

Cheers!

Alcoholic beverages on the comeback trail

Alcoholic Beverages in South Africa suffered a massive blow in 2020, with lockdown legislation effectively shutting down production and sales. However, despite many losses – of stock, jobs, traders, small businesses, and of course revenue – the industry has proven remarkably resilient. South Africans, it seems, quite enjoy a dop. According to Euromonitor International, “The South African Alcoholic Beverages industry witnessed a notable upturn in 2021, where total volumes returned to just below pre-pandemic levels, while total value sales fully recovered.

Such a strong performance was based on several factors, says Euromonitor. An increase in online sales, the resumption of in-store promotions and discounts, and a return to pre-pandemic shopping habits are indicative of an industry that has proven to be surprisingly agile and tough when it comes to the challenges of the South African market. The South African wine industry is almost back to pre-covid sales, while gin and cognac are seeing growth driven by a growing middle class with disposable income and a desire to be seen enjoying the finer things in life. Gin is the new darling of South African alcohol consumers – in an article in Business Insider Pick n Pay said its gin sales exceeded those of vodka and brandy, growing “more than three times faster than all its other liquor types over the past two years.”



Visual courtesy of Pexels

Alcoholic beverages category: current landscape

Ged Nooy, MD of NielsenIQ South Africa, explains that it is important to note that while we talk of the ‘recovery’ and ‘growth’ of the Alcoholic Beverages

category, there can be no like-for-like comparison between post-pandemic numbers and the years affected by lockdown. However, the category has seen growth post-lockdown. While gin has seen impressive growth compared to 2019, with NielsenIQ reporting that sales in township areas have doubled, demand has centred around historic big-name brands such as Gordon’s and Old Buck. In comparison ...

“... sales of premium and craft gins have slowed. Craft gin is expected to follow a similar trajectory to that of craft beer, as the market becomes saturated and only a certain number of producers remain sustainable. This said, there is a strong market for craft gins in the middle- and higher-income consumer segments, as well as ‘gin tourism’ – where visitors flock to local craft gin distilleries to try and buy the products.”

Meanwhile, NielsenIQ stats prove that South Africa is indeed a beer-drinking nation, with beer firmly in first place for both volume and value, and sales of R24 billion for the 12-months to August 2022. Beer remains the most successful sub-category in South Africa, with





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all market leaders reporting growth. According to The Heineken Company, which recently had its proposed takeover of South African producer Distell approved, their international and local premium brands achieved good results, particularly in Nigeria, South Africa, Russia, Ivory Coast, and Rwanda.

Heineken beer growth was fuelled in part by recovery in South Africa, while Amstel also grew, thanks to its strong performance in South Africa.

Distell reported that they continued to have the “biggest market share of RTDs (including ciders and FABs) in the country, despite category growth being hampered by supply chain challenges driven by glass.”

Their most recent report says, “Consumer demand for popular brands Savanna, Hunter’s, Bernini, and Extreme gained momentum driven by strong brand equity, unisex appeal, relevant pack price formats and powerful brand purpose.”

They also saw double-digit volume growth in the vodka, gin, liqueur, and whisky sub-categories, while the launch of Amarula Coffee was “solid despite some supply constraints.”

In their most recent report, AB InBev noted, “The premium, super premium, and Beyond Beer portfolios led our growth this quarter, all delivering a double-digit revenue increase. Our leading core brands delivered continued revenue growth. Driven by BEES, [an e-commerce and SaaS company set up by AB InBev to bring a digital platform to small- and medium-size retailers], digital channels now represent 91% of our revenues.”



Visual courtesy of Yevgen Buzuk, Pexels

According to Engineering News, Distell reported a 36.7% increase in annual profit on 25 August 2022, with consumers buying more wine, ciders, and spirits despite cost of living pressures – but said rising costs were weighing on margins.

Online shopping drives retail sales

Online sales exploded during the pandemic, retailers took note, and almost overnight the pattern of consumer behaviour was changed. E-commerce has had a significant effect on off-trade sales, prompting all major retailers to invest in online platforms. Increasing economic hardships, however, are disrupting consumer buying habits once again,

as many South Africans are forced to consider price more carefully. Specials, sales, bargains, and less-expensive brands are a focus for a significant portion of consumers. Promotions fell away during the pandemic, but big brands that are engaging in active promotions across multiple retailers are seeing brand growth, whereas those that are not have struggled to retain market share. This is because consumers are looking at overall basket spend and collective deals and are unwilling to make multiple shopping trips for different deals, explains NielsenIQ’s Ged Nooy. This reliance on discounts is what is allowing brand leaders to grow.

