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Media Feedback Report 2018

Drinking Yoghurt in South Africa

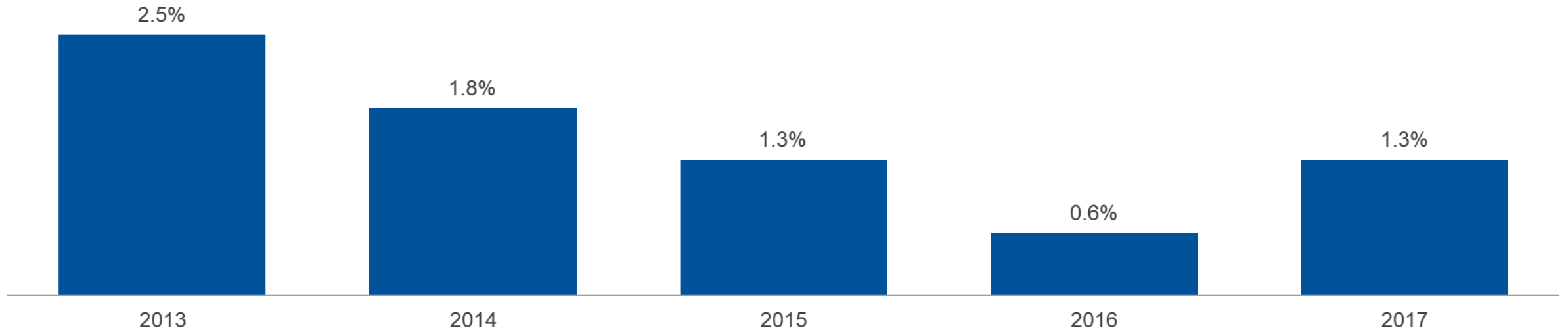
April 2018

South African Economy

South Africa's GDP

GDP is the market value of all officially recognised final goods and services produced within a country in a given period of time.

Growth rates in industry value added and GDP (constant 2010 prices)

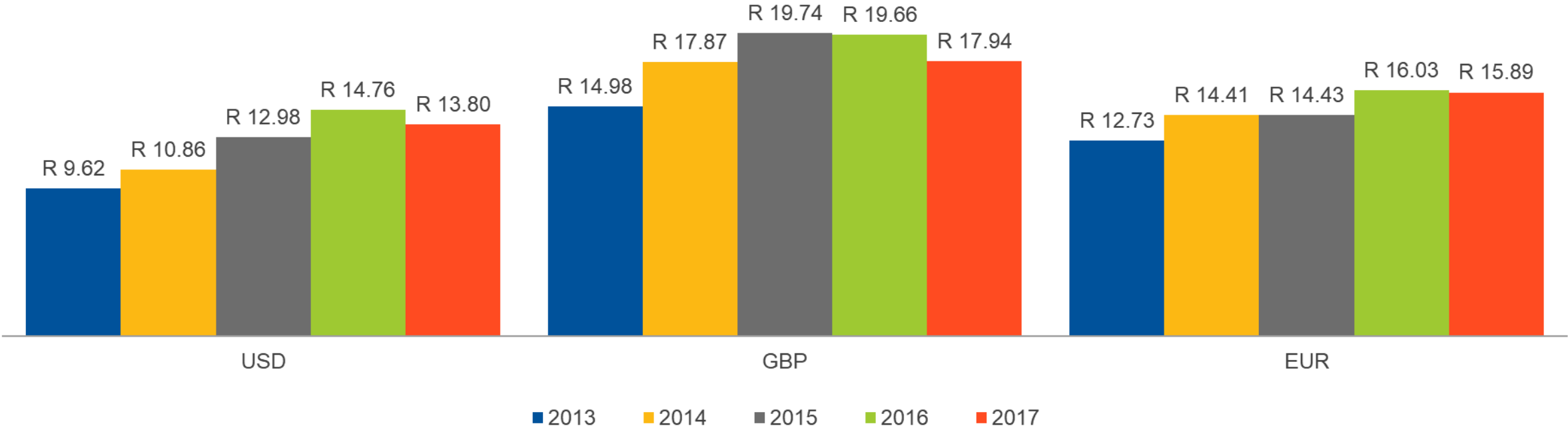


The South African economy grew by 1.3% in 2017, up by 0.7 percentage points compared to 2016. The World Bank estimates local economic growth as at least 1.4% for 2018. Drinking yoghurt declined in both volume and value as consumers looked for alternative dairy and snack on-the-go products, particularly those that are cheaper in Rand per litre terms than drinking yoghurt.

