By analysing these spending trends, it is obvious that the effect is being felt by the ‘eat out’ industry and that private label products are the highest beneficiaries in a store environment.

So where do beverages fit in this tough environment?

The picture is mixed, but it shows interesting trends that should affect the way you merchandise your products, especially in terms of shelf space allocation. Here are some examples:

- Categories that are growing in terms of value sales include energy drinks (+13.8%), carbonated soft drinks (+8.2%), bottled water (+5.2%) and liquor (+4.1%).
- However, some categories have seen their sales decrease, namely fruit juices (-2.9%).
- Liquor did sell less volume but the value sales were positive due to inflated prices and the move by some manufacturers of targeting the premium market.

Where is the growth coming from?

The bottom chart overleaf indicates the volume growth of all beverages that compete for a ‘share of throat’ and all players in this market consider any liquid beverage to be a competitor.

Do you own a liquor store?

Many grocery stores are now involved in the liquor trade and one is always looking at the space allocations between different categories as a tool to merchandise better. The top chart overleaf indicates the discrepancies between volume and value sales and should be a good tool to assist the reader in allocating the correct amount of space in their store.
Imperial is giving Red Bull wings

As Red Bulls’ logistics partner since January 2010, Imperial Retail Logistics has been helping the producer of the world’s most popular energy drink to define and upgrade its supply chain network capacity, to enable future growth strategies.

With more than 35 years’ experience in providing warehousing and distribution services to various customers in the South African FMCG sector, Imperial Retail Logistics is perfectly positioned to undertake this journey with Red Bull, comments operations director Friedel Spies. The scope of Imperial’s contract encompasses warehousing, primary and secondary distribution services on a national basis, he explains. The company is taking Red Bull to both formal retail and wholesale stores across South Africa and into Swaziland and Lesotho, with more than 14 000 product loads delivered annually.

“Imperial acts as a single point of contact, with full operational accountability, as we manage Red Bull’s national distribution network in South Africa, where routes to market include retail, supermarkets, cash and carry, as well as wholesalers,” Spies adds.

Why Red Bull opted for Imperial

Outlining Red Bull’s motivation for partnering with Imperial, Deon Brummer, operations manager at Red Bull South Africa, says: “We needed a world-class 3PL service provider who could further enhance and support our strategic objectives to enable future brand development and growth, specifically with regards to technology integration to increase visibility throughout the distribution and warehousing process.”

Imperial more-than fits the bill

In Imperial Retail Logistics, Red Bull found a logistics partner that exceeded its expectations. A business model and management structure that allows the company to leverage its existing infrastructure, with expansion, enables Imperial Retail Logistics to offer a cost effective solution in the regional areas, which are traditionally “expensive” to service, Spies explains. “We have developed very close relationships with preferred agents and sub-contractors in Polokwane, Mpumalanga and the Cape provinces. This management structure means that Imperial Retail Logistics cannot be classified as a classic 3PL organization, since we have adopted an LLP (Lead Logistics Provider) management structure that enables us to deliver product to over 10 000 customers nationally.”

Red Bull’s long-term strategy incorporates state-of-the-art technologies that are routinely employed by Imperial, and which place the company at the leading edge of technology. These technologies were also among the factors that led Red Bull to partner with us, Spies states.

World-class warehouse management system

Imperial Retail Logistics’ technical ability is reflected in the world-class warehouse management system developed to interface with Red Bull’s enterprise resource planning software, SAP. It provides real time visibility and its functionality includes the management of materials handling and inventory control from receipt to delivery. Further benefits that this system is yielding for Red Bull include real time visibility of inventory at all stages within the operation, as well as workload management of resources, in order to meet deadlines. It is also ensuring the optimum use of operations staff. The use of an internationally recognised warehouse management system is crucial to ensure that Red Bull has the highest level of batch integrity and inventory and order accuracy, Spies stresses.

Both ambient and temperature controlled warehousing and distribution is being provided by Imperial for Red Bull, while value added services include customer services, inventory forecasting and replenishment, as well as various support functions offered via Imperial’s extensive IT resource network.

Through Imperial’s Enterprise Resource Planning (ERP) system, Red Bull has access to a variety of reports for management reporting purposes. This system enables an accurate view of inventory, batch integrity and order status.

