

LIQUOR CONSUMPTION PATTERNS IN SOUTH AFRICA

Article written by Elias Holtzkampf

1. OVERVIEW (2006/07, 2010/11 and 2011/12)

Table 1 – OVERVIEW OF THE ALCOHOLIC BEVERAGE MARKET

Volume = '000L

Value = R'000

CATEGORY	2006/2007 VOLUME	2006/2007 VALUE	2010/2011 VOLUME	2010/2011 VALUE	2011/2012 VOLUME	2011/2012 VALUE
<i>Brandy</i>	46 600	4 102 664	39 000	4 688 970	37 100	4 930 961
<i>Gin</i>	6 300	483 714	5 320	574 879	5 200	641 108
<i>Cane</i>	2 300	124 752	1 800	139 968	1 700	150 195
<i>Vodka</i>	13 925	960 547	16 750	1 637 983	17 100	1 898 955
White Spirits	22 525	1 569 013	23 870	2 352 830	24 000	2 690 258
<i>Liqueurs</i>	10 200	892 500	9 500	861 650	9 600	966 500
<i>Whisky</i>	30 600	3 745 746	34 000	5 797 000	35 700	6 495 972
<i>Rum</i>	4 900	552 475	4 950	719 483	5 900	906 299
TOTAL SPIRITS	114 825	10 862 398	111 320	14 419 932	112 300	15 023 490
<i>Sparkling Wine</i>	8 000	459 200	8 320	640 307	8 650	726 254
<i>Super Premium Wine</i>	44 000	1 870 440	45 000	2 479 950	47 400	2 739 246
<i>Premium Wine</i>	70 000	1 000 300	82 600	1 637 958	86 600	1 764 908
<i>Standard Price Wine</i>	121 000	999 460	91 000	1 093 820	94 000	1 216 360
<i>Perl�</i>	43 600	715 476	52 800	1 048 080	54 500	1 289 470
TOTAL UNFORTs	278 600	4 585 676	271 400	6 259 808	282 500	7 009 984
FORTIFIED WINE	29 660	889 800	28 595	1 163 817	28 745	1 198 092
RTDS	302 000	5 152 120	354 000	8 206 200	374 000	9 656 440
Subtotal	733 085	21 949 194	773 635	30 690 064	806 195	33 614 260
<i>Beer</i>	2 778 600	25 007 400	2 937 000	35 831 400	2 980 000	40 355 520
GRAND TOTAL	3 511 685	46 956 594	3 710 635	66 521 464	3 786 195	73 969 780

1.1. VOLUME

Beer in volume terms constitutes just under 80 per cent of the market (Table 2 - Volume). During the past 5 years, in percentage terms, both Spirits and Wine have declined. In volume terms Spirits declined by 2.5 million litres, whilst Wine increased by 4 million litres.

The biggest growth came from RTDs with a volume growth of 23.8% over the five year period. The RTD share of the market increased from 8.6% to 9.9%.

'Ales' are excluded as there is no trustworthy data available. However, the Western Cape police estimated the volumes at 120 million litres. Furthermore, in the course of research that SAWIS conducted in various bottle stores on price levels of the lower priced wine, three bottle stores replied "we only sell ales at the lower price level".

Table 2 - MARKET SHARE OF ALL LIQUOR CATEGORIES

	<i>Volume %</i>			<i>Value %</i>		
	<i>2006/2007</i>	<i>2010/2011</i>	<i>2011/2012</i>	<i>2006/2007</i>	<i>2010/2011</i>	<i>2011/2012</i>
<i>Spirits</i>	3.3	3.0	3.0	23.1	21.7	20.3
<i>Wine</i>	8.2	7.5	7.7	10.7	10.4	10.4
<i>Fortified Wine</i>	0.8	0.8	0.8	1.9	1.7	1.6
<i>RTDs</i>	8.6	9.5	9.9	11.0	12.3	13.1
<i>Beer</i>	79.1	79.2	78.6	53.3	53.9	54.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

1.2. VALUE

In value terms Beer has only slightly more than half of the market, and has increased its share marginally. The growth is due mostly to growth in the premium beer sector.

The RTD market has shown the most growth; increasing in share from 11.0% to the current 13.1%.

The Unfortified wine market remained stable during the past 12 months, but Fortified wine decreased.