Source: Statssa
World Bank Group

Currency

Performance of South African Rand

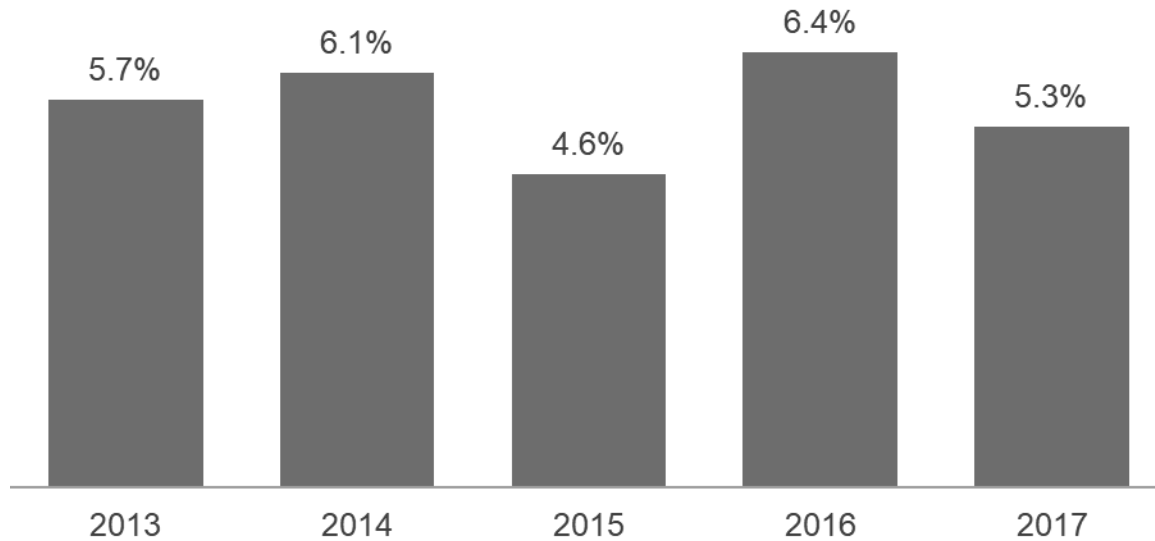


The USD/Rand exchange rate was weaker in the first half of the year, favouring export. There was a notable increase in the volume of drinking yoghurt leaving the country in 2017 before the USD/Rand gained strength in the second half of the year.