Planning, controlling and managing transport operations

Imperial Retail Logistics’ has also implemented a world-class transport management system for Red Bull, and this provides information on expected time of arrivals and timely proof of deliveries. “One of the key focus areas for Red Bull was the implementation and roll-out of a comprehensive routing and scheduling methodology,” says Spies. “Our transport management system was implemented to plan, control and manage transportation operations in order to improve our service commitment to our clients at an optimal cost. The benefits of this system include reduced vehicles through optimised routing, which results in a fixed cost reduction; reduced kilometres travelled; improved customer service; and reduced returns.”

The renewal of its contract with Red Bull for a further three years is a testament to Imperial’s capability, capacity, experience and suitability to provide Red Bull with a competitive and sustainable logistics service. “Our total solution incorporates all of the services offered by a Lead Logistics Provider,” Spies concludes.
Advertising support

The traditional beverage industry, which has covered areas such as beer and carbonated soft drinks, has been conservative with their advertising spend, while the liquor trade and the new beverage trends such as bottled water and flavoured alcoholic drinks are investing in marketing their brands.

The figures below do not include the coverage of beverages attributed to the various chains in their weekly advertising.

<table>
<thead>
<tr>
<th>Beverage Type</th>
<th>Volume Growth</th>
<th>Value Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer</td>
<td>-13%</td>
<td>-13%</td>
</tr>
<tr>
<td>Carbonated soft drinks</td>
<td>-23%</td>
<td>-13%</td>
</tr>
<tr>
<td>Energy drinks</td>
<td>+4%</td>
<td>-10%</td>
</tr>
<tr>
<td>Flavoured alcoholic drinks</td>
<td>+11%</td>
<td>+11%</td>
</tr>
<tr>
<td>Whiskey</td>
<td>+44%</td>
<td>+44%</td>
</tr>
<tr>
<td>Bottled water</td>
<td>+200%</td>
<td>+200%</td>
</tr>
</tbody>
</table>

Alcoholic beverages spent as much as R1,7 billion which was 1% below last year’s spend, and non-alcoholic beverages spent R440 million, a reduction of 8% compared with the same period last year.

Is more money being spent directly with the retail trade? Ask your supplier for your share!

Some further trends

- In the liquor trade, 440/450ml cans have had the biggest growth in sales (+60%), while the 330/340ml cans only grew by +4%
- Flavoured carbonated soft drinks have grown by 10% in the last five years, showing a swing away from the conventional colas.

What does the future hold?

Ailsa Wingfield, Executive Director, Marketing and Communication for Africa and the Middle East for A. C. Nielsen summarises the future trends as follows:

- Consumer confidence will slowly improve once again
- There will be more innovation and imports, especially in the liquor trade
- Growth in the right premium offerings i.e., Craft beers and liquor
- Ready-to-drink ‘value’ cans will gain further traction
- Grocery stores will capture more spend with a significant trend in liquor sales
- Promotional competitiveness will heat up

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Industry Trends

Supermarket & Retailer brings you a compiled shortlist of the various categories that make up cold beverages, indicating certain trends from a year ago and having a peek at the possible future scenario.

According to BMI research:

Ready-to-drink (RTD) Fruit Juices

The size of the market increased over the last year due to the arrival of new players, an increased emphasis on private label products, new pack sizes, more affordable pack sizes and strategic promotional activity.

Trends indicate that the consumer is moving from premium products with high value per rand per litre to cheaper options. Smaller packs and family-sized savings pack have also shown an increase in sales. Suppliers are focusing on underserviced areas and have seen very good volume increases in areas such as the Free State, Mpumalanga, North-West and Limpopo provinces. However, the major urban centres still account for 73% of the total volume sold in the country. Top end retail is still the favourite place to find RTD fruit juices and the export market now accounts for 10% of all sales.

Iced tea

Volumes have increased in this category due to some very innovative promotional campaigns, the export trade, new product launches and, once again, a focus on the smaller provinces.

Smaller pack sizes is where the sales come from and it is estimated that the depressed consumer spending patterns will keep this market static for the foreseeable future.

Sports drinks

Volumes are down but the value sales have increased. Some new entrants into this market will be assisting in the potential increase of volumes and it is apparent that there is a rise on the weighted average price in this category. However, increased competition could have the opposite effect by dropping the average price per litre and apparently there are more suppliers entering this market.

