

BMi Research report on flavoured alcoholic beverages in South Africa

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Recent findings released by BMi Research have revealed that flavoured alcoholic beverages saw a decline in 2015. This was followed by a further contraction in volumes in 2016. The category's value increase for 2016 was attributed exclusively to an increase in the average product pricing rather than an increase in volume.



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The recent erosion in category volumes may be attributed to consumer traffic from flavoured alcoholic beverages to more affordable alcoholic drinks, such as home-brewed products. Congruent with this dynamic, there appears to be a general feeling in the industry that depleted consumer spending on luxury products is undermining category growth. The above-average price increases for flavoured alcoholic beverages continue to make the category a less attractive option for consumers. These price increases, for imported products in particular, have been driven by fluctuations in the rand value on international markets. The average industry selling price for this category grew at a higher rate than the CPI index in 2016.

However, the 2016 difference was limited compared to the significant CPI (Consumer Price Index) versus ISP (Industry Selling Price) differences seen in previous years. The smaller difference in 2016 may be attributed to stiff competition amongst brands and players, who kept price increases conservative in an attempt to gain share.

The off-consumption channel continued to gain volume share within this category from traditional on-consumption outlets. It is believed that an increase in the number of retail or wholesale liquor outlets, as well as a decrease in consumers, frequenting on-consumption outlets eroded the relative on-consumption channel share. The on-consumption channel accounted for 65.8% of the total volume sold in 2016, compared to 66.6% sold in 2015. This channel is losing share to sectors such as retail and wholesale as customers are believed to be purchasing the product to drink at a later stage. Gauteng remained the largest region in terms of volume sold in 2016. Most of the players are situated in this region and it is more profitable for them to distribute locally, thus volumes are promoted and distributed in this area.

In addition volumes packed in smaller denominations saw decline during 2016. It is believed that given the ongoing annual price increases for flavoured alcoholic beverages, consumers looked for better value-for-money offerings; this benefit was found in larger volume packs. Glass and bag-in-box pack formats noted lower declines in volume demand compared to

smaller glass and can packs.

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