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## South Africa, Republic of

### Product Brief

### Distilled Spirits

**2007**

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**Report Highlights:**

South African consumers continue to enthusiastically support the local liquor industry, which sustains an annual value growth of 11%. South Africa's GDP (purchasing power parity) for 2006 was \$576.4 billion. Of that the alcoholic beverage market is worth \$4.1 billion. The premium liquor price bracket continues to grow ahead of either low-priced or mid-range products. Brandy is the most popular style of spirits, followed by whisky and white spirits.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Pretoria [SF1]  
[SF]

## SECTION I. MARKET OVERVIEW

South African consumers continue to enthusiastically support the local liquor industry, which sustains an annual value growth of 11%. South Africa's GDP (purchasing power parity) for 2006 was \$576.4 billion<sup>1</sup>, of that the alcoholic beverage market is worth \$4.1 billion. To put that figure in perspective, according to ACNielsen, South African consumers spend about R16 on alcohol out of every R100 spent on all consumer package goods.

The category's growth rate is higher than many others, including staple household goods, cigarettes and even non-alcoholic beverages. It is however, growing slightly slower than categories such as toiletries and the service sector that comprises markets like bakery, deli and fresh produce. Liquor remains the second biggest category in the consumer packaged goods industry, after food.

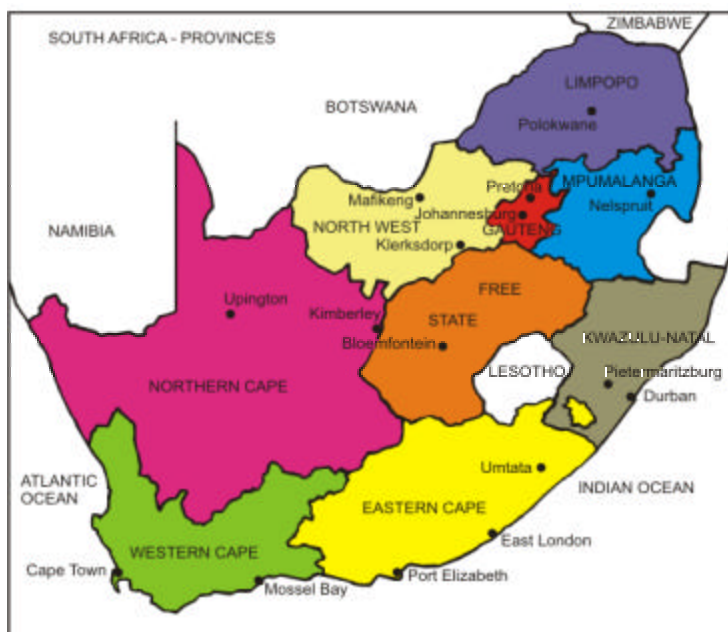
Of the three liquor price brackets, premium continues to grow ahead of the others. The Services Director at ACNielsen, says that this trend is partly due to general economic relief, and partly to growth in premium liquor sales in township areas. He notes that spirits in particular are starting to show a greater prominence in townships, where previously beer had dominated the market. This trend is also driving the increased sales of smaller bottles of spirits, as township consumers experiment with new and different brands.

At the other end of the scale, cut-price liquor continues to grow fairly well with some poorer consumers remaining in this bracket who are joined by new entrants.

These shifts pose a dichotomous trend as consumers move towards both extremes of price. Mid-priced offerings can react to this trend by choosing to either provide the quality to compete with higher-priced competitors, or by lowering price to appeal to low-income buyers. The third option is for prop-priced products to create their own focus and attract consumers with value for money products.

2006 continued the growing shift towards organized trade, as new chains and grocers' wine outlets continue to open. These openings have equated to an 18% increase in new stores over the past year, driven largely by the Tops liquor outlets, which are attached to Spar grocery stores. The influx of chain stores is putting independent outlets under severe pressure to either offer something special to consumers or to close down.

