

# The acceleration and diversification of iced tea across America

The diaspora of iced tea across the United States has been swift. In the past 5 years, this Southern staple has since found its way onto restaurant menus across the country.

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By Alicia Kelso | FastCasual.com



**“Sweetened, iced tea has moved from the South to the North and all over the country.”**

—Darren Tristano, Executive Vice President, Technomic

According to Technomic’s MenuMonitor, iced tea menu incidence increased 23.1 percent from 2010 to 2015, including 7.3 percent from 2013-15.

Technomic EVP Darren Tristano pinpoints the beverage’s expansion to McDonald’s national rollout in 2007-08.

“Anytime McDonald’s does anything it changes market dynamics. When they moved their sweet tea to national, it made a huge difference,” he said.

McAlister’s CMO Donna Josephson also traces the specialty beverage’s growth to McDonald’s sweet tea launch.

“McDonald’s is a big reason sweet tea got a foothold across the country. With its marketing muscle and huge presence, more people outside of the South were able to be exposed to the beverage,” she said.

Now, several large and small chains in every restaurant segment offer a signature iced tea, from Popeyes and Moe’s to Uncle Maddio’s. Popeyes jumped on the iced tea bandwagon fairly early with its proprietary “Popeyes Fresh Brewed Cane Sweeet Tea” in 2010. At the time of its launch, the company’s spokesperson said tea was emerging as a hot concept that consumers were increasingly demanding.

McAlister’s Famous Sweet Tea is that brand’s top seller, followed by un-sweetened tea. The company has even trademarked “McAlister’s Famous Sweet Tea.” And although it’s always been a signature menu offering, Josephson said tea’s popularity continues to rise and the industry itself is on the cusp of a second phase in the diaspora.

“The consumer is now demanding flavored teas and different kinds of teas. We have started to see this just in the past two years or so. Up until three years ago, our tea was so sacred, we wouldn’t have dreamed of adding anything to it other than cane sugar,” she said.



Now, McAlister's offers seasonal teas such as watermelon, and the permanent flavors of peach and wildberry were added after "wildly successful" tests in 2013.

"People begged us to keep them on," Josephson said.

Tristano is seeing this "second phase" taking off across the industry as well.

"Sweetened, iced tea has moved from the South to the North and all over the country. We've been able to get a huge container at McDonald's for a buck for a few years and the next step is more specialty teas in fruit or citrus flavors. We're now in a second phase and will start to see more innovation around taste and flavor profiles," Tristano said.

He expects the market to continue growing for the next few years and to follow a similar path that specialty coffees have taken for the past few years.

"If we look at product versus flavor, on the product curve, we're entering a maturing phase for iced tea. On the flavor curve, we're still emerging and broadening and we'll likely see continued growth here for the next 3 to 5 years," Tristano said.

According to the Tea Association of the U.S.A.'s 2014 Year in Review, the wholesale value of tea sold in the U.S. has grown from less than \$2 billion to more than \$10 billion in the past 20 years, with steady growth in supermarkets to c-stores to specialty tea shops.

"Tea has seen steady growth beyond supermarkets. Specialty teas are now a staple in thousands of coffee shops across the country, and nearly all upscale hotels offer an afternoon tea service. It is estimated that there are more than 4,000 specialty tea rooms and retail shops across the country," according to the association's report.

### **Growth drivers**

A number of factors are driving iced tea's expansion. First, according to Tristano, retailers and operators are simply recognizing that a lot of Americans like tea and are willing to drink it often if it's available to them.

"It's not just a British thing anymore. When Starbucks bought Teavana (in 2012), that indicated broader support for tea drinkers," he said.

Second, tea offers a good alternative for those who don't drink coffee, or those who don't want to drink coffee past a certain time in the day.

"There is a little bit of cannibalization there if you offer both coffee and tea, but you definitely want both on your menu. You don't want consumers to



go down the street because they have tea and you don't," Tristano said. "Because there are so many places now emphasizing tea more – like Starbucks and Peet's – it's important to broaden your menu and to be competitive with your tea offerings."

Perceived healthfulness and simplicity has boosted McAlister's tea sales, Josephson said.

"Even sweet tea has less sugar than carbonated beverages, so consumers do believe tea has a healthy halo," she said. "They're also becoming more aware of what they're putting in their bodies and demanding transparency. I can explain our tea in three ingredients – tea leaves, water and pure cane sugar. That's definitely an advantage."

The healthy halo is also driving new types of teas in the market, such as green and white teas. Wendy's, for example, now sells Honest Tropical Green Tea.

Also driving the demand for iced tea, according to the State of the U.S. Tea Industry report:

- **Convenience/availability:** Tea is quick, easily accessible and is becoming even more convenient through the growth of single serve cups, which are now estimated to be about 13 percent of the tea category.
- **Versatility/customization:** Tea can be flavored, infused, sweetened, unsweetened and carbonated. According to the report, tea is also increasingly being used as an ingredient and new categories are emerging such as tea-infused water, tea frappes, tea smoothies, tea-infused chocolate, tea-based ice creams and more. "Tea provides a very good canvas to explore a number of flavor profiles," Tristano said.

### Big opportunity

The tea trajectory is not expected to slow in the near future, according to Elizabeth Friend, senior research analyst at market research firm Euro-monitor.

"We continue to see consumers moving away from traditional sugary carbonates, really sweet flavor profiles, and towards beverages that are a little bit lighter, a little bit healthier, a little bit more refreshing, a little bit more complex and refined in terms of their flavor profile," Friend said. "We do want to indulge, but we want to make sure it's worth it in terms of the calories and the experience ... Most of the opportunity is going to be iced tea and iced tea blends."



### About the sponsor:

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According to the Global Iced/RTD Tea Drinks Report from market research firm Canadean, the tea market in the U.S. is expected to grow at a rate of 3 to 6 percent through 2018. Specialty teas are expected to experience an annual dollar increase of 10 to 15 percent.

Foodservice sales, in particular, are expected to drive this growth due to an increase in operator interest both to answer consumer demand and to generate high profit margins. That consumer demand largely comes from millennial consumers, who want new flavors and more beverage options.

“Operators are smart to consider having tea for many reasons – it increases the number of occasions, it offers something innovative flavor-wise and the way the industry is now, it’s just important to be competitive with your offerings,” Tristano said. “It’s important to have, especially if you also offer coffee.”