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Media Feedback

2016 Category Quantification Report

Powdered Beverages in South Africa

Product Definitions

Product	Definition
Hot Powdered Drinks	Hot powdered beverages comprise of three drink types, namely malt-based drinks, hot chocolate and cocoa. These powdered beverages are generally combined with either hot water and/or hot milk before being consumed.
Milk Based Cold Powdered Drinks	Cold powdered beverages that entail a milk modifier in powder or granulated form that is used to make a beverage with the addition of cold milk.
Water Based Cold Powdered Drinks	Cold powdered beverages that entail a water modifier in powder or granulated form that is used to make a beverage with the addition of water.

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Market Trends

Overall, the powdered beverage category saw a slight decline during the 2015 year. The category lost momentum through declines seen both for milk based/hot powdered drinks and water based cold powdered beverages. There was growth in value, stemming from price increases rather than a growth in volumes.

A number of medium and small sized players have withdrawn from the market to focus on alternative, more profitable lines. The powdered beverage market is an extremely competitive one, with there being a plethora of promotions to maintain player shares. It is a very price sensitive market, with very limited consumer price elasticity, particularly in the face of a tough economic climate.

In terms of the **hot powdered category**, a number of players exited the market as profit margins were insufficient to justify remaining active within the category. All cocoa is imported and, with the devaluation of the Rand, input prices became prohibitively expensive. This has undermined consumer demand for hot powdered beverages. In addition, hot powdered variants are facing increasing competition from coffee and cappuccino offerings. It is believed that the psychological gap between the competing categories has narrowed since both are now available in stick packs. The category has traditionally been highly seasonal but there is a growing trend to consumption throughout the year, which may impact positively on volumes in the long term.

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Market Trends Cont.

Milk based variants are fairly niche in their targeting, but loyalty to the brands appears to be waning. The category is facing mounting competition from flavoured syrups, flavoured straws and ready-to-drink flavoured milk variants that operate within the same market space. Flavoured milk in particular has performed particularly well in the last 18 months, and has potentially eroded support for powdered milk based drinks. The future outlook for this category is not particularly positive.

Water based products are divergent in their offerings – being either in the form of sachets or medium sized packs for home usage, or bulk supply to the foodservice trade. It is believed that this category is facing increased competition from the wide variety of ready-to-drink juices available on the market.

For the entire powdered beverage category, the impending sugar tax is a potential threat to sales. It remains to be seen how players will adapt to this changing market dynamic in order to remain profitable, particularly since the market is already under pressure. In addition, with sugar being a major input ingredient, the prices of sugar need to be monitored carefully as this impacts on the bottom line.

The retail trade, being the mainstay of the market, was the only channel not to see a decline in volume during 2015. The retail sector remained static in terms of volumes channelled to market, while all other channels saw limited declines. Export was the most pronounced of the declines. It is hypothesised that with the decline in supply levels, the local market was prioritised, thus translating into a decline in export supply.

Market Trends Cont.

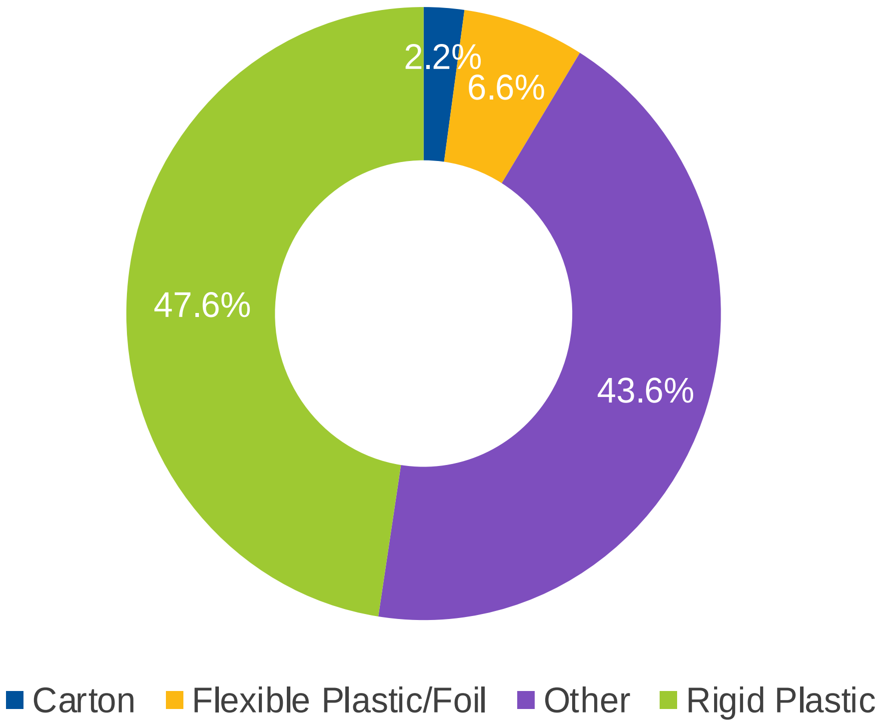
All provinces in South Africa saw a decline in the level of volumes consumed, with the exception of the three major metropolitan areas, namely Gauteng, the Western Cape and KwaZulu-Natal. These areas appeared to be prioritised in terms of supply during 2015 and thus saw limited growth or remained static, while outlying areas saw a level of erosion.

