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The soda industry is discovering what the future of Diet Coke looks like (and it isn't pretty)

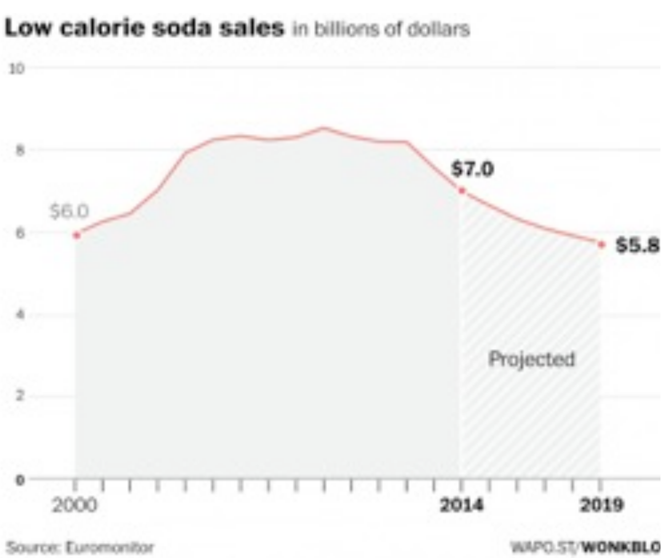
by Roberto A. Ferdman March 23, 2015

Towards the end of the 1990s, more than a decade and a half after Diet Coke was first introduced, Coca-Cola found itself in a rut. The soda maker's best-selling low calorie drink, popular as it had become, appeared to be topping out in reach. The same was true of cola's archrival Diet Pepsi, as well as the rest of the lighter soda business. "Sales of diet soft drinks remain as sluggish as overeaters after Thanksgiving dinner," the New York Times wrote in the spring of 1997.

Reports of diet soda's demise were premature at the time. In the decade that followed, diet sodas grew by more than 30 percent. In 2009, sales pushed above $8.5 billion for the first time.

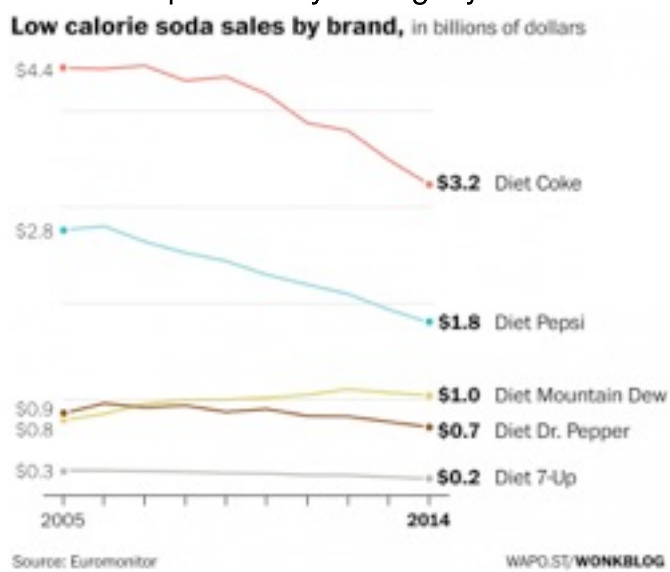
But America's thirst for Diet Coke and its kin is running dry again—and this time it could be for good.

Sales of low calorie soft drinks in the United States have tumbled by almost 20 percent over the past five years, according to data from market research firm Euromonitor. This year, diet soda sales are on pace to drop another 5 percent. By 2019, they are projected to have fallen off by roughly a third since their peak in 2009.



Some of the biggest brands are also some of the biggest losers in America. Diet Coke, which is the third best-selling soda in the United States, has seen its sales fall off by 15 percent in the past two years, and almost a third since 2005. Sales of Diet Pepsi, the second largest low calorie brand, meanwhile, have plummeted by roughly 35 percent.

Other less popular carbonated low calorie drinks are suffering, too. Americans buy 25 percent less Diet Dr. Pepper and 33 percent less Diet 7-Up than they did eight years back.



