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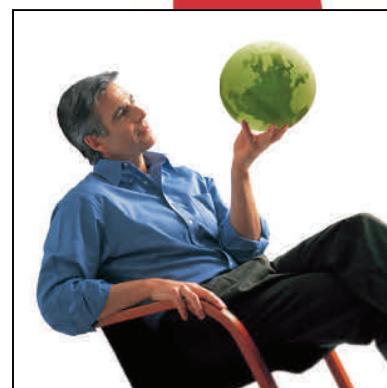
Agriculture et  
Agroalimentaire Canada



**International  
Markets  
Bureau**

MARKET ANALYSIS REPORT | APRIL 2012

## Packaged Food in South Africa





## ► EXECUTIVE SUMMARY

South Africa has a population of almost 50 million people and is considered one of the more developed countries on the African continent. The South African economy has seen significant changes over the past two decades, and recorded strong gross domestic product (GDP) growth over the last ten years, with a compound annual growth rate (CAGR) of 3.5%.

According to Euromonitor, this economic development has increased the purchasing power of a growing South African middle class. Like most other emerging economies, as consumers become increasingly wealthy, they are also becoming increasingly time poor. This presents opportunities for food products that are quick, easy and convenient to prepare.

Products that facilitate on-the-go or grab-and-go consumption, such as packaged food in smaller formats or more specifically, biscuits and cookies, have been in high demand. However, South African consumers are also seeking more organic product variations, and are becoming more environmentally aware. Eco-friendly products are expected to gain in popularity as this trend becomes more prevalent.

Along with these growing trends, packaged food manufacturers must be aware of the new food labelling regulations in the country. New legislation was established to better protect consumers and guarantee product quality. Packaged food manufacturers will be required to verify the legitimacy of certain claims ("fat free," for example), and will not be permitted to use vague product descriptors, such as "nutritious" or "wholesome."

Exporters may also find opportunities due to South Africa's membership in the South Africa Development Community (SADC). The South African market could provide an entry point to the other fifteen SADC countries.

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**“South Africa is one of the most promising markets to watch in the entire continent.”**

- Planet Retail



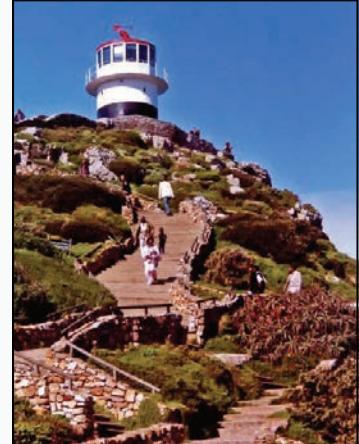
## ► ECONOMIC TRENDS

South Africa has experienced significant economic growth over the past two decades. In just five years, the country's GDP increased from US\$311 billion in 2005 to US\$363 billion in 2010. Due to this growth, South Africa is being seen as potentially comparable to the emerging BRIC (Brazil, Russia, India and China) countries. The country is rich in natural resources, and exports of diamonds, gold, industrial metals and agricultural goods form a substantial segment of the economy. Its infrastructure is reliable, and the financial, legal and trade sectors are modern.

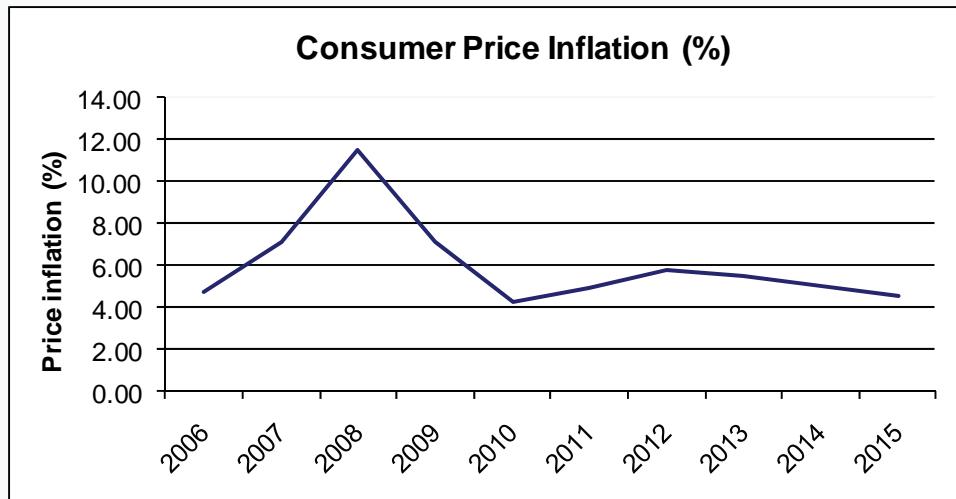
Like most other developing countries in the world, South Africa was hit by the recent economic recession, and saw food spending per capita decline in 2008 and 2009 as a consequence. South Africa was particularly affected by the recession through a drop in commodity prices in 2008. Despite this, it is expected that the South African economy will regain its strength (in part due to a stronger currency) and have a positive long-term economic outlook (Planet Retail).

