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Media Feedback Report

2017 Flavoured Milk in South Africa

June 2017

Product and General Definitions

Product	Definition
Flavoured Milk	Flavoured milk is a pasteurised and homogenised low fat dairy milk product that is coloured, sweetened and flavoured. It then undergoes a sterilisation process which removes all micro organisms and helps to extend its shelf life. This product can be kept on shelf for longer than regular dairy beverages.

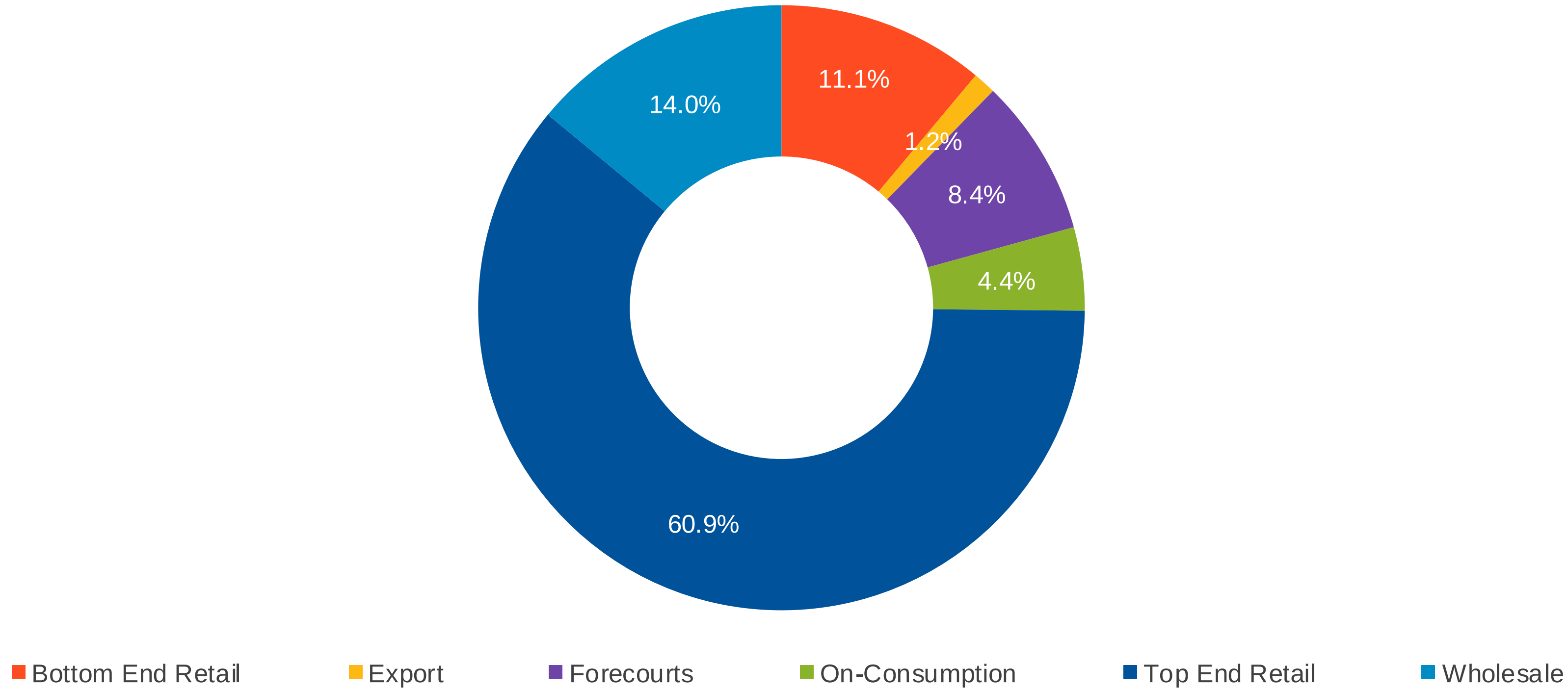
Market Trends

In terms of 2016, the flavoured milk category did not perform at the same levels seen in 2015. Flavoured milk volumes saw a decline of 5.2% during 2016. The category recorded total volume of 26.9 million litres in 2016 and was estimated to be worth R777.3 Million in value terms. The value increased year on year by 7.8%, and may be attributed mainly to the higher increase in pricing of 13.8%, thus increasing the annual value, despite the declining volume consumption. The flavoured milk price saw the largest increase for the last five years, being twice as high as the annual average inflation measure (CPI index 6.4%). The promotional activity in terms of print adspend for the category increased by 19.1% in value from 2015 to 2016. This advertised discounted pricing on most flavoured milk brands, but these promotions were not sufficient in reducing the category inflation or bolstering the category volumes for the year.

