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Media Feedback Report

Wine in South Africa

2017

Product Definitions

Product	Definition
Wine	**Natural Wine:** A non-fortified and non-sparkling wine, including perlé wine which is wine carbonated to the extent that the pressure in the container in which it is sold is between 75 and 300kPa. It also includes any grape juice or must and grape juice or must concentrate used in the sweetening of such natural wine. **Fortified Wine:** Wine which has had alcohol added to it during its fermentation process to raise the overall alcohol level (usually 15% to 20%) of the final wine. This is done in the production of sherry and port. **Sparkling Wine:** Wine carbonated (either by fermentation or impregnation with carbon dioxide) to the extent the pressure in the container in which it is sold is more than 300 kPa. It includes any grape juice or must and grape juice or must concentrate used in the sweetening of such sparkling wine.

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Market Trends

The wine category saw only a limited growth in volume during 2016. It is believed that the overriding barrier to greater potential growth for the category was the drought with reduced crop yields as a result. Going forward, the wine volumes are expected to see a substantial growth during 2017, but this is dependent upon reliable access to **water**. The water supply issue may further impede the category in future. Overall, there has been a reduction in the plantings over the past decade as farmers have struggled to maintain yields. Farmers may need to diversify to other crops should this continue, with the net result being wine shortages for the market in coming years.

Other than this, **South African wines appear to be in a good position**. There is growing demand internationally for these wines particularly given the premium quality of the variants available. The reduced value of the Rand further underpins this dynamic. There is a move to pave the way for preferential trade agreements with North America and China that would underpin the export trade long term. There was also recently an agreement finalised between the EU and South African Customs that extends the current annual duty-free allowance. This bodes well for our local wine producers in terms of international sales and greater profitability. The international markets can afford to absorb price increases on South African wines.

In addition, there is an active **shift from bulk to packaged wine sales**, which means that instead of South African wines being sold in generic format, they will increasingly be sold in branded packaging, thus offering them greater exposure and elevating the perceptions of these wines on the international market, as well as developing greater brand equity overall.

With this dynamic of greater sales and premium pricing in exports, it is likely that the local wine sales will see a **knock-on effect in terms of price inflation** in coming years as international pricing filters down to the local market. It is believed that this would apply more to upper end offerings than the reasonably priced supermarket wines, as the latter are more price sensitive. In terms of current pricing, the wine category saw a notable increase in average pricing during 2016, and this translated into a significant growth in value for the category during the same time frame.

Market Trends Cont.

The **channelling** of wine saw an increase in exports and off-consumption during the base year. On-consumption, however, saw a decline during the same period. BMi has noted declines in on-consumption for a number of different beverage categories recently, where it is believed that this stems primarily from reduced consumer disposable income. In addition, it is hypothesised that wine producers prioritised retail and online or e-commerce sales for the category and that this focus resulted in an erosion of on-consumption volumes.

Locally, the **Western Cape and Gauteng** have been traditional focus points for wine distribution, possibly given the higher population concentrations as well as elevated disposable income in these regions. The culture of wine drinking may also be more developed within these areas. These provinces both saw increases during 2016 as they consolidated their positions. In contrast, there was a degree of erosion in consumption by KwaZulu-Natal, the Free State, and the Eastern and Northern Cape during 2016.

From a **packaging** perspective, the consumption of wine is dominated by glass packaging. Bulk sales make up a further third, and bag in box represents the next tier of usage. It is expected that alternative packaging formats will enjoy greater growth in future, this being congruent with international trends. Evidence of this is visible in the 2017 packaging forecasts for the category. Glass is a particularly heavy pack type, and light weighting improves the transportation costs. Bag in box is favoured from a light weighting perspective and this may apply to both premium and budget wines, depending on the pack designs.

New packaging trends internationally that may gain a foothold in the local market are premium wines sold in single serving cans, stand up wine pouches, plastic bottles and cups. Environmental responsibility remains a key factor in the industry and the green footprint of various pack options is increasingly coming to the fore.