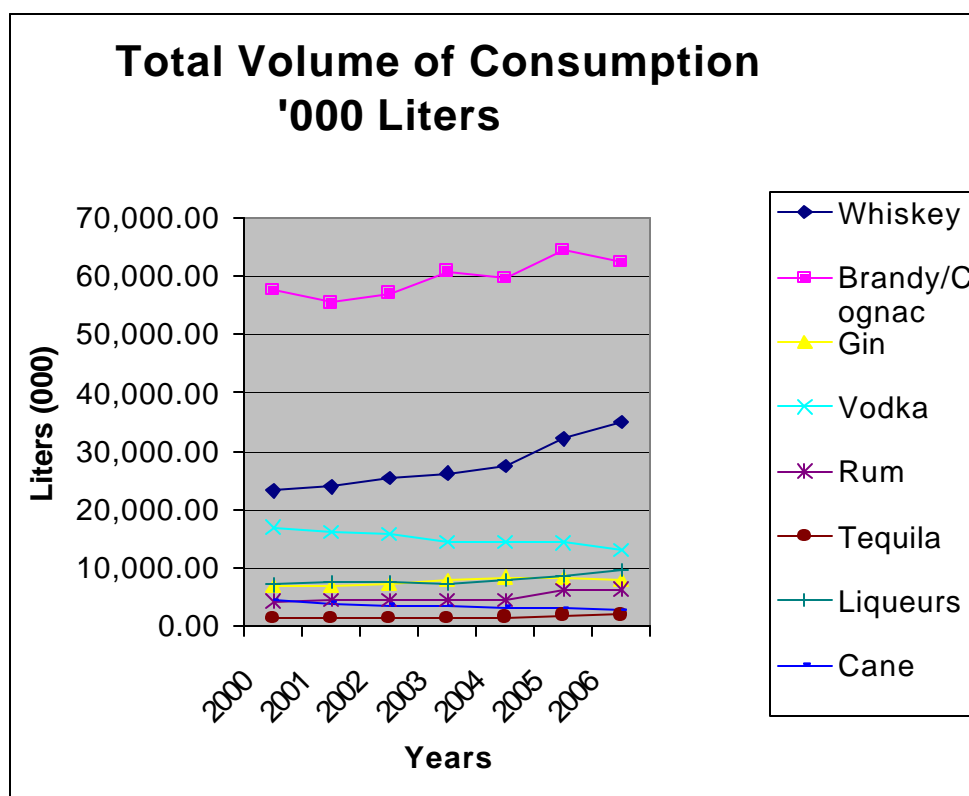
According to South Africa's Hotel & Restaurant Association (SAHRA) there are over 435 chain liquor stores in SA, with the greatest concentration in the Western Cape, followed by Gauteng. Gauteng continues to be critical to liquor trade. A third of the market moves through the province and that share continues to grow. Chains comprise 38% of the total



<sup>1</sup> CIA Factbook

store numbers. According to SAHRA this figure would be even higher if it was not so difficult to obtain a liquor license.

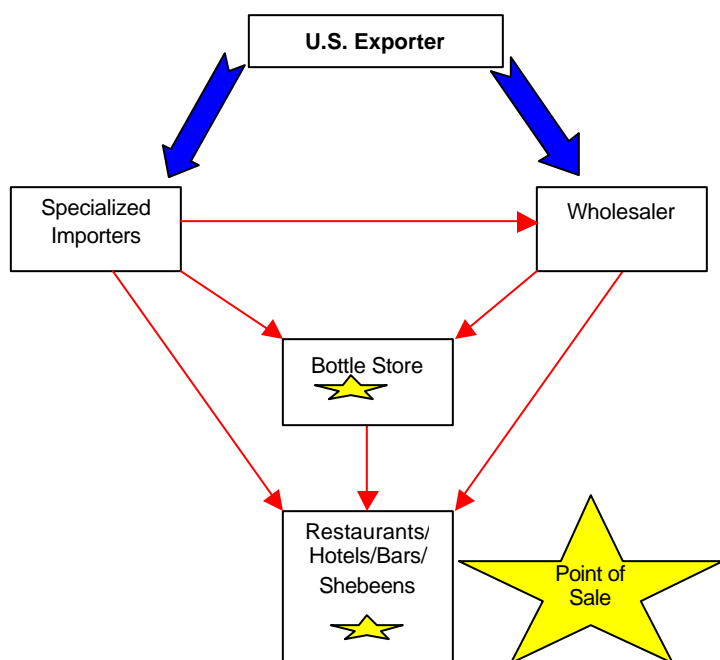
Liquor buyers are more brand loyal than buyers of other products. If a consumer's favorite brand isn't available at their usual shop, 46% of buyers will travel to another store to buy their preferred brand. However when faced with a country-wide out of stock situation, 42% of liquor buyers will buy an alternative brand rather than go without.



**SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS**

Advantages	Challenges
Consumers consider U.S. liquor brands to be of good quality and popular.	U.S. brands are generally priced higher than the local product.
Fascination with American culture (music, movies, fashions) carries over to American beverages.	Lack of knowledge of U.S. brands by importers and retailers.
First mover advantage with emerging middle class—young people with disposable income who have not formed a preference with any particular brand.	South Africa is geographically so far from America that transport costs can make American products unaffordable.

**1. Entry strategy**



It is possible for an American Exporter to contact a liquor wholesaler directly and arrange with that store or liquor chain to import and market the product. However, the most efficient way to access the South African market is to work with a specialized liquor importer/distributor who will coordinate the import documentation and also manage the brand.

**2. Market Size, Structure, Trends**

**Discounters**

Discounter stores: typically 300-900 m2 and stock less than 1,000 product lines, largely grocery goods. Goods are mainly own-label or budget brands. Examples include retailers such as Metro Cash & Carry, Pick-n-Pay, etc.

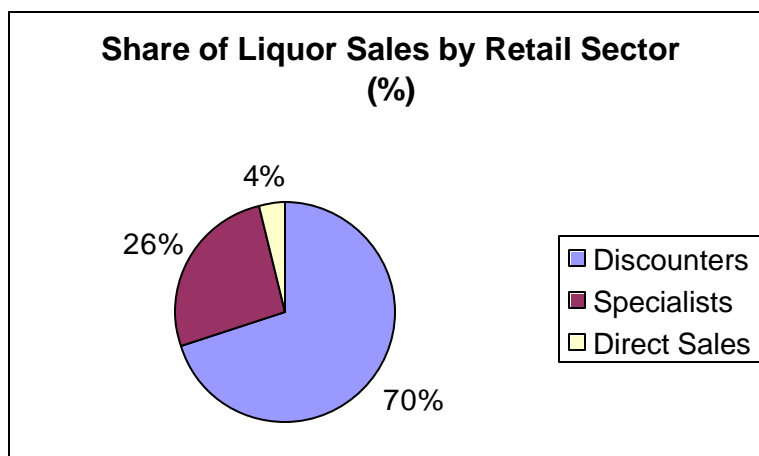
Variety stores/mass merchandisers: usually located on one floor, offering a wide assortment of extensively discounted fast-moving consumer goods on a self-service basis. Average at least 1,500 square meters in size, and give priority to fast-moving non-food and textile goods that have long shelf-lives. Makro is the largest chain discount operation in South Africa.

**Specialists**

Independent and chain outlets that specialize in retailing alcoholic drinks (more commonly known as off-licenses, bottle shops or liquor stores). Solly Kramer off-licenses are widely present through out South Africa. Select Spar grocery stores have liquor stores, called Tops, attached or next to the main store. Other large grocery store chains often have a wine department inside the store, but are forbidden from selling beer and spirits due to local alcohol legislation.

**Direct sales**

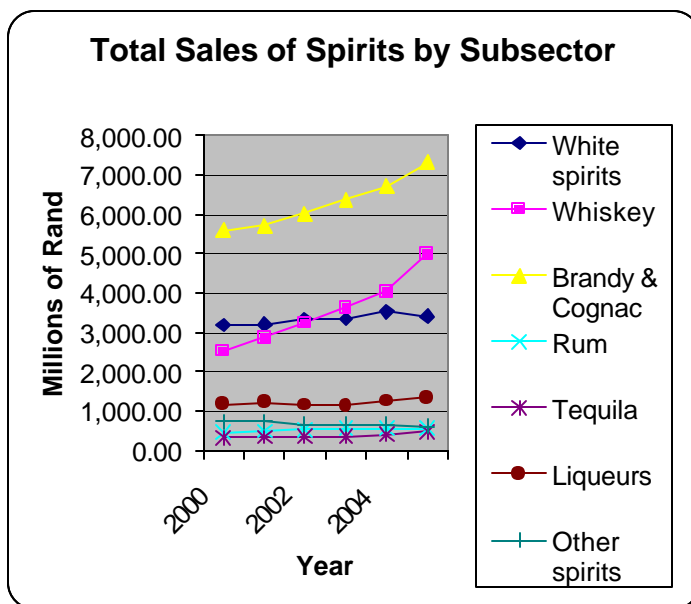
Internet, home delivery, mail order, sales through vineyards and any other type of direct selling. Shopping via the internet in South Africa isn't as popular as in more developed markets as very few consumers have internet access and those that do are reluctant to share their credit card details over the internet.