The Spirits market declined by nearly three percentage points, with most of the losses coming from Brandy.

1.3. SPIRITS MARKET

Five years ago (2006/2007) Brandy made up 40.6% of the Spirits market; this has now decreased to only 33.0%. During 2007/2008 Brandy sold 47 million litres; this has subsequently decreased to 37 million litres. A loss of close to 10 million litres of Brandy or 50 million litres of rebate and distilling wine per annum. The volume losses were due to growth of Vodka (mostly Smirnoff), Whisky and to a lesser extent Rum. One of the fastest growing Spirit brands is Skyy Vodka. Last year it had a market share of only 0.6%, which has now increased to 2.0% and sells at R160 per 750ml bottle. In value terms Brandy makes up

only 32.8% of the market currently, with Whisky at 43.2%. In value terms Whisky is therefore 32% bigger than Brandy.

Table 3 - RSA SPIRITS MARKET

	<i>Volume %</i>			<i>Value %</i>		
	<i>2006/2007</i>	<i>2010/2011</i>	<i>2011/2012</i>	<i>2006/2007</i>	<i>2010/2011</i>	<i>2011/2012</i>
<i>Brandy</i>	40.6	35.0	33.0	37.8	32.5	32.8
<i>Gin</i>	5.5	4.8	4.6	4.5	4.0	4.3
<i>Cane</i>	2.0	1.6	1.5	1.1	1.0	1.0
<i>Vodka</i>	12.1	15.0	15.2	8.8	11.4	12.6
<i>Liqueurs</i>	8.9	8.5	8.5	8.2	6.0	6.4
<i>Whisky</i>	26.6	30.5	31.8	34.5	40.2	43.2
<i>Rum</i>	4.3	4.4	5.3	5.1	5.0	6.0
<i>TOTAL SPIRITS</i>	100.0	100.0	100.0	100.0	100.0	100.0

In the view of the author, Brandy faces the following problems:

Brandy is in a price squeeze. There are Whiskies, namely First Watch and Harrier, that sell at prices below the well-known cut-price Brandies of Wellington VO and Olof Bergh. When Richelieu and Klipdrift Export are on special at Makro and other large chain stores, the price would be R85.95. Cheaper products with a good image are available for example Smirnoff at R74.95, R11 less. This is an age-old phenomenon, in tough economic times White Spirits perform well. Furthermore, in broadsheet advertising by the bigger customer groups (like Makro, Spar, etc) you will regularly find well-known Whiskies like Vat 69 and Black and White advertised at the same price point as Richelieu and Klipdrift. So the price squeeze is both at the top and the bottom.

In the Mainstream market, drinking is to a certain extent an expression of status. Brandy has now become a 'Familiar' product. The consumers say that they have been drinking Brandy for five to eight years and now want to move on to something new and exciting. It also seems that Brandy is not perceived as an aspirational lifestyle product.

1.4. WINE MARKET

Over the past five years the Standard price market has declined due to 'Ales' with all the other wine categories therefore increasing in share. In value terms the Super Premium category represents 35.4% of the market versus the 16.3% in volume terms. Likewise Sparkling wine represents only 3.0% in volume terms, but a significant 9.0% in value.

Table 4 - RSA WINE MARKET

	Volume %			Value %		
	2006/2007	2010/2011	2011/2012	2006/2007	2010/2011	2011/2012
<i>Sparkling Wine</i>	2.8	3.0	3.0	9.1	9.3	9.4
<i>Super Premium Wine</i>	15.4	16.1	16.3	37.1	35.9	35.4
<i>Premium Wine</i>	24.4	29.5	29.7	19.8	23.7	22.8
<i>Standard Price Wine</i>	42.2	32.5	32.3	19.8	15.9	15.7
<i>Perl�</i>	15.2	18.9	18.7	14.2	15.2	16.7
TOTAL UNFORTs	100.0	100.0	100.0	100.0	100.0	100.0

2. PAST TWELVE MONTH OVERVIEW AND FORECAST

2.1. LIQUOR MARKET

The total liquor market grew by only 2.0 per cent last year and the same growth is expected for the next year. As mentioned in the previous article, population growth is in excess of 2.0% and bearing in mind the numbers of illegal immigrants, our per capita consumption of legal products continues to decline.

The Beer market increased by 1.5% last year, but due to the higher than normal excise increase on Beer, the forecast is a growth of only 1.0% for the next year.