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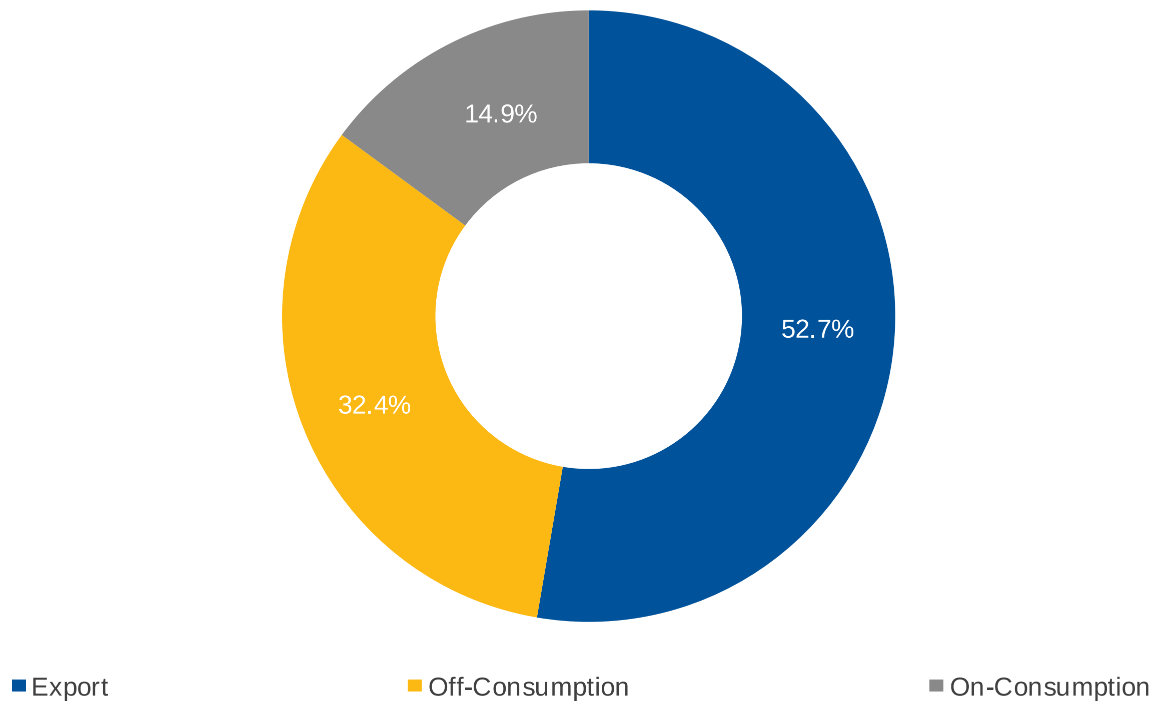
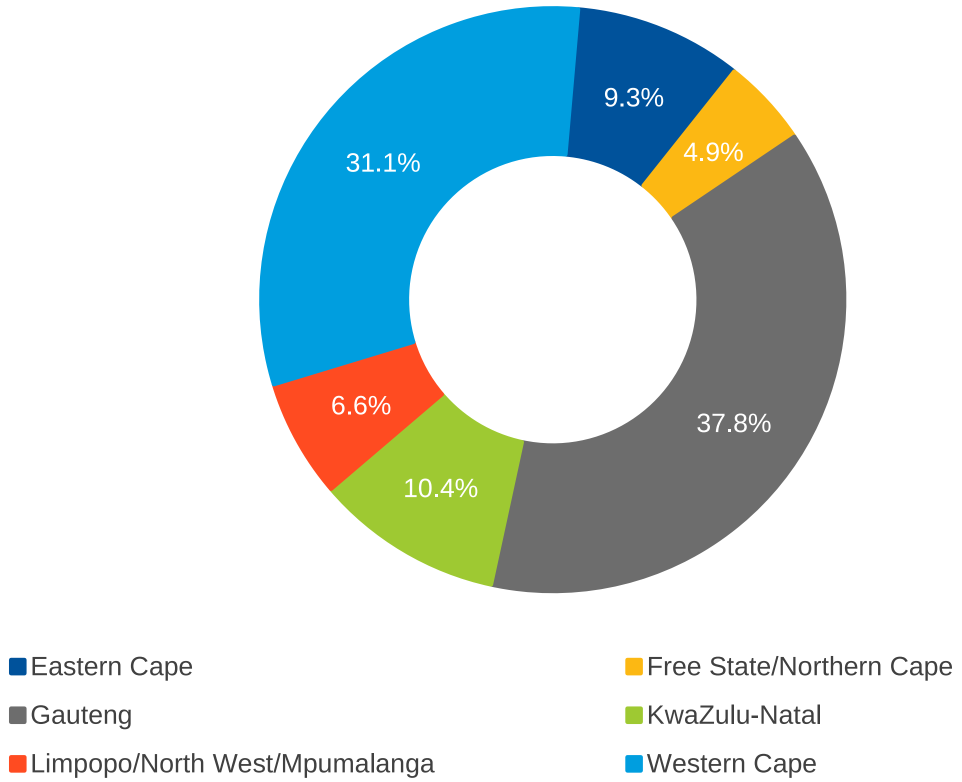
Channel Distribution 2016



