IRI POINT OF VIEW

Liquor Industry trends in South Africa

Innovation and premiumisation keeps consumers coming back

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Local South African liquor trends follow global trends

GLOBAL VERSUS LOCAL TRENDS

Liquor has always managed to withstand tough economic times and the last two years have been no exception. In IRI's report, "Top Categories Performance Overview in Key European Markets" (April 2018), European Union liquor value growth is ahead of consumer packaged goods (CPG) by 0.6%. Within the United Kingdom (UK), liquor is the top performing macro category, reporting growth of 4.4%.

For the full report visit our website:

https://www.iriworldwide.com/se-SE/Insights/Publications/Top-Categories-Performance-sv

WHAT IS DRIVING GLOBAL LIQUOR GROWTH?

- Beer growth continues to be driven by the rise and continued popularity of craft beer, encouraging category premiumisation.
- Modern spirits, such as gin and vodka, registered double digit growth year-on-year in Germany, UK and France.

THE POWER OF MILLENNIALS

According to IRI USA, 35% of current USA alcohol consumption is attributed to Millennials (aged 18-34 years old) with Baby Boomers (54–74 years old) accounting for the majority of alcohol consumption. However, it's the Millennials who have the purchasing power of the future. They are the drivers behind the trends that are delivering liquor growth both globally and locally.

Second to India, Sub-Saharan Africa has the second largest population of Millennials in the world according to Rapid Shift.[1] South African Millennials are the second largest generation at 27% of the population. It is their preferences and needs that must be satisfied in order to drive our local liquor sales.

BEER & SPIRITS BENEFIT FROM LOWER CPI, COMPETITIVE PRICES AND CONVENIENCE

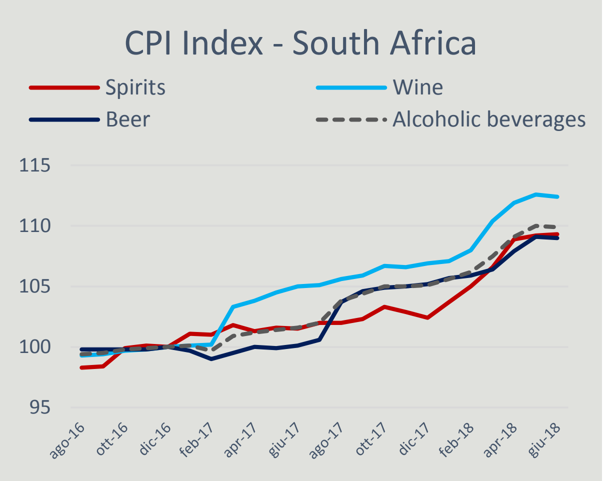
How is South Africa's liquor industry performing?

Top-end liquor and wholesale have outperformed overall retail CPG sales growth, despite Sin Tax and VAT increases in 2018. Volumes have increased by >10% per annum, suggesting South Africans are drinking more.

The category growth drivers in South Africa reflect global trends in that beer and spirits are seeing the majority of the growth, with flavoured alcoholic beverages also growing (ciders, flavoured wines and spirit coolers), albeit to a lesser extent.

2017 and the start of 2018 saw lower inflation for beer and spirits, in comparison to wine, according to the StatsSA Consumer Price Index (CPI) figures.

Figure 1: South African Liquor Category CPI



Source: StatsSA CPI Time Series. Indexed to Dec 2016

How did manufacturers and retailers keep price increases in check?

Lower commodity prices, especially on spirits, were a key driver, however online purchasing and price competition have offered consumers value at their doorstep.

Beer growths in mainstream segments have been successfully driven by consumers up-trading into larger cans and bottles, as well as the introduction of the 18's multipack. These all provided consumers with exceptional value on a price per litre basis.

BROAD PRODUCT SELECTION

Premium and craft ranges encourage category premiumisation, however consumers are still buying value based, mainstream products.

A dichotomy exists in liquor where consumers continue to seek value based products on the one hand, but indulge in premium brands when the occasion calls for it. This is not unique to the liquor industry, it mirrors the current macro food trends in South Africa. It is important that manufacturers and retailers cater to these consumption needs by providing a wide selection of products on shelf in order to capitalise on this behaviour.

CONVENIENCE

The increased presence of liquor retail outlets has made it easier and convenient for consumers to make liquor purchases whilst doing their grocery shopping.

Checkers has expanded its LiquorShops outlets by almost 50 stores in the last year. Spar has added approximately 40 Tops stores every year since 2013, bringing the total number to over 730 shops. Pick 'n Pay now has over 440 liquor outlets, after having opened 59 new liquor stores in the last year alone.

New store openings certainly support overall industry growth, with comparable liquor store growth outperforming retail sales growth.

LOCAL IS LEKKER

Support for neighbourhood breweries and spirit makers is also growing, providing an environment where the consumer can connect with the craftsmen themselves. Mixologists providing cocktail theatre for craft gins and flavoured vodka, for example, provide the full experience consumers are looking for and an important way for manufacturers and retailers to connect with this niche consumer.

Prolific innovation is providing excitement and encouraging experimentation in the liquor industry as consumer expectations rise

CONSUMERS ARE SEARCHING FOR QUALITY, VARIETY AND TRANSPARENCY

The allure of premium and craft ranges is driven by today's quality-conscious consumer whose expectations and growing experimentation are apparent both globally and locally.

Premiumisation. Consumers continue to demand a superior standard from their brands as they pass up budget alternatives in favour of boutique labels and premium niches for the right occasion, particularly in on-consumption venues. Premium brands are not only providing top quality products, they are curating exclusive occasions at sophisticated venues, appealing to their niche consumers' need for status and recognition. These brands have become personal and aspirational identity statements for their consumers, providing the social, and social media, cachet that they crave.