The pack offerings within the market saw little change in terms of overall size and type skews. The demand for various pack types and sizes was fairly uniform in 2015 against 2016.

The future outlook for powdered beverage volumes in general remains optimistic but conservative.

Pack Type Breakdown 2015

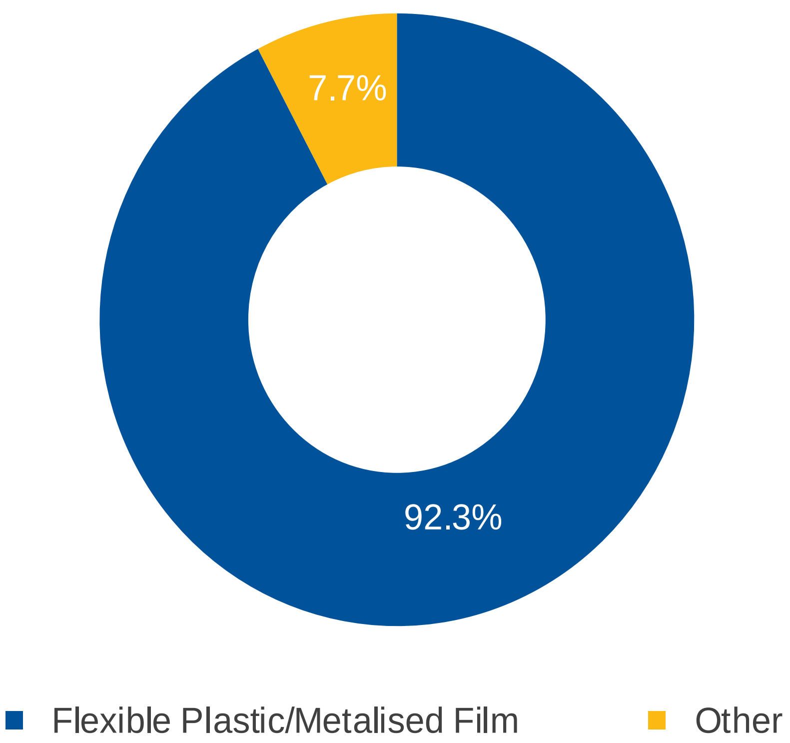
Milk Based and Hot Powdered Beverages



Rigid plastic remained the mainstay for the milk based and hot beverages category for 2015. Flexible plastic/foil and carton declined in volume for 2015 compared to the previous year.

Pack Type Breakdown 2015

Water Based Cold Beverages



Flexible plastic/Metalised film showed positive volume growth for the year 2015, while 'other' packaging declined in volume for the year under review. It should be borne in mind that 'other' packaging represents a limited portion of the overall market volume.

Other includes carton, paper and rigid plastic

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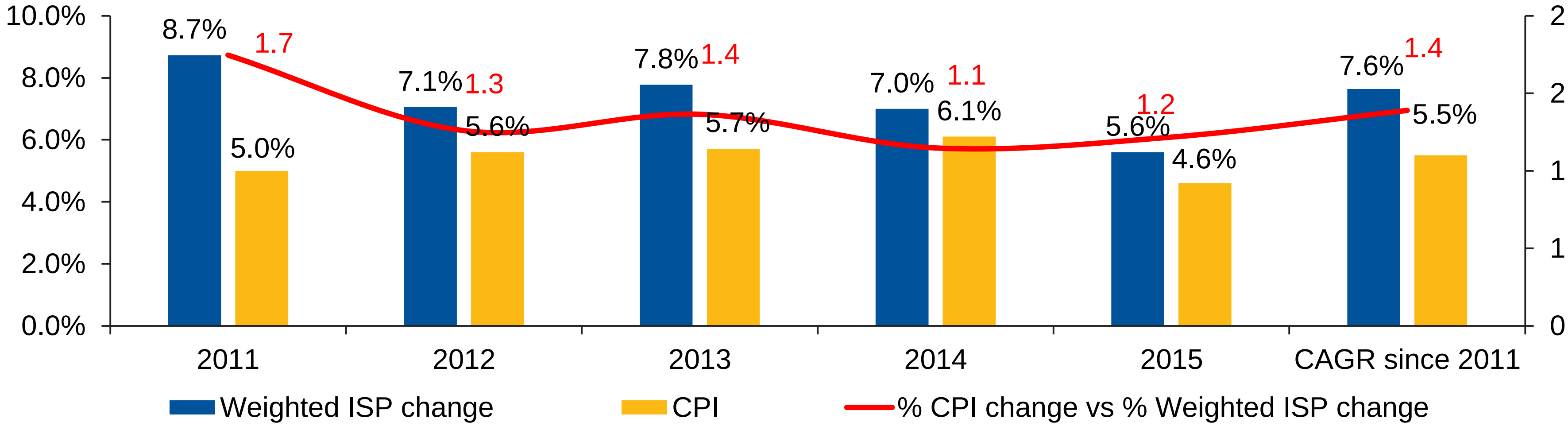
Historical Average Industry Selling Price