**Trends**

The emergence of an influential new middle class consumer group in SA is producing an increasing demand for premium brands.

Across the board consumers have shown a preference for premium products. Brandy has enjoyed five years of continuous growth. This trend is likely to accelerate as more premium products come into the market and the producers, including KVV (more below), and the Brandy Foundation find new consumers and sharpen their marketing. At the same time, SA consumer research showed that brandy simply does not have the same "aura" as whisky.



**American Brands in the RSA**

Jack Daniels, Jack Daniels Single Barrel, Jim Beam, Southern Comfort and Wild Turkey are all widely available in South Africa. Also the Bartenders range (original orange cream, coconut cream and piña colada flavors) is on both chain and independent retailer shelves. Jack Daniels has enjoyed tremendous growth in SA since its entry into the market as more young people have started to enjoy whisky. At 235 thousand cases a year, South Africa is now the sixth largest market for Jack Daniels in the world – that's more than is exported to Canada<sup>2</sup>. Jack Daniels can attribute its success to the frequent brand promotions across the country. You can see Jack Daniels billboards in the upper-class Sandton neighborhood and also in the famous Soweto township. Also its hard to go out to any popular bar on a weekend and not run into a Jack Daniels tee-shirt or hat give-away. Jack Daniels is the only U.S. distilled spirit in the top 40 alcoholic beverages in South Africa and it is ranked #20 in the adjacent chart.

Success breeds copy-cats and there are two imposter brands showing up on liquor store shelves next to real

<sup>2</sup> Business Day, November 1, 2006

**TOP 40 BRANDS (SALES VALUE)**

- |                       |                                    |
|-----------------------|------------------------------------|
| 1 Carling Black Label | 23 Bertrams VO                     |
| 2 Hansa Pilsner       | 24 Sedgwick's Old Brown Sherry     |
| 3 Castle Lager        | 25 Amarula                         |
| 4 Amstel              | 26 KVV Brandy                      |
| 5 Castle Lite         | 27 Paarl Perlé                     |
| 6 Castle Stout        | 28 Mellow-Wood                     |
| 7 Redd's              | 29 J C Le Roux                     |
| 8 Smirnoff Vodka      | 30 First Watch                     |
| 9 Simrnoff Spin       | 31 Oude Meester                    |
| 10 Richelieu          | 32 Monis Esprit                    |
| 11 Klipdrift Export   | 33 Johnnie Walker Black            |
| 12 Bells              | 34 Windhoek Light                  |
| 13 Savanna            | 35 Commando                        |
| 14 Hunter's Dry       | 36 Smirnoff Storm                  |
| 15 Windhoek Lager     | 37 Nederburg HP                    |
| 16 J&B                | 38 Flight of the Fish Eagle Brandy |
| 17 Brutal Fruit       | 39 Drostdy Hof                     |
| 18 Viceroy            | 40 Autumn Harvest Crackling        |
| 19 Wellington VO      |                                    |
| 20 Jack Daniel's      |                                    |
| 21 Gordon's Gin       |                                    |
| 22 Heineken           |                                    |

brands of bourbon and Tennessee whiskey. "Flex Bender" and "Old Chicago Slate" both have references to bourbon and copycat labels and neither are produced in the USA.

### **3. Company Profiles**

**Distell:** The Distell spirit portfolio consists of premium and super premium brandies, white spirits, gins, whiskies and liqueurs. Some well-known, award winning labels such as Amarula Cream, Van Ryn's Collection, Klipdrift, Oude Meester and Mainstay (to name but a few) make up the spirit selection. Apart from the large portfolio of brands which are wholly-owned, the company also acts as marketing and distribution agent of other brands on behalf of external parties.<sup>3</sup> Distell's spirits sales increased 3.2% just ahead of national growth at 3%. Brandy was the star performer, with Richelieu and Klipdrift continuing to lead the market. At the same time premium brands such as Flight of the Fish Eagle and Oude Meester 12 Year Old showed good growth. The area in which Distell really excelled was in the "Ready to Drink" category, delivering an increase in sales volumes of 16.9% compared of the national average of 2%. Much of this growth came from cider brands. This year, Distell plans to focus on tightening the supply chain, specifically packing suppliers, to further contain costs. New TV campaigns will be launched for Nederburg, Savanna, Richelieu, Klipdrift and Oude Meester 12 Year Old brandy.