The supply chain will be also looking at the underserviced areas to increase the availability of the product ranges. Here are some patterns of growth or retreat:

- Wholesale trade ................. 27% market share (growing)
- Bottom end retail ............ 12% (growing)
- Top end retail .................... 37% (static)
- On site consumption ...... 15% (declining)
- Garage forecourts ............. 10% (declining)

Bottled water

This category is divided into plain waters, sparkling waters (the inclusion of CO2 gas), flavoured waters (infused with flavours and invariably with sugar) and functional waters (infused with herbs, vitamins, minerals and raw fruit and vegetables).

Volume and value sales are generally up, especially with plain water, but the average price per litre is dropping due to aggressive competition, new entrants into the market and heavy promotional activity. However, the swing to a healthier lifestyle by the affluent and middle class population will ensure that this category continues to grow. The negatives are the increases in input costs and the depressed status of consumer spending patterns.
COLD BEVERAGES

Although from a low base, the sale of glass containers has shown some increase but plastic bottles are still the main seller.

The lower value of the Rand has assisted with the export business and Botswana now subscribes to the South African Bottled Water Standards, which makes export to that country easier.

The distribution patterns of bottle water are as follows:

- Top end retail: 45%
- Bottom end retail: 18%
- Garage forecourts: 12%
- Wholesale: 13%
- Three major urban metros: 72%

**Energy drinks**

These are defined as drinks with a high level of caffeine that give one an adrenaline rush.

This is one category that has grown by double digit figures as the entry of new players is continuous, the sale of the product does not appear to be affected by other beverages and both local and imported brands are available for sale.

Although some variants are available in glass or PET, the dominant packaging is the metal can and there has been a pronounced shift from the 440ml to the 500ml can.

BMI’s research indicates that both local sales and exports will keep growing above average and it is estimated that this market may be worth three times its current value by 2018. Distribution patterns are as follows:

- Garage forecourts: 32%
- Top end retail: 30%
- Wholesale: 15%
- Bottom end retail: 15%
- On consumption: 10%

Gauteng accounts for 51% of all sales, followed by Kwa-Zulu Natal with 18% and the balance is split amongst the rest of South Africa.

**Dilutables**

This segment needs some definition as it contains a plethora of products and their respective qualities.

‘Bases’ are super concentrated cordials to which the consumer adds sugar. ‘Cordials’ are concentrated fruit juices with less than 6% of the reconstituted fruit and can be sweetened by flavours artificially. ‘Dairy juice blends’ are flavoured milks with fruit flavours to be drunk both ambient and chilled. ‘Fruit juice concentrates’ have anything between 20% and 50% fruit juice content and are normally diluted on a 1:4 basis. ‘Iced teas’ are dilutable concentrated teas. ‘Sports drinks’ are drinks with nutrients and electrolytes to replace the loss of body fluids and to sustain performance. It is important to note that in this subcategory, we are referring to the concentrates only and not to the RTDs. ‘Squashes’ are concentrated fruit beverages with at least 6% of its reconstituted fruit form.

As can be seen from the above, it is important that, when merchandising this category, these definitions are taken into account when laying out your shelves.

Both volume and value sales have increased over the last year as new players and new products entered the market and the consumer support of dilutables is evident as they move away from spending on premium priced products. Top end retail is still the favourite purchase point for this category (60%) while the convenience areas of garage forecourts and bottom end retail account for about 30% of the market. Irrespective of the huge variety available in this category, most of the sales are accounted for by cordials and squashes (43%) and dairy blend juices (44%). The Eastern Cape was the single province that showed significant sales increases over the last year while the rest of the country has lagged behind in percentage terms.

**Carbonated Soft Drinks (CSDs)**

Both value and volume are up this year due to regular promotional activity, very competitive pricing and some new product launches. Exports are down in value terms.

Due to depressed consumer spending patterns, suppliers in this category are focusing on underserviced areas. Opportunities exist for retailers to sell more of the second tier CSDs where the price and margin levels are more enticing for both retailer and consumer.

Here are some distribution statistics:

- Top end retail: 36%
- Wholesale: 36%
- Bottom end retail: 28%
- On consumption: 18%
- Cola flavour: 46%
- Other flavours: 54%

**Beer**

The most significant trend in beer is the emergence of craft beers, albeit from a small base. Off consumption beer accounts for 67% of sales and shows an increasing trend, while on consumption sales with 33% are declining in importance.