Industry selling price versus CPI



The industry selling price for the category exceeded that of CPI for 2015. Overall, for the past five years, category ISP prices have been driven more by milk based/hot powdered drinks rather than water based products.

Consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.

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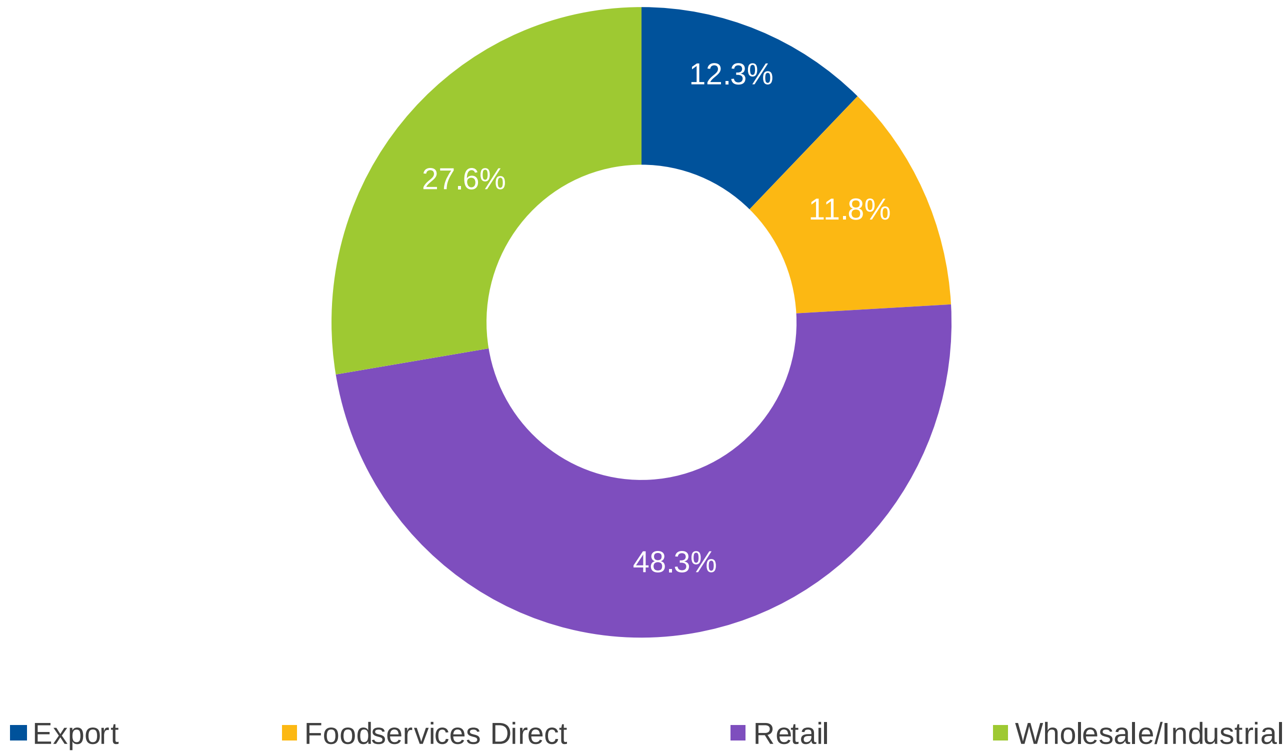
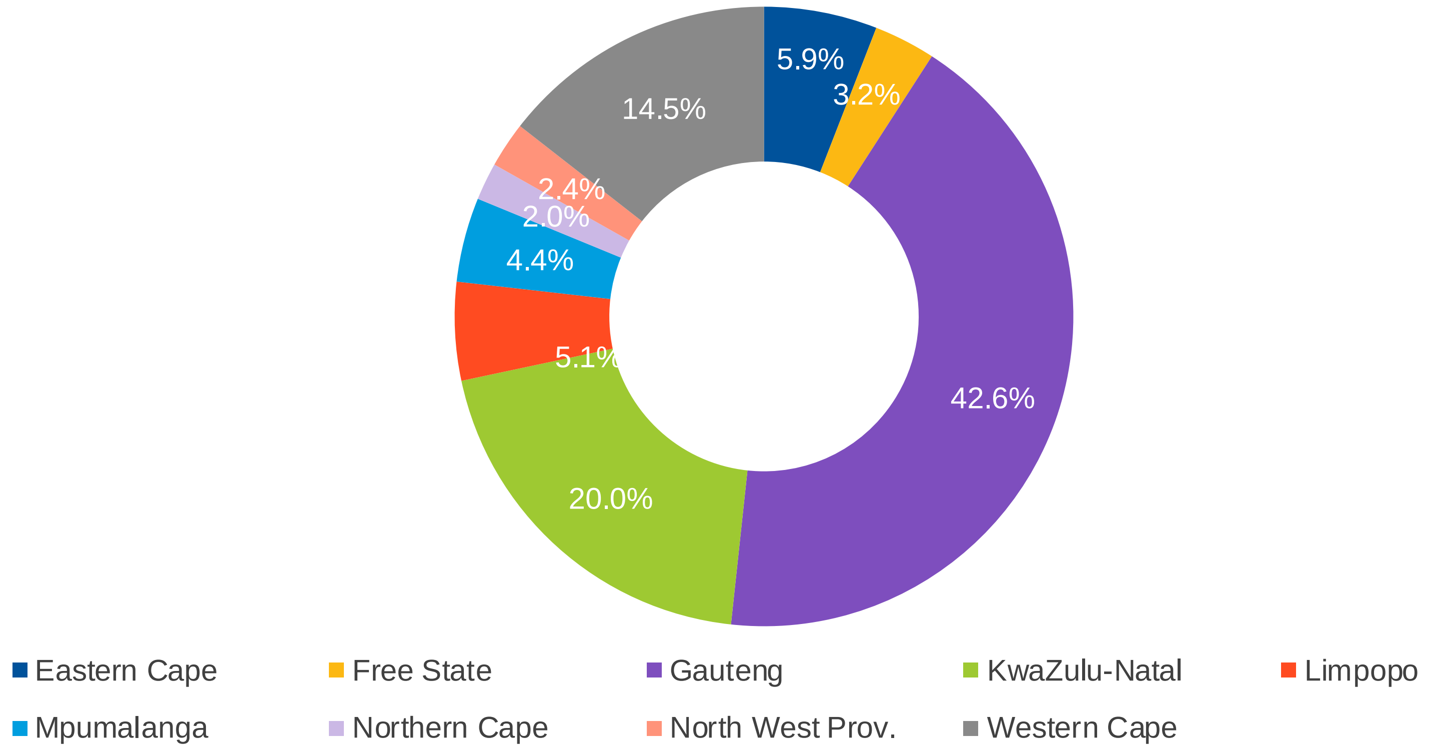
Channel Distribution 2015