Even Coca-Cola Zero, which grew furiously after its launch in the early 2000s, has seen sales slow to a halt in recent years. Last year, the brand contracted for the first time, according to Eurmonitor.

The diet soda slowdown isn't merely an American thing—it's also happening worldwide. Globally, regular Coca-Cola and Pepsi are growing, albeit slowly, while their diet counterparts are shrinking pretty quickly. Sales of each were down almost 20 percent in the decade ended last year, according to Euromonitor.

But the future of diet colas is particularly cloudy in the United States.

Low calorie sodas are fighting an uphill battled against not one but two trends among American consumers. The first is that overall soda consumption has been on the decline since before 2000. Diet sodas, though they might come sugar and calorie-free, are still sodas, something Americans are proving less and less interested in drinking.

The second, and perhaps more significant trend, is a growing mistrust of artificial sweeteners.

"Consumers' attitudes towards sweeteners have really changed," said Howard Telford, an industry analyst with Euromonitor. "There's a very negative perception about artificial sweeteners. The industry is still trying to get its head around this."

Food and beverage companies, in hopes of quelling growing fears about sugar intake, have invested heavily in sugar substitutes like aspartame.

But consumers are proving just as worried about the alternatives as they are about sugar. Studies are abundant that show people are becoming more—not less—wary of sweeteners that aren't straight sucrose. And perhaps with good reason—diet soda consumption has recently been linked to the development of belly fat.

In response, the American Beverage Association has worked tirelessly to remind people that fears of aspartame and other sugar substitutes are overblown. "Low-calorie sweeteners are some of the most studied and reviewed ingredients in the food supply today," the group said in a 2013 statement. "They are safe and an effective tool in weight loss and weight management, according to decades of scientific research and regulatory agencies around the globe."

Neither Coca-Cola nor Pepsi responded immediately to requests for comment about this story.

Still, the doubts have fed a decline in diet drinks.

"We are seeing a fundamental shift in consumer habits and behaviors," PepsiCo Inc. Chairman Indra Nooyi told investors in 2013.

Two years later, that shift has only deepened, furthering the need for the industry to reinvent itself. Soda, once marketed as an everyday staple, is now seen as an occasional treat, especially among younger demographics. More than a third of consumers aged 18 to 36 years old consider the drink a treat, according to market research firm Mintel.

And that puts soda's diet counterparts, which are decidedly not indulgent,in an odd place. If people are going to treat themselves to a soda every once in a while, why opt for anything other than the original?

"People want the real thing," said Telford, who points to the success of Mexican Coke, which is made with cane sugar and has developed a cult following in the United States.

The industry has responded by putting a "natural" spin on their diet drinks.

Last fall, Pepsi introduced Pepsi True, which has only 60 calories per 8 oz (v. usual 12 oz 124-189 cal*) and comes sweetened with real sugar and stevia, a plant-based sweetener. Coca-Cola's version, Coca-Cola Life, also sweetened with cane sugar and stevia, has only been on shelves since last year.

But analysts are hardly convinced that such products are long-term remedies for the diet soda industry's ills. Jonas Feliciano, a former beverage analyst with Euromonitor, believes low calorie sodas as a category might very well be a lost cause. "Instead of asking whether stevia can save low-calorie colas, a better question might be, are low-calorie colas worth saving?" he wrote last year. Doubling down on classic offerings, like regular Coca-Cola, Pepsi, and Sprite, are likely the better, long-term strategy, according to Feliciano.

Telford isn't quite as apocalyptic. But he isn't optimistic about the future of diet sodas, either.

"I think the industry is going to continue to invest in reduced calorie offerings, and there's a chance it might pay off," he said. "But our forecast isn't particularly optimistic. These brands are diversifying their portfolios to include other beverages that aren't soda for a reason."

Roberto A. Ferdman is a reporter for Wonkblog covering food, economics, immigration and other things. He was previously a staff writer at Quartz.

*A normal 12 oz can of soda has 8-12 tsp corn syrup equivalent of sugar. 1 tsp sugar = 4.2 g sugar = 16 calories.