In Gauteng, which accounts for 31% of all beer sales in the country, the increase in the petrol price and the arrival of e-tolls has had a marked effect on the sale of beer and this province’s market share is showing a declining trend. Market share gains have gone to provinces such as Limpopo, Mpumalanga and North-West. Major brands still hold a huge share of the market and the barriers to entry for new brands are prohibitive.

**Sorghum beer**

This very specialised beverage, which is available in both ‘wet’ and ‘dry’ forms, has seen better days. The shortage of sorghum crops is affecting the volume sales negatively and this has been compounded by the
labour unrest in the mining belt and competition from new ‘wet’ products. A new emerging trend is a 20 litre bucket which is more economical for the consumer.

Most of the sales of this category are concentrated in KZN at 32% and the wholesale sector dominates with 90% of the sales. Other than having some ‘dry’ packets on your shelf (provided there is demand for it) this is not a recommended category for supermarket operators.

**Flavoured Alcoholic Beverages (FABs)**

Although both value and volume sales are on the up, this category has been very inconsistent in the past. The market continues to launch new variants, and new flavour extensions, which keeps the category fresh and new but it is not yet properly established. Many new products should be released in future.

The rand/dollar exchange rate is having an effect on the price per litre as both inflation and the input costs are rising.

Consumption in bars and restaurants are the dominant sales areas with 66% of all sales and Gauteng (once again more affluent and with a clubbing culture) accounts for 36% of the market. The lower end of the market is starting to experiment but the sales are not yet substantial.

Well, there you have it. Analyse the shelf space allocation of the various sub-categories and see whether you are giving it the correct exposure in your store.

If you also own or manage a bottle store, there are many opportunities in this environment.

**Flavoured Alcoholic Beverages (FABs)**

AN ALTERNATIVE STRATEGY FOR RETAILERS

Carbonated soft drinks (CSDs) are a major category for retailers and are dominated by the premium brands. However, continuous price promotions have turned these brands into commodities yielding a very low gross profit. The good news is that there are alternatives available to the retailer.

Estimates of the size of the carbonated soft drink market vary wildly depending on whether one specifies the defined retail sector as measured by some research companies or whether one includes the total market, which covers the formal and informal markets.

Various estimates indicate that premium equity brands (Coke and Pepsi) may control as much as 85% of the total market, but there are two other categories that are growing exponentially and astute retailers...
COLD BEVERAGES

should pay attention to this segment. We refer to the quality economic brands (Refreshhh, CooEee, jive and some confined house brands) which are estimated to own 10% of the total market and the remainder 5% is attributed to entry-level economic brands, which include CSDs with sweeteners and the balance of the house brand market.

The main attraction of the middle layer for retailers includes:

- The wide availability of brands and flavours
- A lower cost price
- A more competitive selling price
- A better margin generated
- Only PETs are available, doing away with the need for glass deposits

According to A. C. Nielsen, the flavoured CSDs have grown in volume by an average of 10% per annum over the last five years. Many retail chains have developed their own confined labels (i.e. exclusive labels that can only be found on their premises), such as Soda T (Masscash), California and Plant (Shoprite) and Chill (Choppies).

All of the above reasons are cited for the development of such confined labels.

However, independent retailers who cannot access such confined labels have the choice of talking to a number of suppliers in the quality economic brand ranges to achieve the same objective.

Wholesalers who have been traditional distributors of such labels are currently adapting their distribution model by becoming distributors and medium to small sized enterprises, who lack transport facilities and have time restrictions, can look to back-door deliveries of their favourite brand at very competitive prices.

“This alternative to premium brands has been there for a long time,” says Darren Allaway, national trade marketing and distribution director of Little Green Beverages, who manufacture the Refreshhh brand. “Lately, this sub-category of CSDs has grabbed the interest of the retail trade and all suppliers have learnt to trade in the various sectors ranging from chains such as Spar or Choppies to small independents and the wholesale trade. The annual growth is amazing,” says Darren.

This coincides with the formation of its Technical Working Group, which will address technical and regulatory issues that affect bottled water producers in the UK.

The group will also support the NHC Communications Group’s activities by ensuring the facts related to the quality of naturally sourced waters are communicated effectively. It will work closely with key stakeholders in the UK, as well as in Europe through its membership of European Federation of Bottled Waters.