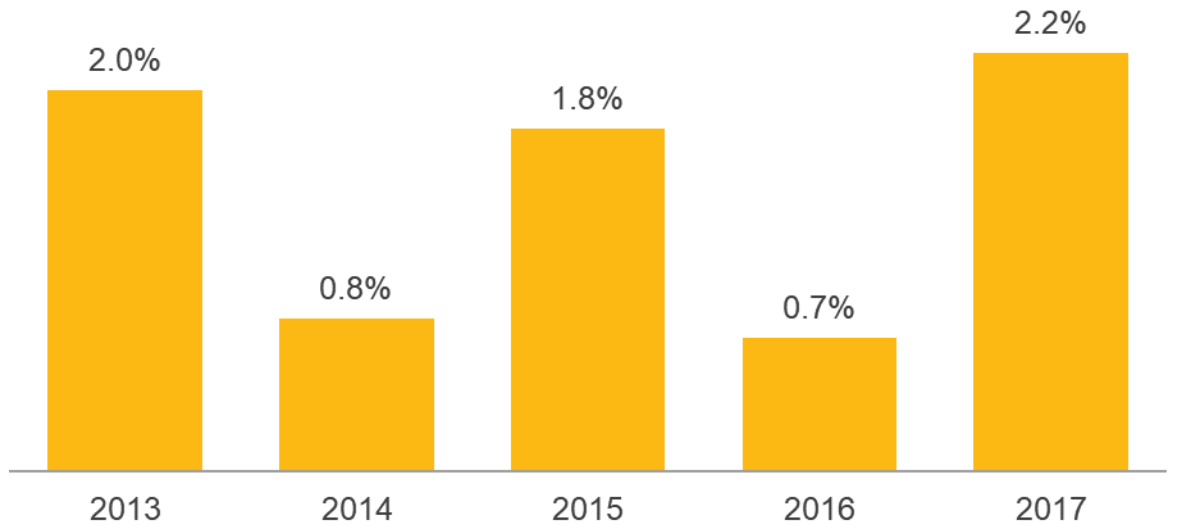
Source: Exchange Rate

South African Economy

Consumer Price Index



Household Consumption Expenditure



The consumer price index was measured at a rate within the SARB inflation target of 3-6% in 2017. The drinking yoghurt category price recorded a limited increase during the same period. It is believed that some players absorbed the price increase in order to push more volume in the market. The household consumption expenditure increased significantly from 2016 to 2017, which was the same trend seen from 2014 to 2015.

Source: Statssa

Market Trends

The drinking yoghurt category experienced a challenging year in 2017 with both volume and value declining compared to 2016. The average selling price increased at a lower than inflation (CPI) rate in that period. The decline in category value was attributed more to the loss in volume rather than the slow growth in price.

The category decline may be attributed to the factors listed below:

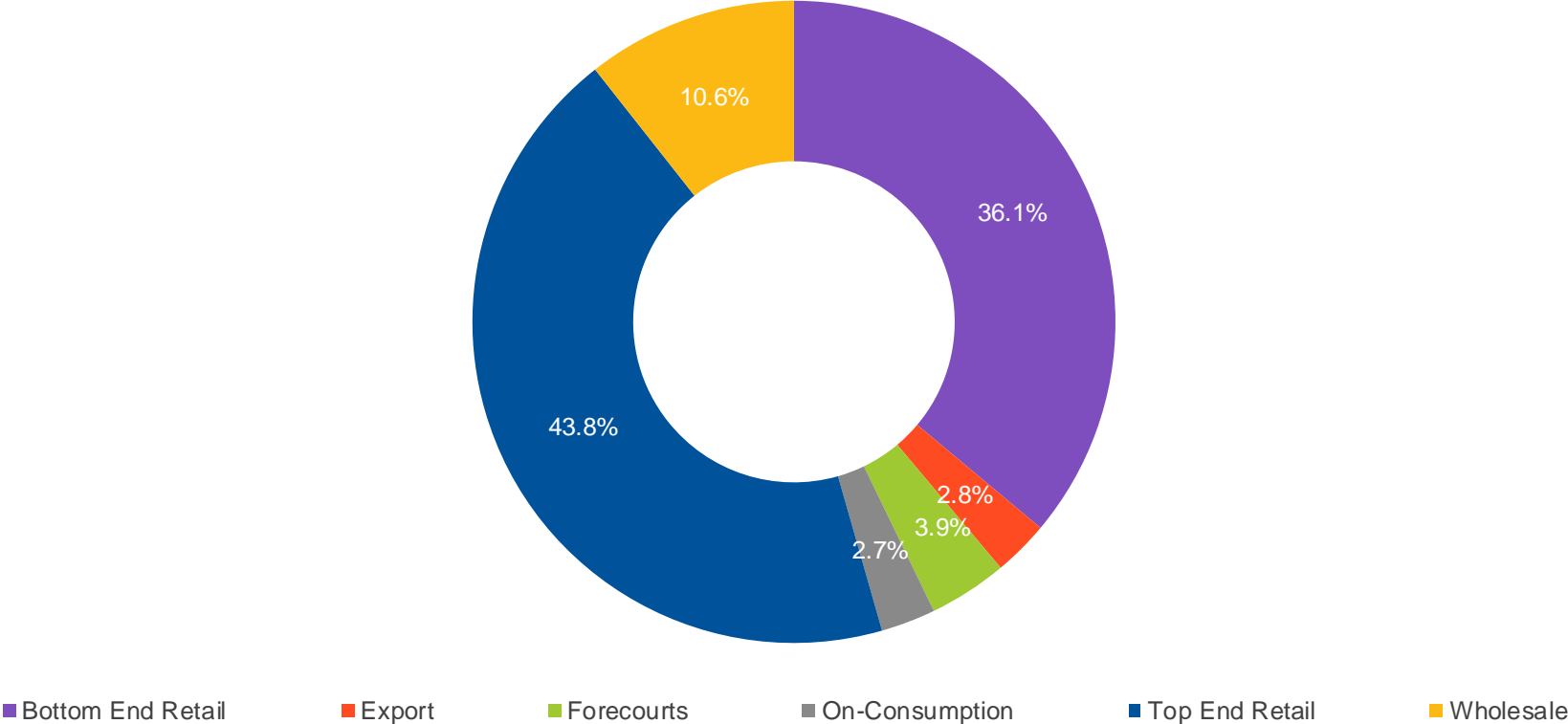
- The increase in awareness of consumer health and sugar intake. The government and other organisations have been working on educating consumers about the dangers of consuming too much sugar and introduced sugar tax in an attempt to curb obesity and other health issues. There may be more product reformulations in future in line with this.
- Competition from other dairy and non-alcoholic beverage products that are considered healthier and have the same price point as drinking yoghurt. Consumers are spoilt for choice by on-the-go beverages options available.
- Limited consumer spending on products that are considered non-essential.
- Limited supply of raw milk in some regions that were still experiencing drought in the beginning of the year.