South Africa experienced one of the worst droughts in the summer of 2015/2016 and this had a direct impact on failed agricultural crops and the resultant shortage of feed for livestock. It was foreseen at the beginning of 2016 that the milk category would be one of the worst affected with shortages of milk expected for industrial processing. Although many regions received late rainfalls in 2016, the Western Cape and Eastern Cape regions, where most raw milk production takes place, still experienced severe drought conditions. This put severe strain and pressure on the dairy industry in 2016, with many dairy categories hamstrung by the short supply of raw milk. It is hypothesised that the drought and supply shortages contributed to the decline in volume for flavoured milk in 2016. Many smaller, localised players had already exited the flavoured milk category in 2015, with only larger, more diversified players staying afloat in 2016 by increased pricing to absorb the rising input costs.

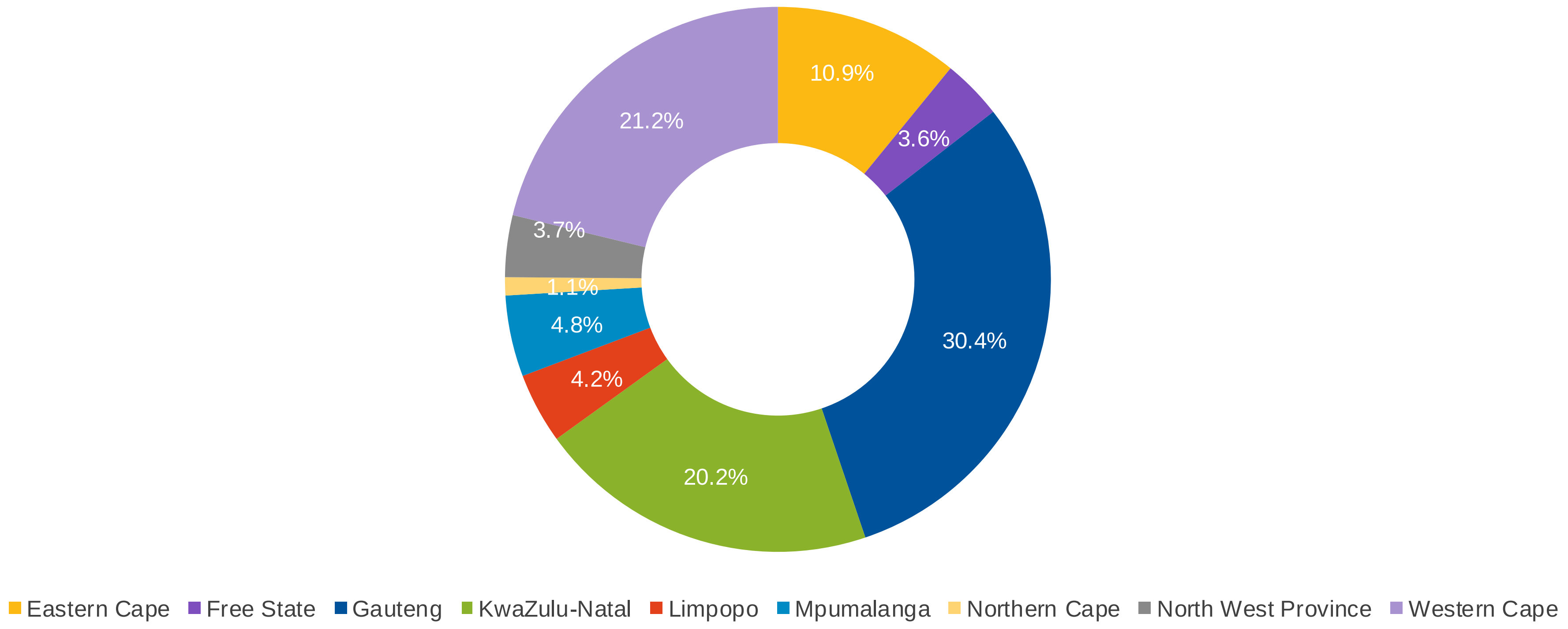
Top end retail remained the mainstay channel that flavoured milk was sold and distributed to. Although the market was declining, top end retail performed better than the overall market. Exports showed the largest relative decline in volume terms, and it is believed that the high transport costs across borders hampered sales in this channel.

