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As sales hot up for winter, make sure you've got your shelves well stocked with our regional and national brands.

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Heat up your hot beverage sales

BY ANELLE HAMILTON

WINTER HAS arrived and the temperature across South Africa has plummeted. This bodes well for your hot beverage aisle. In addition, a recent report by research company Mintel, which shows how food and drink markets are actually being improved by recessionary woes, shows that coffee is recession proof.

"Over the past year, we've seen people trying to save money on food by either dining out less, reducing their supermarket bills, or both. More people cook at home now, but they still want healthy, convenient, tasty food and drink," comments Bill Patterson, senior analyst at Mintel. "As consumers spend less and stay in more, certain food markets are benefiting. These recession-proof, or recession-fuelled industries are destined to do well throughout the economic downturn and coffee has been pointed out as one of them."

Hot powdered beverages

According to Michelle Daines, researcher at BMI, the hot powdered beverage market saw a slight decline from the year 2007 to 2008 but, albeit slowly, the market is expected to recover volumes in the forthcoming years. There is also a trend within the entire hot chocolate market towards usage of stick packs as opposed to sachets. These stick packs are becoming increasingly popular, possibly due to their convenient size and "on-the-go" ease of use.

In terms of new product launches, Nestlé has expanded their product line with the addition of a hot chocolate to the already well-known Ricoffy brand.

"The majority of players in the market are introducing flavoured hot chocolates to their offer, as these are becoming increasingly



popular amongst consumers. Consumers see it as an indulgence and it forms part of their luxury purchases," says Daines.

Hot powdered beverages are a seasonally based purchase that peak in winter and many players in the industry are still selling stock that was delivered late last year. This is made possible by the extended shelf life of powdered beverage products.

When it comes to consumers purchasing hot powdered beverages, they often base their purchasing decisions on value-added benefits, like, for example, buy-one-get-one-free specials. Players in the industry have taken this into account and companies such as Tiger Brands are offering these types

of specials through Checkers Hypermarket stores.

In the hot powdered beverage category, many brands are well established enough that they need very little, or no marketing spend to retain consumer spending.

Hot chocolate

The hot chocolate category is buoyant with activity during the winter season. For example, Cadbury has just relaunched its Hot Chocolate brand with a new and fresh pack design and revamped formulation. In addition, it includes an extended sleeve that covers the lid to ensure freshness and quality.

Mike Middleton, Cadbury Chocolate marketing director, says that new competitors are entering the market in an attempt to gain a foothold with flavour innovation, but so far no one has made any significant inroads.

To entice the healthier shopper, Cadbury has launched Hot Chocolate 'Highlights', a non-sugar version of hot chocolate. "This has proven very popular with consumers and has shown tremendous growth over the past couple of years," says Middleton.

Mixed instant coffee remains popular

In the home, mixed instant coffee is still the most popular coffee category and maintains its dominant market share of 66,9% of the total coffee market. This is largely due to instant coffee being more affordable than ground variants.

Increases in coffee input costs have been a large contributor to the increase in the value of the coffee market. However, strong competition and volume increases in affordable brands have also been drivers in this market.

"The growth rate for 2008 and the predicted volume increases for the next two years is lower than that seen for 2006 and 2007," comments Daines.

The retail market accounts for 63% of total mixed instant volumes and growth in this channel is expected to slow down in the short to medium term.

The foodservice channel continues to maintain a distinctive social catering skew, with contract catering, tender-based and independent catering collectively comprising 63,2% of total foodservice volumes. This represents an increase from 57,8% in 2007.

Rooibos tea sees good growth

The rooibos category has seen significant growth in popularity of late, particularly as the health benefits of the product are realised and marketed. The health positioning has been well received, largely due to the current consumer trend to health and wellness.

A challenge currently facing producers of rooibos is the glut of raw material supply available within the market. After a few seasons of oversupply of wheat and potato crops, a number of local farmers switched to production of rooibos as a more lucrative prospect. However, this led to an oversupply of rooibos and thus there was downward pressure on prices. In some cases, this made the harvest of rooibos unprofitable and farmers discarded their

crops. Evidence of the oversupply is seen in the latter portion of 2007 and 2008, with volume increases of 11,9% and 9,2% seen for these two years respectively.

"Keep in mind that while the oversupply dynamic existed, this is not an accurate picture of market demand," explains Daines.

It is expected that the market will show signs of reaching equilibrium during the short term. Relatively limited increases of 3,5% and 4,3% are anticipated for 2009 and 2010 respectively.

Tough economy: good for sales

"In a tough economic climate, people do go back to basics like black tea or rooibos, which are still the best value for money offering in the beverage section. We have had major price increases in black tea, due to the strengthening of the dollar, as well as lower crops that have also added pressure on pricing, but still the market grows. Tea prices compared to last year are around 30% higher, but the big picture is that a cup of tea will cost in the region of around 25c, including milk and sugar," says Jonathan Kelsey, managing director of Joekels Tea Packers.

January and February are generally the quieter months for tea sales after customers and retailers have stocked up in December, plus these are the hottest months of the year. "This year has shown a fairly different trend and sales during these months were up on last year. The tight economy may have swung this in our favour," says Kelsey.

Joekels' Tea4Kidz brand is their biggest performing category. Kelsey says they have seen massive growth in the Tea4Kidz offerings as parents are looking at alternative healthier beverages for their children.

Flavoured types of tea in South Africa are not big and it is mostly the mainstream offerings that are the best sellers. However, there is a fair deal of shelf space allocated to herbal/flavoured teas, as they do offer higher margins. Off-take is still very slow

Coffee, in all its forms, is popular all year round, although retailers see a definite upswing in sales in the winter months.



though, unlike in Europe and other countries where these lines are generally bigger than the mainstream.

Black tea remains 'conservative'

Black tea volumes are generally static year on year. "Currently the only sustainable growth seen for the black tea category is limited to niche premium offerings, such as Early Grey variants, that has little bearing on overall market volumes," says Daines.

It is believed that the black tea category is losing volume to increased coffee consumption, particularly within the middle portion of the market. This may be linked to the wide selection of economically priced, entry-level coffee variants targeted at this market segment.

The outlook for the black tea category remains conservative for the short term, with a slight volume increase of 1,9% anticipated. While a 4,1% volume growth is forecast for 2010, it remains to be seen whether players are able to achieve this.

The rooibos category has seen significant growth in popularity of late, particularly as consumers have become more aware of the health benefits of the product.



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