The retail sector continued to dominate the category distribution. Bottom end retail and top end retail combined accounted for 79.9% of total volume sold in 2017, down from combined volume share sold in 2016. Top end retail was used mainly by national players who advertised their brands aggressively whilst more regional-based players used bottom end retail and wholesale to distribute their products. The wholesale channel, which remained the third largest channel in this category in volume terms, declined as the category declined. Forecourts were one of the smaller channels and showed significant growth from 2016 to 2017. It is believed that some players targeted this channel in order to increase their volume during holiday seasons as it is considered a convenient product when travelling.

Drinking yoghurt brands were distributed mostly in the metropolitan regions with Gauteng, the Western Cape and KwaZulu-Natal accounting for 68.9% combined volume share in 2017. The increase in share may be attributed to the players focusing more on major centres in order to cut distribution costs to outlying areas. The probable need for the product refrigeration hampers efforts to increase the distribution and penetration to the outlying regions and channels.

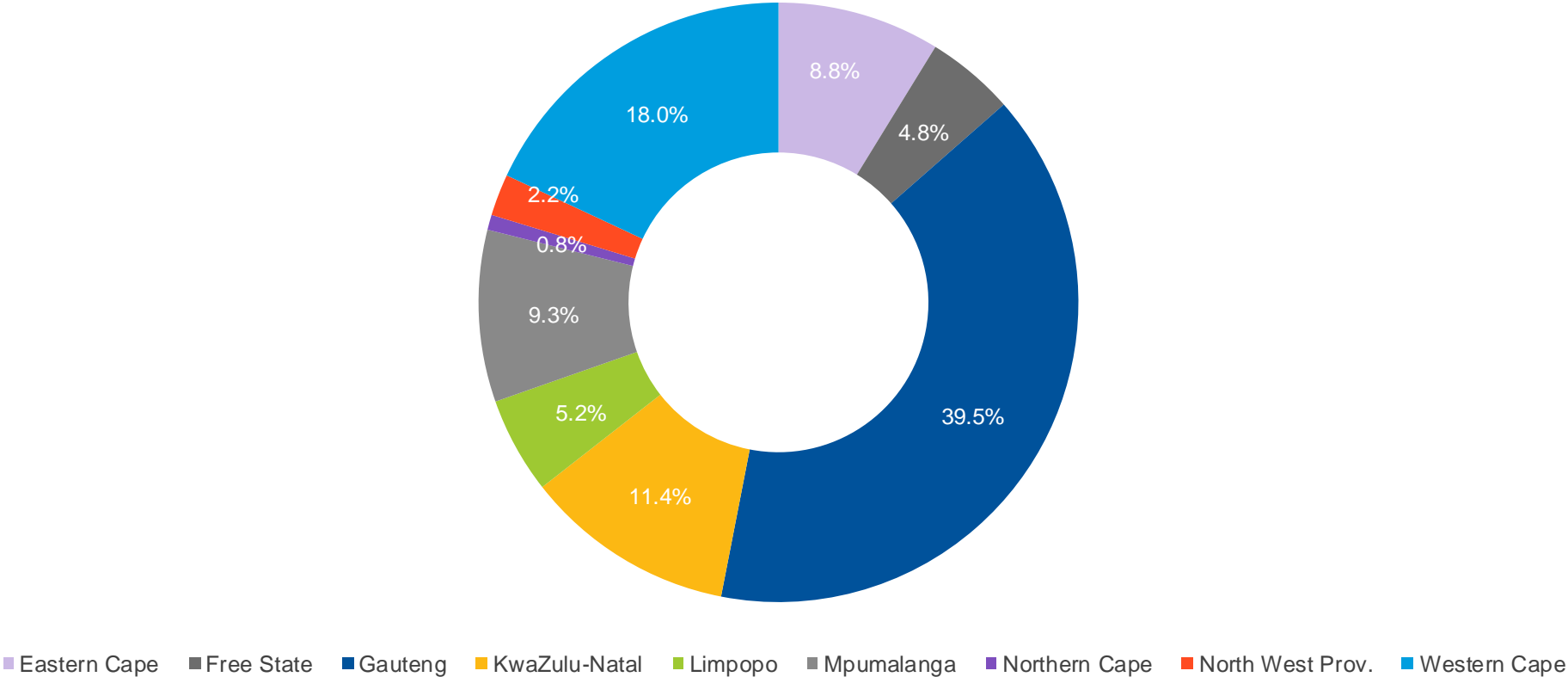
The category is expected to remain under pressure as it competes with other dairy beverages that are marketed as healthier, low sugar options and offer added value to attract health conscious consumers. The category is expected to decline again in 2018 and regain some traction in the mid to long term, where it is expected to grow at a conservative rate