The RTD sector grew by 5.6% last year and the prediction is that the growth will continue at 5.3%. This market is driven by innovation and new products. Due to the success of the Mainstay range of cocktails, Smirnoff extended its cocktails with three new products and KWV entered the cocktail market with Ciao in four flavours and two pack sizes. KWV also launched Jimmy Jagger in three flavours. Jimmy Jagger is a wine-based product with very young/modern packaging. KWV also entered the Spirits cooler market with a KWV 3 brandy and cola product in competition with Klippies & cola. It is currently only available in cans and has an appealing, modern packaging. The cider market is buoyant with very good growth in cans specifically. The 'energy' sector of this market is also growing well and Brandhouse entered the market with a Smirnoff Ice with Guarana. All the new products and packs will definitely fuel the growth of this market sector.

The Fortified wine market grew by only 0.5% during the year with most of the growth from Sedgwick's Old Brown. A segment of the market known by few people is the Wine Aperitif market. This market comprises products like Zorba, Clubman Mint Punch and Mokador and is consumed as a lower priced spirit alternative. These products are at 20 % alcohol per volume (a/v) and sell at around R44 per litre. This category is in decline due to the growth of illicit spirits. A full strength (43% a/v) Brandy (e. g. Burnsley) can be bought for R43.

Expectations are that the Old Browns will increase next year, but due to the above, the Wine Aperitif market will decline.

The Sparkling wine market is expected to grow by only 1% next year. But, with very high sales during December, a price war between the three major grocer groups could increase the sales. According to SAWIS data the Cap Classique (MCC) sector grew by 6.7% for the 12 months to August 2012 compared to August 2011. The MCC market currently represents 22.5% of the sparkling wine market with annual volumes of 2 million litres.

The Wine market grew by 4.1% last year and this year we expect growth of 3.0%. Similar to last year, the growth will mostly be in the Super Premium and Premium categories with some growth coming from the Perlé sector. The growth in the wine sector will come mostly from the sector selling at between R18 per bottle and R45 per bottle. More discussions on Wine follow later in the article.

Last year the Spirits market grew by only 0.9% and this can be blamed on excessive hikes in excise duty. The growth came from Smirnoff, Amarula, Whisky and Rum. Brandy volumes declined by 5%. Due to the very high excise increases announced by the minister, we expect a 2.5% decline in Spirit volumes next year. The author expects a further 7.0% decline in the Brandy market next year due to the reasons mentioned earlier.

2.2. ILLICIT LIQUOR

The market segment in which illicit liquor is already very high is the cane market. The industry estimates it represents at least 13% of the market. Excise evasion on spirits is estimated in excess of R432 million per annum. The lowest priced product sold by a reputable producer is Cape to Rio cane. On average (on a national) level this product sells for R78.19 per litre. AC Nielsen, a research company that collates sales data in bottle stores, found the cheapest Cane to be Arctic Ice and it sold at R53.54. Please bear in mind that the excise on a litre of spirits is R48. The industry also did some research through a research company called Ipsos-Markinor and the lowest priced Cane they found in reputable bottle stores was Palm Beach which sold at R63.01 per litre; R15 Less than a product by a reputable producer. Most of these products are made from cane spirit smuggled illegally out of Swaziland. The Vodka market already shows illicit products at 6.4%. The percentages for illicit Brandy and Whisky products are still very low, but increasing. The lowest priced Brandy, according to Nielsen, is Burnsley at R43.38 per litre. This is even less than the R48 excise that should have been paid. SALBA (the trade association representing the manufacturers and distributors) was instrumental in the formation of the Liquor Industry Sectoral Task Group which was established for the specific purpose of combating illicit trading. All the major stakeholders (including SARS, DAFF, SAPS, DOH as well as the Western Cape and National Liquor Authorities are represented on this Task Group.

2.3. WINE BY TYPE

During 2011 the Rosé sector in the Super Premium category showed a slight decline, but in 2012 the Rosé sector again gained one share point due to the many dry Rosés that were launched. The White sector therefore declined by one share point. The Red sector represents more than half of the market in value terms. The Super Premium category is dominated by Distell, followed by DGB, Van Loveren and Robertson co-op in that order. In volume terms the major brands are Four Cousins, Douglas Green, Nederburg and Robertsons in that order. But, like we mentioned last year, you do not bank volumes and market share, you bank money. In value terms Nederburg is 32% bigger than the next brand, Four Cousins. A new move in this market is that DGB launched three of the Saints range in 3L boxes.