Exports comprise a significant portion of South Africa's wine sales, and it is envisaged that this will continue to be the case in future. However, it is anticipated that exports will become less bulk focused and will entail more packaged wine sales, congruent with efforts to grow the awareness of South African wine brands on the international market.

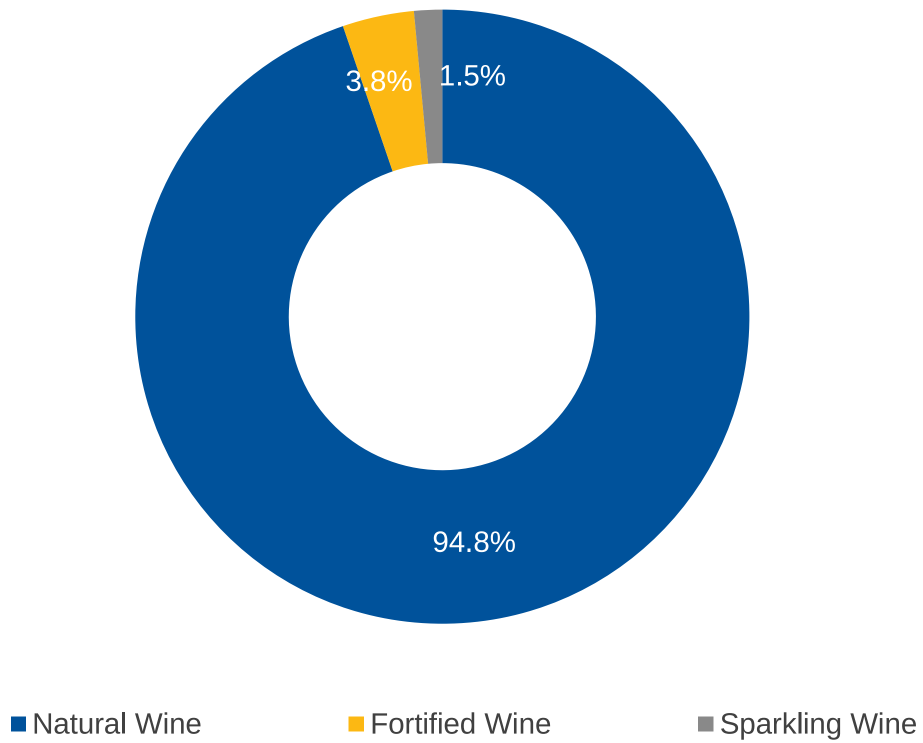
Local Regional Distribution 2016



Gauteng and the Western Cape held the greatest shares of the local wine category for 2016. These substantial shares may be representative of both the greater relative population concentrations in these provinces, as well as the higher average income for resident consumers. Both these regions increased their shares during 2016 as they remained a key focus for producers.