**Brandhouse:** The portfolio for brands includes J&B, Bell's, Smirnoff, Johnnie Walker, Heineken, Windhoek, Guinness, Baileys, Bertrams VO, Tanqueray, Gilbey's, Captain Morgan and Jose Cuervo. "The growing trend of consumers looking for more premium brands across a number of categories...has presented great opportunities for our brands...Jonnie Walker has had a fantastic year of growth, and is probably the best example of consumers appreciating premium value..."<sup>4</sup>

**KWV:** Cape Wine growers established KWV "Kooperatiewe Wijnbouwers Vereeniging Van Zuid Afrika Beperkt" in 1918 to improve the quality of South African wine and brandy. The cooperative structure was overhauled in 2004 and they launched a focused basket of wine and brandy in the Southern African Market. Trading performance and results in 2006 were exceptional. Brandy volumes ended 83% ahead of the previous year and 13% ahead of target. KWV is concerned about the image of brandy as the "poorer cousin to whisky." KWV, along with other brandy producers and associations, is working on changing the negative image attached to brandy in some groups.

**Pernod Ricard:** 2006 saw strong growth for Pernod Ricard South Africa. The company markets primarily a premium imported spirits portfolio that South African consumers aspire to try. Jameson's Whiskey drives the portfolio and showed double digit growth, impressive when the brand retails at a 20% price premium versus proprietary Scotch. Chivas Regal, Olmeca tequila and Martell brandy round out the brand stable.

**DGB:** According to DGB the fastest growing brand in South Africa in 2006 was Jagermeister, they also have distributions agreements with Fortune Brands, Whyte & Mackay, Kibeggan Irish whiskey and Von Gogh vodka. Bulters Liquors and Zappa Sambuca also showed double-digit volume growth. For the future they are looking at strengthening their international market as they are feeling the benefits of investments in off-shore sales and marketing personnel, aided by the prospect of a weaker rand. In the South African market higher interest rates should slow the market down and it will be interesting to see what sort of impact this will have in the premium liquor sector.

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<sup>3</sup> [www.distell.co.za](http://www.distell.co.za)

<sup>4</sup> Brandhouse MD Simon Litherland in a December interview with the SA Hotel and Restaurant Association

**SECTION III. COSTS AND PRICES****TAXATION & DUTY LEVIES**

The South African Government is currently following a policy of excise normalization. The three main reasons for this policy are: 1) the GoSA is aiming to bring SA excise taxes in-line with those overseas; 2) it hopes to increase the cost of alcoholic drinks and hence deter over-consumption and; 3) it also hopes to increase its own revenue.

The National Treasury set targets for excise taxes at 33% for beer, 23% for wine and

46% for spirits. The lower tax for beer is in order to allow the other alcoholic drinks to fall more in line with beer. This policy will have the indirect effect of helping beer continue its gain in volume share, as consumers are likely not to notice the price increase as much in beer as in other alcoholic drinks.<sup>5</sup>

Selling Margin of a Typical Spirits Brand	
	2006
<b>VAT</b>	<b>12.3%</b>
<b>Excise</b>	<b>46.3%</b>
<b>Retailer</b>	<b>27.2%</b>
<b>Distributor</b>	<b>13.7%</b>
<b>Manufacturer</b>	<b>0.5%</b>
<b>TOTAL</b>	<b>100%</b>

*Source: Official statistics (DTI), interview with store owner*  
*Notes: Based on Bells, R97.50, 750 ml, Excise includes import tax and any other tax as relevant.*

**SECTION IV. MARKET ACCESS****LEGISLATION**

**Advertising:** There was a move over the last couple of years to regulate the advertising of alcohol. The Industry Association for Responsible Alcohol Use implemented wide-ranging rules to try to curb the excessive consumption of alcohol by both adults and children. The most obvious one is the requirement that all advertisements including the message "not for sale to persons under the age of 18".<sup>6</sup>

**SECTION V. KEY CONTACTS AND FURTHER INFORMATION**

The Office of Agricultural affairs at the American Embassy in Pretoria, South Africa has a list of liquor importers that we can provide to interested American spirits exporters.

Please contact:  
 Office of Agricultural Affairs  
 Embassy of the United States of America  
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 Republic of South Africa  
 Tel: 27 (0) 12 431-4057  
 Fax: 27 (0) 12 342-2264  
 Email: [agpretoria@usda.gov](mailto:agpretoria@usda.gov)

<sup>5</sup> Alcoholic Drinks-South Africa, Euromonitor International: Country Market Insight, June 2006

<sup>6</sup> Business Day August 12, 2006