Flavour exploration. The growth of food experimentation, experiences and events has overflowed into spirits and beer where consumers are looking for creative alcoholic options. The blending of various styles and exploration of different flavours is blurring category lines, for example in spirit ciders and outlandish blends in beer like coffee beer.

Healthy options. Reflecting the trend in food categories, beer and spirits have evolved and are responding to changing consumer habits. There is an influx of product innovation promising low calorie, low-carb, gluten free, lactose free and alcohol free offers appealing to the health conscious consumer who wants to moderate their intake of these ingredients and who previously may not have bought into these categories for the traditionally fully loaded options.

From origin to occasion. Consumers are becoming increasingly more curious about their brands and actively search to understand what they stand for. It is important that liquor brands connect to the end consumer by communicating the entire brand journey, from origin to occasion, ensuring that this message matches the consumer's value set.

To successfully understand the consumers' value sets, provide them with social media platforms where they are empowered to control the brand's conversation. Manufacturers and retailers can use this information to create innovative new products, as well as personalise communication to specific target groups.

As can be seen with the current trends in liquor, innovation is key for creating category excitement and keeping consumers engaged and coming back for more.

Shoppers are switching from whisky to gin, vodka and new flavours

Almost a third of whisky shoppers are choosing to purchase less whisky and more gin and vodka, and they are not just switching to the budget brands.

Innovation in flavours and new tasting experiences, coupled with support for local distilleries has changed the way white spirits are being consumed.

The premium craft gin segment is growing at over 100% per annum and retailers are taking full advantage of this trend. The number of craft gins available on shelf increased by 2.5x versus a year ago.

Flavoured gins have expanded to include more floral and citrus notes, with the likes of Fynbos flavours doing well in South Africa.

Not only has gin expanded its flavour explorations, so too have mixers, for example pink tonic water and elderflower, cranberry and hibiscus flavoured tonic waters provide an additional zest for which consumers are willing to pay a premium.

Flavoured vodka has exploded with exotic flavours such as wild berry and guarana, providing 1.4x additional products on shelf since 2016.

Whisky remains the largest spirit category in South Africa despite the recent growth challenges, offering prestige and various health benefits to consumers. Although whisky is not as flexible in terms of flavour options, there is an opportunity for manufacturers to expand their flavour profiles through whisky cocktails, or various mixers and to position this distinguished drink amidst the flavour explosion. In fact, in the USA, distillers are creating new mash bills, and large brands are launching their own craft variants.

One thing is certain, if a product has an innovative flavour, a story to tell and delivers on quality, consumers will be willing trialists and potential ambassadors for the brand, trend-setting at shared occasions.

Flavoured, craft and non-alcoholic beer outperform traditional lagers, with craft beer showing no signs of slowing

FLAVOUR AND CRAFTMANSHIP CONSIDERATIONS IN BEER

Outside of Spirits, flavoured beer is an example of how consumers are experimenting with new flavours and embracing innovation, driving its double digit growth. Flavours such as apple, lemon and orange are performing well.

Despite craft beer being 2.5x the price per litre of traditional lagers, the retail data in Figure 2 indicates that there is no slowing in growth. The number of beer products available to consumers is beginning to plateau, however they are spoilt for choice with a wide range of craft beer available through local breweries. This is also reflected in the increased availability in retail outlets with over 700 craft beer products available across formal retail stores.

Figure 2: Craft Beer Volume Sales and Active products

Source:
IRI Retail and Wholesale Scan data 4 years to July 2018

Craft beer does not only attract higher Living Standards Measure (LSM) consumers. Heineken's Soweto Gold, for example, recently became one of the top selling craft beers in formal retail, attesting to the fact that craft beer is for everyone in South Africa.

Three key trends driving South African liquor growth

1. **Global versus local.** South Africa is a unique country and requires local growth strategies, however, global growth trends are also evident here. Liquor is growing ahead of CPG, driven by white spirits and beer.

   Millennials are the second largest generation cohort in Sub Saharan Africa. According to IRI's latest shopper survey, 63% of all South African millennials use their smartphones to research product and store information. This, coupled with the increased ease of access to social media platforms, manufacturers and retailers can expect continued alignment with global trends.

   At IRI, we provide our clients with regular global liquor growth and trend updates.

2. **Innovation.** A key growth driver for white spirits and craft beer is through flavour exploration and providing healthier product options. Shoppers are switching from whisky to gin and vodka, which have offered exciting innovation.

   With the number of available products increasing for consumers and the popularity of sharing occasions, expect further growth from brands that empower their consumers through social media and innovate to meet their needs.

   Craft beer product range growth might be plateauing, however the volume sales are not. These new products are meeting the expectations of their target consumers, as well as reaching new ones, and are not showing any signs of slowing.

3. **Premiumisation.** The innovation across white spirits and beer is encouraging premiumisation and providing strong growth for these categories. Whisky has an opportunity to position itself amongst this flavour explosion through whisky cocktails and various mixers to capture a wider audience.

Do you have unanswered questions with regards to the liquor trade in the informal market in South Africa?
Do you have a thorough understanding of what the biggest opportunities are and where to find them in this sector of the market?

What do you need to grow?
IRI is able to provide you with the most comprehensive and accurate granular view of the South African liquor universe, from top end grocers, the wholesale and redistribution chains through to the informal trade.

IRI TradeEdge Liquor provides national informal trade coverage of the large liquor categories through outlets such as taverns, local bottle stores and counter service venues, as well as spaza stores.

Reference:
1. Millennials are over a quarter of the world population and 1 in 7 identify as activists and half of those say their activism is an important part of who they are
Daisy Kendrick - Excerpt from The Guardian, 14 June 2017

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