Excludes Exports

Product Breakdown 2016



Natural wine, the lion's share of the market, saw a growth in volume share during 2016 at the expense of both sparkling and fortified wines. Given the new, growing popularity of sparkling wine internationally, it is expected that the share of these wines will accelerate in future, possibly to the detriment of fortified wines.

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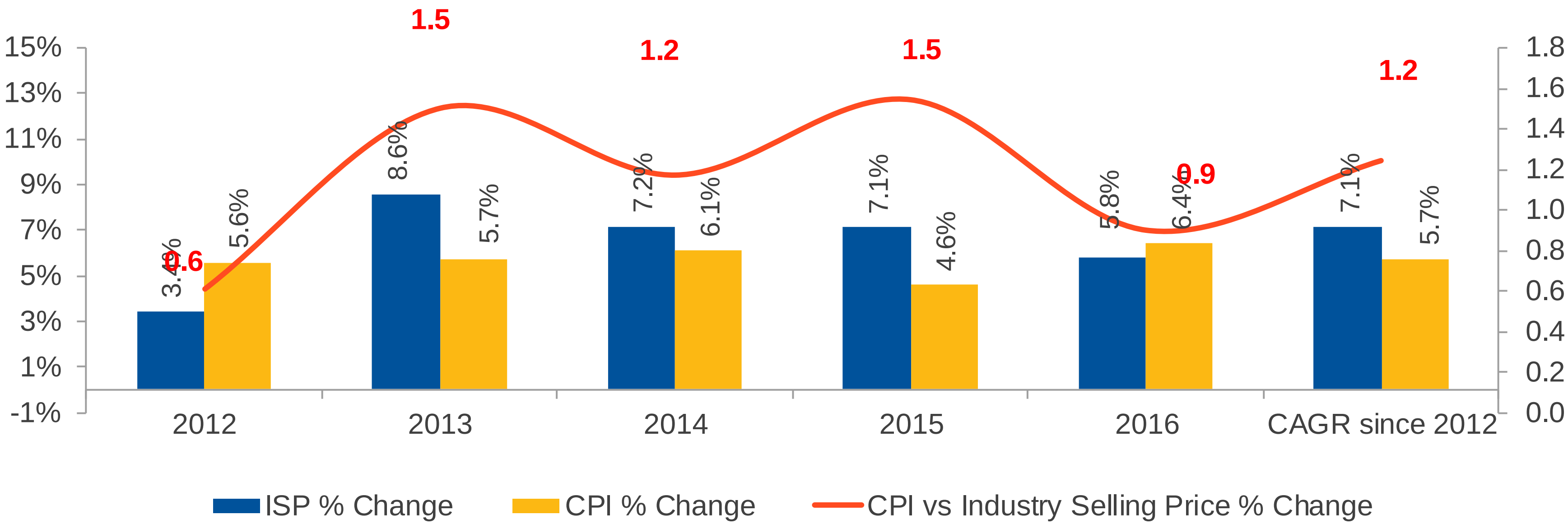
Historical Average Industry Selling Price



The increase in average selling price for wine during 2016 is well within general inflation figures for the year. As wine is increasingly sold in premium packaged formats rather than in bulk, it is expected that the category pricing and profitability will grow at higher rates in future.

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- Adspend Value
- Print Ads Mobile App
- Promotional Effectiveness

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Contact us:

t: +2711 615 7000
f: +2711 615 4999
research@bmi.co.za
bmi.co.za
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