Locally, a similar function is played by the South African National Bottled Water Association. It was formed in 1997 as a standards setting and representative body for the industry and is a voluntary association of bottlers whose primary concern is the health, safety and pleasure of their consumers. They, therefore, willingly conform to the extremely stringent safety and quality measures contained in the SANBWA Guidelines and Standards, although the cost to them of such compliance is considerable. SANBWA’s environmental vision is to improve members’ environmental stewardship by:

- Water: ensuring effective water management – cradle to grave. This will include requirements for source protection, efficient water usage and responsible effluent practices.
- Solid waste: reduce, re-use, recycle
- Energy: promotion of efficiency
- Post-consumer recycling: Supporting current initiatives

It too has produced a list of facts to counter the urban legends that plague PET.

Is PET a safe packaging option?

Yes. The inert PET bottle is a well-accepted package all over the world and is completely safe to drink from. It is also lightweight, unbreakable, and recyclable.

It can be identified by a small number ‘1’ on the bottom of a container. This is often displayed inside a triangular mobius or a three-arrow recycling symbol. Alternatively, the letters ‘PET’ will be stamped into the bottle.

Does PET contain dioxins?

No, there is no dioxin in PET plastic. Dioxin, a chlorine-containing chemical that has no role or presence in the chemistry of PET, is formed by volcanoes (!) and combustion in incinerators at temperatures above 1 700º Farenheit.

Does PET contain BPA?

No, Bisphenol A (BPA) is not used to make PET, nor is it used to make any of the component materials used to make PET.

Does PET contain DEHA?

No, DEHA is not present in PET either as a raw material or as a decomposition product. DEHA is also not classified as a human carcinogen and is not considered to pose any significant health risk to humans. It can be found in water – bottled or tap water – and is then called DOA. DOA is one of the organic containments commonly found at trace levels in just about all drinking water. It is also sometimes wrongly interpreted as di-ethyl hydroxyl amine which is not found in PET or in the production of PET bottles.
Does PET contain endocrine disruptors?
No, there are no substances known that can migrate from PET that could be responsible for the endocrine disruptors (substances having a hormonal effect) identified in a study commonly referred to as the ‘Goethe Study’.

Does PET contain antimony oxide?
Yes, PET does contain antimony oxide, which is used as a catalyst. However, the amounts are well below the established safe limits for food and water set by the World Health Organisation. For example, a 60kg person would be able to tolerate an intake of 360ug but the guideline for drinking water is 15 – 20ug/l.

Is it safe to freeze a PET bottle, or keep it in a hot car?
Yes, of course. The idea that PET bottles ‘leach’ chemicals when frozen or heated in hot cars is not based on any science, and is unsubstantiated by any credible evidence.

Can I reuse a PET bottle?
Yes, like other food or beverage containers, PET bottles can be re-used if you take steps to prevent the growth of bacteria. These bacteria thrive in warm, moist environments; that is, in virtually any beverage container under the right conditions. Wash all your containers, not just PET bottles, with hot soapy water and dry thoroughly between each use. Further, when looking for a bottle for long term use, pay attention to the design of it and its closure. Make certain you can easily get into all ‘nooks and crannies’ in order to be able to clean it properly.

Are PET bottles recyclable?
Most definitely yes, and simply recycling the PET bottle reduces its carbon footprint by some 25%.

"One of the peculiarities of consumer behaviour is that they are quite happy to consume many foodstuffs and other beverages – yoghurt, milk, fruit juice, for example – that are packed in plastic but are easily influenced by one of the main arguments used against bottled water, that is that the bottles themselves pose a danger to human health. Nothing could be further from the truth," said SANBWA CEO, Charlotte Metcalf.

"SANBWA is committed to responsible environmental stewardship, and members are required to comply with the association’s environmental vision. This includes many measures to ensure source sustainability and protection, water usage minimisation, energy efficiency, solid waste minimisation, and supporting post-consumer recycling initiatives.

"And no, the bottled water industry doesn’t have a large water footprint. By comparison, to produce 1 kg of maize requires 900 litres of water, one cup of coffee needs 140 litres of water and to produce 1 sheet of A4 paper requires 10 litres of water. Bottled water’s is 1.8 litres," she said.

Acknowledgement: South African National Bottled Water Association