Channel Distribution



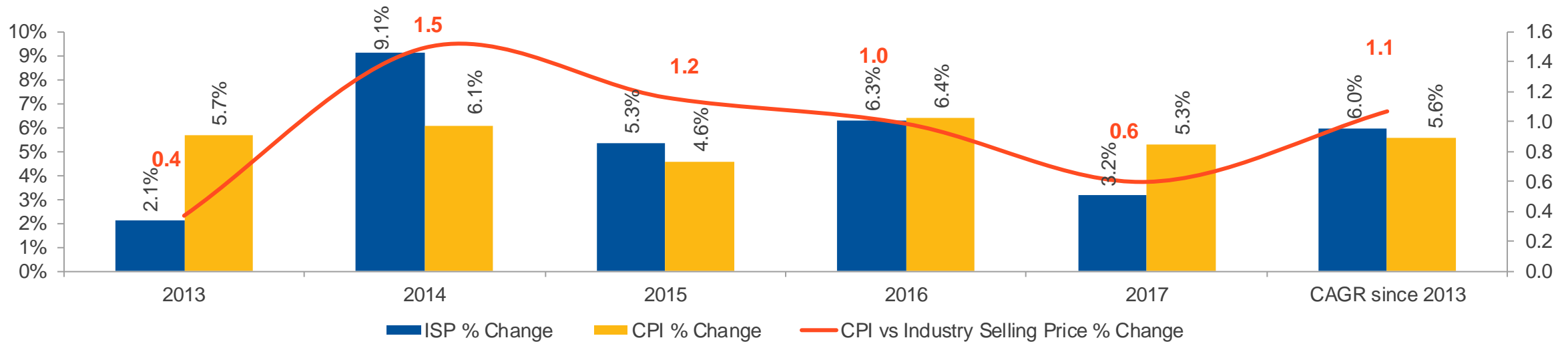
The retail sector (top end and bottom end retail) accounted for 79.9% of volume sold in 2017, down from combined volume share sold in 2016. Top end retail was used mainly by national players who advertised their brands aggressively whilst more regional-based players used bottom end retail and wholesale to distribute their products.

Local Regional Distribution



Drinking yoghurt brands were distributed mostly in the metropolitan regions with Gauteng, the Western Cape and KwaZulu-Natal accounting for 68.9% combined volume share in 2017 compared to 2016. The increase in share may be attributed to the players focusing more on major centres in order to cut distribution costs to outlying areas.

Historical Industry Selling Price



The category's ISP grew at an average rate of 6.0% year-on-year over the last five years compared to the CPI's average of 5.6%. The average weighted industry selling price increased by 3.2% from 2016 to 2017, which was the slowest in four years. The limited increase may be attributed to some players discounting their prices in order to gain volume share. Volumes merely shifted between players rather than translating into actual market growth, despite more aggressive pricing strategies attempting to maintain or strengthen market performance.

The industry selling price represents a weighted average selling price across all channels



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