Retail remained the dominant channel for the consumption of powdered drinks for 2015. However, this channel remained completely static during the base year, as the withdrawal of a number of players and rising input costs undermined further potential growth for the category.

Regional Distribution 2015



The three major metropolitan areas, namely Gauteng, KwaZulu-Natal and the Western Cape, maintained their volume share while the rest of the provinces saw decline. It is believed that the three key regions were prioritised in terms of meeting supply commitments.

Excludes exports

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BMi Tracking Report Schedule 2016

Packaging

All reports

- Packaging overview
- Paper & Board
- QPM
- Quarterly Import

Annual Beverage Publications

Full Report (All reports below)

Alcoholic Beverages

- Flavoured Alcoholic Beverages
- Malt Beer
- Sorghum Beer
- Spirits
- Wine

Non Alcoholic Beverages

- Bottled Water
- Carbonated Soft Drinks
- Cordials and Squash
- Energy Drinks
- Fruit Juice
- Iced Tea
- Mageu
- Sports Drinks

Dairy Beverages

- Dairy Juice Blends
- Drinking Yoghurt
- Flavoured Milk
- Maas
- Milk

Annual Food Publications

- Canned Protein
- Dairy
- Desserts
- F&C Beverages
- Pasta
- Rice
- Wheat and Grain

Confectionery & Snacks

- Ice Cream
- Packaging of Snack Foods
- South African Confectionery Market
- The Impulse Market in South Africa

On Request

- Biscuits and Rusks
- Breakfast Foods
- Baked Products
- Baking Aids
- Eggs
- Fats and Oils
- Frozen and Par-Baked Products
- Premixes
- Pre-prepared Meals
- Processed Meat Products
- Protein
- Sauces
- Soup and Condiments
- Sweet and Savoury Spreads
- Value Added Meals

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