Since 1995, the average annual disposable income of South Africans has increased by 142.1% for individuals with primary education, 152.2% for individuals with secondary education and 127.8% for individuals with tertiary education (Euromonitor). Per capita GDP has increased from US\$5,494 in 2006 to US\$7,134 in 2010. As a result, South Africans are dedicating a higher percentage of their income to food. In 2010, total consumer spending per capita totalled US\$4,295 and food spending per capita was US\$1,650 (Planet Retail).

Consumer price inflation is still a concern for the South African economy, as changes in commodity prices continue to affect food prices. Despite the strong local currency which allowed inflation to come down from 11.5% in 2008 to 4.3% in 2010, there continues to be concern over inflation due to the county's weak economic history. However, annual inflation, currently at 4.9%, is expected to be well within the national Reserve Bank's target rate of 3% to 6% in the next five years (2011-2016).



*Source: CIA World Factbook.*



*Source: Planet Retail.*



## ► KEY CONSUMER CHARACTERISTICS

According to Euromonitor, 37.5% of South African consumer expenditure is spent on food and non-alcoholic drinks. South African consumers prefer eating meat, maize, seafood, spices and a wide range of fruits and vegetables. They have actually increased spending on fruits and vegetables due to rising health awareness, as well as the increased availability and improved quality of produce.

South Africans prefer home-cooked meals, but preparing meals has become increasingly difficult with more women working outside the home, and consumers having less time overall to devote to household tasks. As a result, there has been an increasing trend of convenience and healthy fast-food offerings (Euromonitor). Overall, South Africans see fast food as having poor nutritional value and prefer products that are grilled or baked. They have rated the offerings of American chains such as McDonalds and Kentucky Fried Chicken as non-healthy, however, they continue to support South African fast food chains and rate them as healthier than their American counterparts, demonstrating their deep sense of loyalty towards local brands (Planet Retail).

Following these trends, consumers would be attracted to new products that are both healthy and convenient. For example, products packaged into smaller formats that allow for portion control and for on-the-go consumption have been in high demand. Several brands now offer such innovative packaging for well-known products.

## ► MARKET SIZES

The packaged food market grew significantly over the past few years, and is expected to continue doing so. From 2006 until 2011, the market size for packaged food increased by 8.6% to almost US\$15 billion, with a compound annual growth rate (CAGR) of 1.7%. Euromonitor expects this growth to continue throughout 2011-2015 with a period growth of 6.5% and a CAGR of 1.6%. This growth is mostly due to an increasing preference for ready-to-eat and pre-made meals, which compensate for consumers' lack of cooking time.



Source: Euromonitor International, 2011.



South Africa - Packaged Food Market Sizes Forecast Retail Value Growth in % and US\$ millions (Fixed 2010 Exchange Rates)		
	Growth 2010-2015	
	Total %	CAGR* %
Packaged Food	37.7	6.6
Dairy	43.4	7.5
Dried Processed Food	55.6	9.3
Bakery	27.3	4.9
Oils and Fats	43.3	7.5
Confectionery	34.5	6.1
Chilled Processed Food	33.2	5.9
Ready Meals	54.9	9.2
Canned/Preserved Food	34.3	6.1
Sauces, Dressings and Condiments	37.4	6.6
Sweet and Savoury Snacks	25	4.6
Baby Food	51.9	8.7
Frozen Processed Food	31.4	5.6
Ice Cream	26	4.7
Pasta	43.3	7.5
Spreads	29.8	5.4
Soup	32.5	5.8
Noodles	45.8	7.8
Meal Replacement	32.3	5.8
Snack Bars	44.2	7.6

Source: Euromonitor International, 2011.