Alcoholic in an economic downturn

According to Nooy, a large portion of South Africa consumers are experiencing a sideways shift in terms of consumer behaviour. For many, cutting back on purchases is simply not something they can afford. Instead of reducing basket spend, they are altering their baskets and making different product choices. Nooy notes that alcohol remains a stable purchase for consumers, even in the toughest times. The social need for perceived luxuries such as a drink after work, and the effect it can have on emotional wellbeing, cannot be underestimated. The difference can be seen in volume and value-for-money purchases.

In addition, out-of-home alcohol consumers may turn to in-home consumption during times of economic hardship.

Tying in with this is the recovery and growth of trusted big brand names that continued advertising, even during lockdown. By continuing to build their brand equity, they are strengthening their position as trusted names that are relatable, and that consumers choose to engage with. Nooy notes that the advertising statistics reflect this shift. This also points to the growth of in-home consumption. Many consumers are cutting back on expenses that include eating out and holidays and moving their alcohol consumption in-home.

The South African wine market: resilient and finding ways to grow



Visual courtesy of Balázs Burján, Pexels

On the wine front, the wine industry organisation Vinpro says the industry is resilient, and wine companies and producers are introducing methods to improve growth.

While there are challenges, such as input costs exceeding wine price increases, an increase in the Health Promotion Levy, a shortage of glass, an illicit market placing strain on the value chain and a decreasing wine drinking population, South Africa sets a benchmark in wine for traceability, sustainability, and environmentally sound practices and these will stand the industry in good stead going forward.

SOUTH AFRICA BEER'S ECONOMIC IMPACT

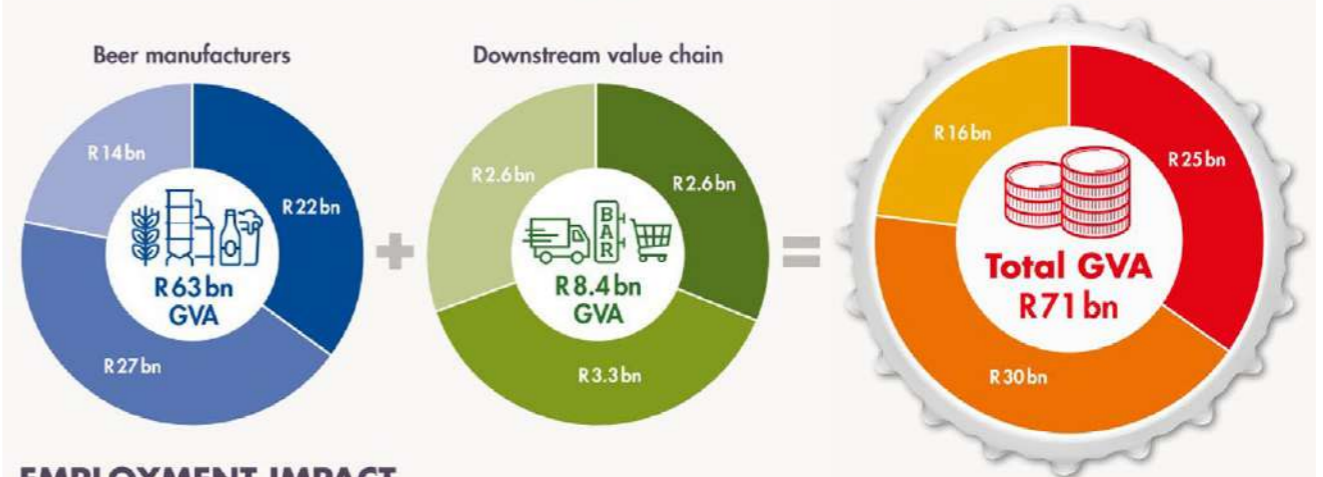


The South African economy benefits from the domestic and international operations, and the worldwide supply chain, of the beer sector.



GROSS VALUE ADDED (GVA) IMPACT

In 2019, we estimate that beer supported a **R 71 billion** gross value added (GVA) contribution to South Africa's economy. This was equivalent to **R1 in R79** of national GDP, or **25%** of Pretoria's economy.



EMPLOYMENT IMPACT

In 2019, we estimate that beer supported **249,000** jobs in South Africa. This was equivalent to **1 in 66** national jobs, or **67%** of employment in Port Elizabeth.



TAX IMPACT

In 2019, we estimate that beer supported **R 43 billion** in tax in South Africa. This was worth **R1 of every R30** of government revenue.