Table 5 - SUPER PREMIUM WINE

	<i>Volume %</i>				<i>Value %</i>	
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>	<i>2012</i>
Red	39.0	41.4	43.1	43.2	50.6	51.2
White	39.2	38.1	37.6	36.1	34.1	34.6
Rosé	21.8	20.5	19.3	20.7	15.3	14.3
Total	100.0	100.0	100.0	100.0	100.0	100.1

Table 6 - PREMIUM WINE

	<i>Volume %</i>			
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Red	17.6	17.5	17.2	16.1
White	72.4	67.5	65.2	63.5
Rosé	10.0	15.0	17.7	20.4
Total	100.0	100.0	100.1	100.0

Table 7 - PREMIUM WINE BY CONTAINER TYPE

<i>Category</i>	<i>Market Share Volume %</i>		<i>Market Share Value %</i>	<i>Retail Selling Price (R/ℓ)</i>
	<i>2011</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>
Bottle	10.6	11.2	15.8	30.80
Jug	1.5	2.1	2.3	24.39
5L Box	50.9	50.0	42.9	18.67
3L Box	20.8	21.7	21.3	21.33
2L Box	9.2	8.1	10.5	28.08
Tetra	6.8	6.7	6.9	22.31
TOTAL	100.0	100.0	100.0	

In the Premium wine category further growth in the Rosé sector is expected with subsequent losses in both the White and Red sectors. This market is also dominated by Distell, followed by Namaqua and Robertsons. Together these three constitute nearly 75% of the market. The main brands are Namaqua, Drostdy Hof, Robertsons and Overmeer, in that order. In the Table 7 Bag-in-Box (BIB) (including Tetra) make up 86.7% of this market with only 13.3% in glass. The biggest sector remains the 5L box followed by the 3L box. Both the 5L and 2L boxes lost share over the past 12 months, with the bottle and 3L sectors gaining share.

A challenge for the liquor industry and more specifically the Wine industry is how to handle the increase in outlets and increased importance of the three grocer chains. In 2006 the three grocer chains (Spar, Pick 'n Pay & Shoprite/Checkers) had 1,391 outlets and now in 2012 they have grown to 1,959 outlets. A growth of 41% in the number of outlets. Spar now has 990 outlets, up by 21% since 2006. Similar figures for Pick 'n Pay with 403 outlets, an 83% increase and Shoprite/Checkers with 566 outlets, a 61% increase. In total these three groups are responsible for 40% of the Premium and Super Premium wine sales. Adding the next seven groups the top 10 customer groups are responsible for 61% of the Premium and Super Premium business. This compares to 49% in 2006. A customer group denotes stores like Makro and Ultra liquors.