\*CAGR: compound annual growth rate

## ► PACKAGED FOOD LEADERS

South Africa - Top 5 Packaged Food Leaders by Value US\$ millions - Fixed 2010 Exchange Rates						
	2010	2011	2012	2013	2014	2015
Dairy	2991.4	3,118.6	3,237.0	3,325.1	3,386.4	3,426.1
Bakery	2313.8	2,345.7	2,374.6	2,384.3	2,375.8	2,352.7
Dried Processed Food	1444.6	1,536.7	1,624.1	1,696.3	1,752.4	1,795.9
Confectionery	1325.9	1,372.8	1,412.7	1,433.2	1,435.8	1,424.4
Oils and Fats	1132	1,174.2	1,220.3	1,255.9	1,281.8	1,295.9

Source: Euromonitor International, 2011.

### Dairy

The dairy sub-category, with a value of nearly US\$3 billion in 2010, is expected to grow at a CAGR of 6.6% over the next five years. Consumers are more and more interested in health and nutrition, which is reflected in higher demand for dairy-based products. Producers, however, will have to work hard to maintain their value share, as economic constraints may impact consumer expenditure in this area. According to Euromonitor, the value of this sub-sector is expected to increase to over US\$3.4 billion by 2015.



### Bakery

The bakery segment of the packaged food category, which was valued at US\$2.3 billion in 2010, is expected to grow at a CAGR of 4.9% in value terms over the next five years, primarily because of the growth in unpackaged/artisan bread, the segment's largest sub-sector. Biscuits, another sub-sector of bakery, have shown volume growth that is expected to continue. There has been much innovation in this segment as well, with the introduction of new products and new varieties. From 2009 to 2010 alone, Mintel's Global New Products Database registered 151 new products under the category of "Savoury Biscuits and Sweet Biscuits/Cookies."

### Dried Processed Foods

Dried processed foods, with a 2010 value of US\$1.4 billion, are also expected to see significant increases in value within the next five years (9.3% CAGR). In the past, dried processed food saw declines in foodservice volume sales. However, rice represents almost 16% of total foodservice volume sales and any change in this product will affect the overall change in the dried processed food sector (Euromonitor).

### Confectionery

Confectionery products, which were valued at US\$1.3 billion in 2010, continue to be a preference among South African consumers. In just the chocolate confectionery sub-section, Mintel reported 454 new product introductions between April 2010 and April 2011.

### Oils and Fats

The economic downturn has encouraged South African consumers to eat more at home, leading them to consume more margarine, vegetable and cooking oils. Additionally, as South African consumers begin to seek healthier eating options, vegetable and seed oils (seen as "good fats"), are becoming more and more popular. This trend will continue to improve the sub-category's sales (valued in 2010 at US\$1.1 billion), which are expected to grow at a CAGR of 7.5% over the next five years.

### Ready Meals

While ready meals do not register within the top 5 packaged food categories, the convenience and innovation South African consumers demand will drive growth in this category. Sales of ready and prepared meals are expected to increase significantly through 2011. Sauces, meal kits, dehydrated soup mixes and products that can be used to flavour basic meat and vegetables are becoming increasingly popular. Meal solutions can be purchased mainly in supermarkets/hypermarkets, although there has been an increase in availability in convenience stores, appealing to consumers who have less time to shop after work.