* Including excise and VAT

Subtotals may not sum to totals due to rounding





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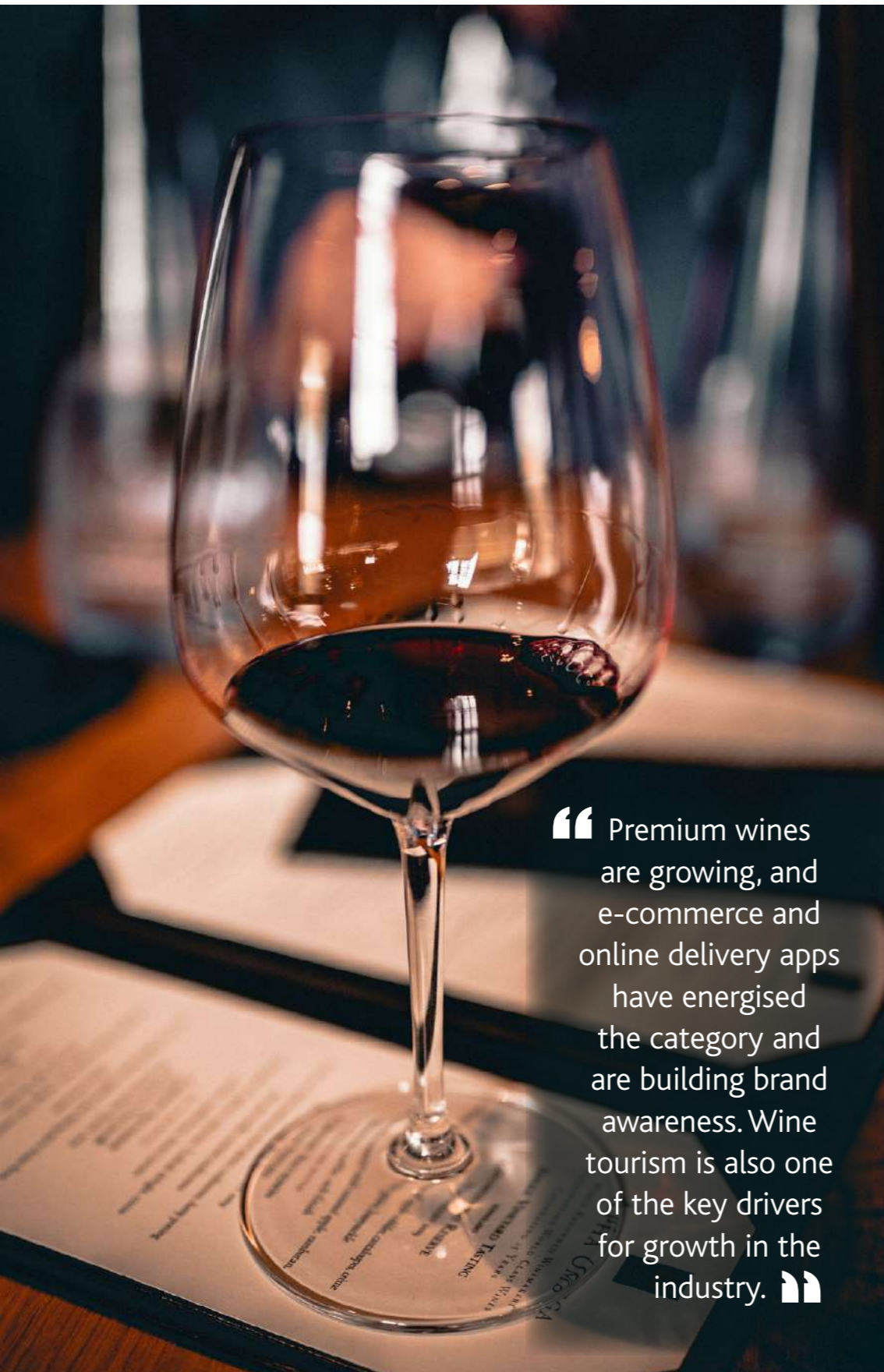


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In addition, premium wines are growing, and e-commerce and online delivery apps have energised the category and are building brand awareness. Wine tourism is also one of the key drivers for growth in the industry.

According to a report from Wines of South Africa, the wine industry contributed R55 billion to GDP in 2021, while South Africa's total wine export volume grew by 22% to 388 million litres in the same year. Export value increased by 12% to R10.2 billion. Of total wine sales by volume in 2021, South Africa exported 51%, with 49% of sales being local. South Africa ranks 8th in overall volume production of wine worldwide.

Distell's premium wine portfolio grew, led by Pongracz, Durbanville Hills, and Nederburg, due to increased consumption at home. Ged Nooy explains that boxed wine experienced something of a perfect storm.

Retailers such as Woolworths had started the shift towards the premiumisation of boxed wine, introducing several noted wineries to their boxed wine offering. This changed how consumers perceived the category and how they reacted to it.

Other retailers were also playing in this space, which aligned perfectly with consumers looking for a value-for-money, quality offer. The trend has contributed to this particular sub-category seeing higher volume purchases.