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Table 8 - RSA LIQUOR MARKET

Year End June VOLUME = '000L	2006/2007	2007/2008		2008/2009		2009/2010		2010/2011		2011/2012		2012/2013	
	Actual	Actual	Hist Trend	Actual	Hist Trend	Actual	Hist Trend	Actual	Hist Trend	Actual	Hist Trend	Forecast	Hist Trend
BRANDY	46 600	47 000	100.9	43 750	93.1	41 150	94.1	39 000	94.8	37 100	95.1	34 500	93.0
<i>Gin</i>	6 300	6 015	95.5	5 600	93.1	5 410	96.6	5 320	98.3	5 200	97.7	5 000	96.2
<i>Cane</i>	2 300	2 150	93.5	2 050	95.3	1 890	92.2	1 800	95.2	1 700	94.4	1 500	88.2
<i>Vodka</i>	13 925	14 900	107.0	15 600	104.7	16 450	105.4	16 750	101.8	17 100	102.1	17 200	100.6
WHITE SPIRITS	22 525	23 065	102.4	23 250	100.8	23 750	102.2	23 870	100.5	24 000	100.5	23 700	98.8
<i>Liqueurs</i>	10 200	10 200	100.0	9 000	88.2	9 400	104.4	9 500	101.1	9 600	101.1	9 600	100.0
<i>Whisky</i>	30 600	32 900	107.5	31 250	95.0	31 200	99.8	34 000	109.0	35 700	105.0	35 800	100.3
<i>Rum</i>	4 900	4 840	98.8	4 800	99.2	4 800	100.0	4 950	103.1	5 900	119.2	5 900	100.0
TOTAL SPIRITS	114 825	118 005	102.8	112 050	95.0	110 300	98.4	111 320	100.9	112 300	100.9	109 500	97.5
SPARKLING WINE	8 000	8 750	109.4	8 650	98.9	8 000	92.5	8 320	104.0	8 320	100.0	8 400	101.0
<i>Super Premium Wine</i>	44 000	45 000	102.3	44 750	99.4	42 520	95.0	45 000	105.8	47 400	104.4	49 000	103.4
<i>Premium Wine</i>	70 000	72 000	102.9	73 500	102.1	80 000	108.8	82 600	103.3	86 600	105.9	92 000	106.2
<i>Standard Price Wine</i>	121 000	117 200	96.9	103 000	87.9	89 180	86.6	91 000	102.0	94 000	101.5	94 000	100.0
<i>Perlé</i>	43 600	44 800	102.8	48 500	108.3	51 300	105.8	52 800	102.9	54 500	105.3	56 000	102.8
TOTAL NATURAL	278 600	279 000	100.1	269 750	96.7	263 000	97.5	271 400	103.2	282 500	104.1	291 000	103.0
<i>HP Ports & Sherries</i>	480	475	99.0	460	96.8	450	97.8	440	97.8	410	93.2	390	95.1
<i>HP Aperitifs & Verm</i>	480	485	101.0	475	97.9	465	97.9	455	97.8	435	95.6	415	95.4
<i>SP Fortified</i>	20 000	19 800	99.0	19 000	96.0	18 900	99.5	18 600	98.4	19 500	104.8	20 000	102.6
<i>Wine Aperitifs</i>	8 700	8 900	102.3	9 150	102.8	9 360	102.3	9 100	97.2	8 400	92.3	8 000	95.2
TOTAL FORTS	29 660	29 660	100.0	29 085	98.1	29 175	100.3	28 595	98.0	28 745	100.5	28 805	100.2
<i>AFBs</i>		252 700		263 500	104.3	271 000	102.8	274 500	101.3	292 000	106.4	310 000	106.2
<i>Spirit Coolers</i>		68 000		73 600	108.2	81 500	110.7	79 500	97.5	82 000	103.1	84 000	102.4
<i>RTDs</i>	302 000	320 700	106.2	337 100	105.1	352 500	104.6	354 000	100.4	374 000	105.6	394 000	105.3
SUBTOTAL	733 085	756 190	103.4	756 635	100.1	762 975	100.8	773 635	101.4	805 865	104.2	830 005	103.0
<i>Beer</i>	2 778 600	2 859 000	101.9	2 831 000	99.0	2 865 000	101.2	2 937 000	102.5	2 980 000	101.5	3 010 000	101.0
GRAND TOTAL	3 511 685	3 615 190	102.2	3 587 635	99.2	3 627 975	101.1	3 710 635	102.0	3 785 865	102.0	3 840 005	102.0

Notes on how to read Table 8 - LIQUOR MARKET

- This table represents an estimate of the liquor consumption in the RSA and does not include Namibia, Botswana, Lesotho and Swaziland.
- All volumes are in thousands of litres.
- The twelve months are from July to June.
- The historic trends are year on year indexes and if lower than 100 reflect a volume decline and if over 100 reflect a volume growth. For instance in the twelve month period 1 July 2010 to 30 June 2011 we estimate that 39,000,000 litres of Brandy were consumed. This was a decline of 5.2% on the previous year (94.8 – 100). Similarly, during the same period Vodka sold 16,750,000 litres and this was at a growth of 1.8% compared to the previous year (101.8 – 100).
- Super Premium wine is classified as all wine selling at prices above R25 per 750ml. Graca and the Saints range would be the lower end of the market.
- Premium wine is classified as wines selling in the R14 to R24 (per 750ml) price range and most of the boxes. 5L boxes selling at less than R70 are classified as standard price. The top end of Premium wine would be Drostdyhof and Obikwa.
- AFBs are products such as Savanna and Hunters. Spirit Coolers are products such as Smirnoff Spin and Klippies and Cola.