Channel Distribution 2016



Top end retail remained the mainstay channel for flavoured milk and despite the overall market and top end retail declining in volume terms, top end retail increased its channel share by 1.1% from 2015. This is not unexpected considering that most retailers sell their own private label brands of flavoured milk through this channel. Three out of the top five brands that spent the most on print advertising in 2016 were Spar, Shoprite and Pick n Pay's private label brands.

Local Regional Distribution 2016



Most regions, with the exception of the Eastern Cape, declined in terms of volume consumption. Correspondingly, the highest annual increase in print adspend from 2015 to 2016 was from regional publications in the Eastern Cape (59.3%) and the Northern Cape (64.7%).

Excludes Exports

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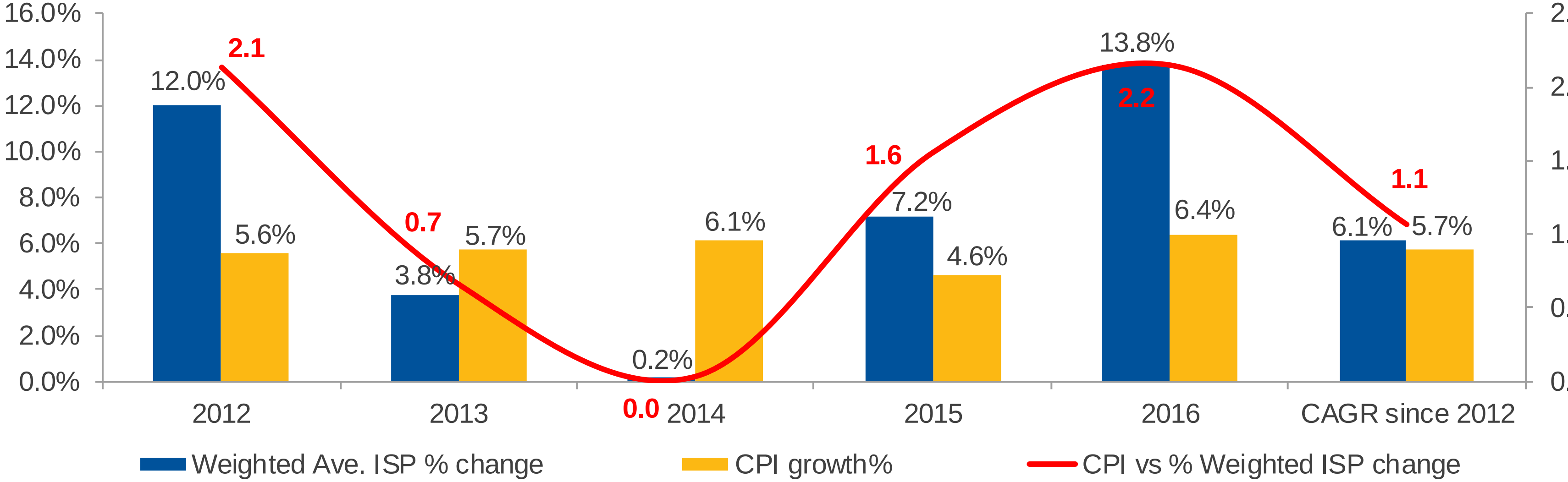
Historical Average Industry Selling Price

Year	Price (Rand/Litre)	% Change
2012	22.79	12.0%
2013	23.65	3.8%
2014	23.70	0.2%
2015	25.40	7.2%
2016	28.91	13.8%



The flavoured milk category is considered a small dairy beverage category in volume terms, but does have a higher industry price than other dairy liquids. The average industry selling price was R28.91 per litre in 2016 and translated into an pricing of 13.8%. This was considered on par with pricing increases seen in other dairy beverages and products in 2016.

Pricing represents an average weighted Rand per Litre

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