Flavoured malt beverages, flavoured alcoholic beverages

The popularity of hard seltzers (seltzer or soda/carbonated water combined with alcohol and fruit flavours) continues to grow. Popular flavours include citrus, berries and tropical fruits, such as black cherry, blood orange, cranberry, guava, hibiscus, kiwi, lemon lime, mango, passion fruit, peach, pineapple, raspberry, ruby grapefruit, strawberry, and watermelon.

Moderation and mindful consumption practices, particularly amongst younger consumers (mainly older Gen Z consumers), fuel the low-alcohol and no-alcohol market. According to The Heineken Company, the beer category can expect to experience pressure from hard seltzers and spirit pre-mixes targeting the same consumers and occasions as beer players.

NielsenIQ reports that beer and Flavoured Alcoholic and Flavoured Malt Beverages such as ciders and pre-mixes are seeing the most growth, followed by wine and spirits, with liqueurs bringing up the rear. Interestingly enough, Jagermeister is the most popular liqueur by quite some margin in South Africa.

Premiumisation is still an important factor to consider, despite the economic downturn, with cognac this year's dark horse in terms of growth.

Cocktail culture

The cocktail culture has hit South African shores with the pandemic bringing a renewed interest in cocktails. Cocktails, once known as a 'ladies drink', are now seen as very acceptable from people from across the spectrum, mainly in the 18-45 age bracket.

Visual courtesy of www.netflorist.co.za/shop/gifts



Challenges facing the industry

The glass shortage experienced during South Africa's lockdowns is still impacting both the alcoholic and non-alcoholic beverage sectors, although to a much smaller degree than it was. This has been exacerbated by the shift to in-home consumption, which has resulted in a much-reduced number of returns, on top of continued raw material issues. The supply chain has also



experienced difficulty meeting the demand for stock now that post-pandemic consumption retail levels are returning to pre-pandemic levels.

AB InBev, Distell, and The Heineken Company all cited the Covid-19 pandemic, civil unrest in KwaZulu-Natal and Gauteng, load shedding and electricity production uncertainty, as well as the economic downturn within South Africa as growth-limiting or challenging factors.

They also felt that the Russia-Ukraine war was continuing to impact the supply of raw materials and raise petrol prices, and the possibility of a sustained war was cited as having a bigger impact on the industry in the future.

Multinational alcoholic beverages producer Diageo noted that while South African sales grew by double digits, "the operating environment remained challenging."

A positive outlook

Despite these ongoing and emerging challenges, the Alcoholic Beverages category remains remarkably resilient. There is a definite return to pre-pandemic norms and consumer behaviours, although online purchasing has certainly gained traction.

Each of the market leaders remain cautiously optimistic and have reported growth in several categories. And while consumers can expect to see the impact of the obstacles facing the industry for some time to come, the category remains agile enough to mitigate these for the most part.



Cheers to that!

Alcoholic beverages trends: Global and local

- For The Heineken Company, the popularity of craft beer and the rise of low- and no-alcohol products have been the most noticeable changes in consumer tastes in recent years. Together with increased health awareness, as well as a move towards moderation (not abstention), these products have begun to challenge the beer sub-category in markets such as the US.
- Celebrity endorsements are more of an international trend, although South Africa has dabbled with influencers, social media personalities, and TV celebrities. The recent Castle Lite ad starring Carte Blanche's Derek Watts has certainly made a splash, and for all the right reasons. Watts is an undeniably recognisable face, and the ad is all about humour with the serious Watts showing his 'Lite' side.
- In their Annual Report 2022, Diageo (Johnnie Walker, Guinness, Tanqueray) says consumers are seeking new experiences and higher quality products, and are drinking better instead of more. Specifically, the company noted consumers are "increasingly choosing brands and categories that offer superior quality, authenticity, and taste. This premiumisation trend is supported by product innovation, fuelled by higher levels of prosperity and disposable income – and coupled with a greater desire to explore new experiences, ingredients and serves for social occasions."



Visual courtesy of Bellevue Wine Estate

Visual courtesy of <https://m.netflorist.co.za/shop/gifts>

- Craft beer will continue to be an on-premise heavy category, with Nooy noting there is a markedly different psychology behind retail sales and the experience offered by on-premise craft beer consumption.
- Premiumisation is still a growing trend. There is a social need to 'show off', with premium brands being consumed to indicate wealth and success.

- No- and low-alcohol beverages saw growth in South Africa, with beer dominating.
- Wine, spirits, and RTDs all remain on the radar.
- We can expect to see citrus flavours from lime and lemon through to grapefruit and blood orange continue to dominate. Innovative offerings including kombucha, unusual taste combinations, and fiery flavours such as chilli and spicy pineapple, are also on the rise. Herbs and flowers, indigenous botanicals, spices, and rooibos flavours are among those found in locally produced gins.
- Flavours are improving, allowing consumers far more choice and accessibility. **SR**

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