South Africa - Sales of Meal Solutions by Category - % Current Value Growth					
	2009/10	2005-10 CAGR*	2005-10 TOTAL	2010-2015 CAGR*	2010-2015 TOTAL
Ready Meals	12.93	12.50	80.20	9.5	57.4
Dinner Mixes	19.00	14.24	94.56	12.0	76.3
Canned/Preserved Food	8.99	7.85	45.94	7.8	45.9
Frozen Processed Food	7.94	9.56	57.82	6.0	33.9
Chilled Processed Food	9.36	8.80	52.49	8.3	48.8
Dessert Mixes	8.00	6.39	36.32	6.0	33.5
Sauces, Dressings and Condiments	13.75	9.85	59.93	9.6	57.9
Soup	8.71	8.90	53.15	8.2	48.5

*Source: Euromonitor International, 2011.*

*\*CAGR: compound annual growth rate.*



## ► HEALTH AND ECO TRENDS

The health and wellness trend is expected to continue gaining momentum, as South Africans are exposed to media promotions about the rewards of healthy lifestyles. The result to date has been a higher than average increase in spending on fruit and vegetables, a higher demand for dietary supplements and vitamins, and an increasing demand for organic products. While the higher prices of organic products are generally the main purchase deterrent in Europe and North America, for example, the primary issue expressed by South African consumers is the overall lack of availability (Euromonitor).

Despite this, organic products have grown into a significant market. Organic eggs, fruits and vegetables are purchased the most regularly by South African consumers (42%, 37% and 37% respectively), followed by poultry (35%), dairy (31%) and processed foods (14%). Woolworths, the South African retail chain, views organic food as a significant trend of 21<sup>st</sup> century lifestyles. In 1999, the retailer introduced an organic product range of 10 initial items, which has expanded to over 200 products. Woolworths' organic sales grew by more than 50% year-on-year from 2003 to 2005 in South Africa. Pick n Pay, a South African chain of hypermarkets and supermarkets, has predicted that the potential market for organic produce will represent 5% of total produce sales in the short term, 10% in the medium term and up to 20% in the long term (Euromonitor).



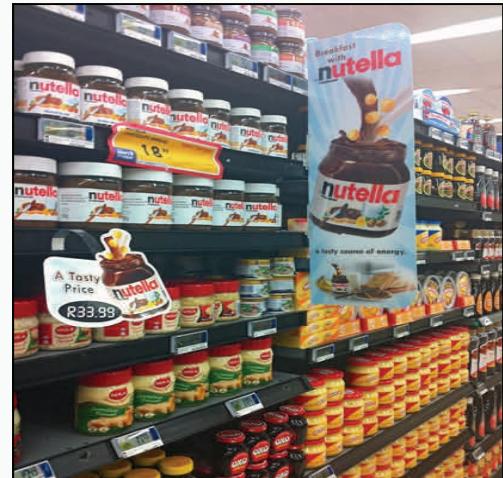
Source: Planet Retail.

South African consumers are also seeking organic products due to increasing environmental awareness. Other environmentally conscious behaviours, such as recycling and waste reduction, are gaining in popularity as well. For example, consumer preferences are shifting towards beverages packaged in lightweight glass bottles, cans, and cartons. However, due in part to their convenience factor, products in plastic bottles have maintained growth (Euromonitor).

The South African Government is also taking action to promote environmental responsibility. It introduced the Waste Bill in 2009, which outlines a waste hierarchy and makes provisions for extended producer responsibility. Manufacturers must now provide packaging solutions that are less damaging to the environment. Additionally, the new bill calls for increased recycling bins, upgraded recycling facilities and a reduction in the average weight of glass bottles. Environmentally focused and organic products will only continue gaining ground as environmental consciousness increases in South Africa (Euromonitor).



Source: Planet Retail.



Source: Planet Retail.



## ► RETAIL MARKET

The formal retail sector in South Africa consists of a wide spectrum of neighbourhood convenience stores, speciality stores, boutiques, chain supermarkets, department stores, and large wholesale and retail outlets. The following table names the top five grocery retailers in the country in 2010 and reveals their share of the grocery market.

