti, co-founder of L.A. Libations, a beverage company with investments in brands including Gloe waters fortified with aloe vera, turmeric and ginger that are on track for about \$20 million in sales this year. “Now everyone’s question is, what does it do for me?”

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