Top 5 Grocery Retailers in South Africa, 2010					
	Number Of Outlets	Total Sales Area (square metres)	Average Sales Area (square metres)	Grocery Banner Sales (millions \$US)	Grocery Market Share (%)
Shoprite	925	1,821,000	1,969	\$7,062	10.49
Pick n Pay	705	823,520	1,168	\$5,478	8.23
SPAR (South Africa)	1,372	1,330,000	969	\$3,737	5.61
Massmart	275	1,191,700	4,333	\$3,438	3.36
Metcash (RSA)	661	697,500	1,055	\$2,251	2.17

*Source: Planet Retail, 2011.*

Supermarkets account for more than 55% of national food retail. South Africa's retail market is mature and highly concentrated, occupied solely by domestic retailers with four dominant players: Shoprite/Checkers, holding 33% of the market, Pick n Pay (33%), SPAR (26%), and Woolworths (8%).

## ► NEW LABELLING LEGISLATION

Due to past occurrences of misleading label information, existing regulations have been updated in South Africa to guarantee the manufacturer's claims and protect consumers. The new regulations, implemented as of March 1, 2011, no longer allow manufacturers to use vague descriptors such as "nutritious," "healthy," or "wholesome." However, claims such as "sugar free" and "fat free" will be allowed if all the stipulated criteria are met.

As these regulations apply to both domestic and international manufacturers, exporters will have to ensure their products meet the new labelling requirements. For more information, please refer to the following documents:

Regulations Governing the Labelling and Advertising of Foodstuffs. (1997).

<http://www.doh.gov.za/docs/regulations/1997/reg0397.pdf>

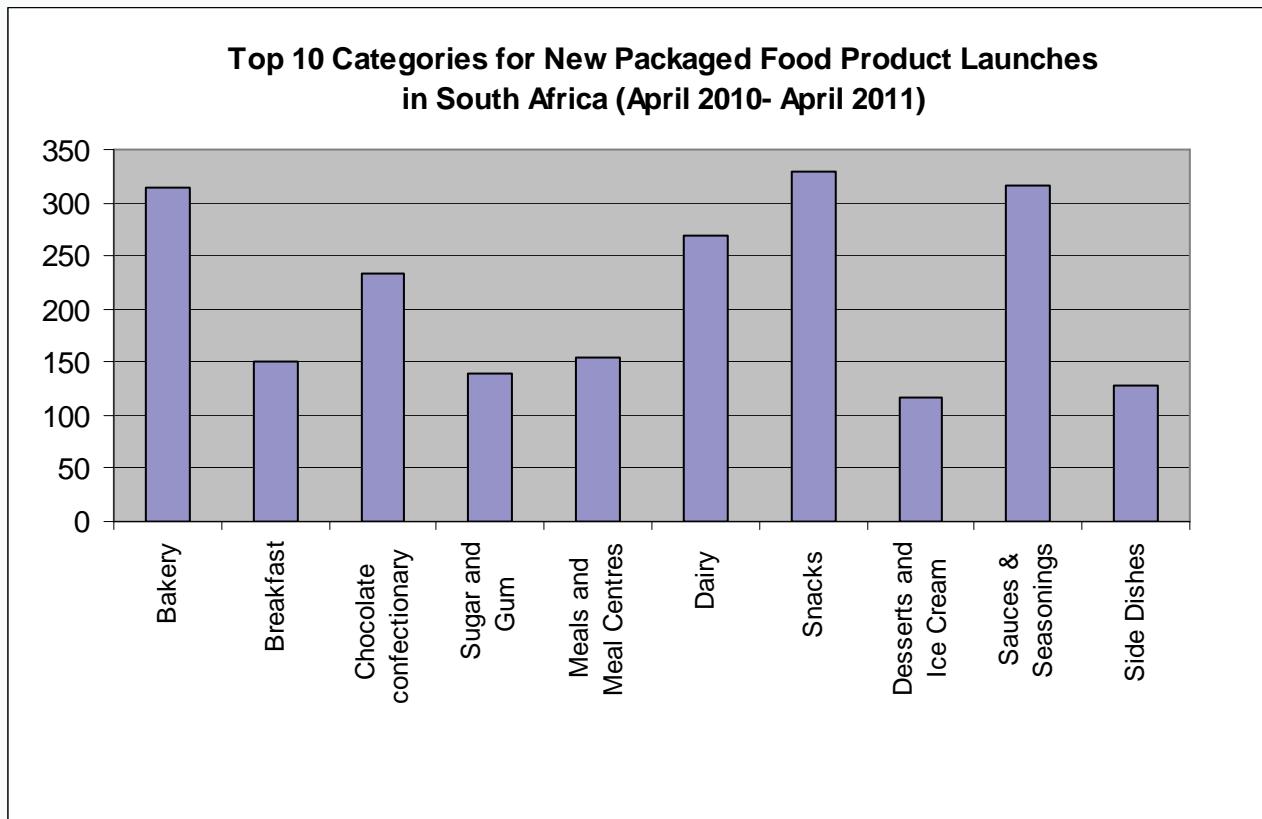
Notice from the South African National Department of Health regarding the new amendments. (2010).

<http://www.doh.gov.za/docs/pr/2010/pr0309.html>



## ► NEW PRODUCTS, NEW PACKAGING

With a growing middle class and gradually increasing wealth, South Africa presents an opportunity for new and diverse products. As an example of the growing diversity of products, from April 2010 to April 2011, Mintel registered 2575 new packaged food introductions in South Africa. The biggest categories included bakery products, chocolate confectionary, dairy products, and meal and meal centres. The chart below shows the top ten categories of new products in South Africa.



**Source:** Mintel, 2011.

Due to the 2008 recession, food prices increased in South Africa, resulting in consumers who are still cautious about how they spend their money at the grocery store. In order to ensure that products reach as wide a target market as possible, many manufacturers launched smaller pack sizes which carry a lower unit price. These smaller formats also appeal to consumers seeking convenience.



## ► NEW PRODUCT EXAMPLES

Below is a sample of new products being introduced into the South African market. They reflect the new consumer trends both in terms of changes to package sizes and product innovation. The trend of exotic and combination flavours will continue to be present in the introduction of new products. This trend is expected to be one of the main characteristics of new product development, along with innovation and indulgent flavour variants.

### THICK MILK CHOCOLATE BISCUITS

<b>Company</b>	Jacob's Bakery
<b>Brand</b>	Jacob's Club
<b>Category</b>	Bakery
<b>Store Name</b>	Pick n Pay
<b>Store Type</b>	Supermarket
<b>Date Published</b>	May 2011
<b>Pack Size</b>	180 g
<b>Price in Local Currency</b>	19.99
<b>Price in US\$</b>	\$2.84



#### **Product Description:**

Jacob's Club Thick Milk Chocolate Biscuits are thick milk chocolate with a smooth, cool mint flavoured cream and crunchy biscuit. The biscuits are free from hydrogenated vegetable oil, artificial colours and flavours, and are suitable for vegetarians.

#### **Ingredients:**

Milk Chocolate (Sucrose, Cocoa Liquor, Cocoa Fat, Whey Powder, Skimmed Milk Powder, Butteroil, Vegetable Fats, emulsifiers [Lecithin, Polyglycerol Esters of Interesterified Ricinoleic Acid], Natural Flavouring Substance), Wheat Flour, Vegetable Oils, Sucrose, Glucose Syrup, Rolled Oats, raising agents (Sodium Hydrogen Carbonate, Disodium Diphosphate, Ammonium Hydrogen Carbonate), Salt, Natural Flavouring Substance.

### GROUND ARROWROOT

<b>Company</b>	Dr. Oetker
<b>Brand</b>	Dr. Oetker Super Cook
<b>Category</b>	Bakery
<b>Store Name</b>	SPAR
<b>Store Type</b>	Convenience
<b>Date Published</b>	February 2011
<b>Pack Size</b>	125 g
<b>Price in Local Currency</b>	39.99
<b>Price in US\$</b>	\$5.60



#### **Product Description:**

Dr. Oetker Super Cook Ground Arrowroot is ideal as a general thickener alternative to corn flour. It is good for use in glazes, as it thickens but remains transparent. This product is vegetarian. Also available is a Marzipan variety, which is natural and free from added colours, artificial flavours, artificial sweeteners and artificial preservatives. This kosher certified product retails in a 250g carton pack featuring recipes.

#### **Ingredients:**

Arrowroot.



### MILK CHOCOLATE WALNUT WHIP

<b>Company</b>	Nestlé
<b>Brand</b>	Nestlé Walnut Whip
<b>Category</b>	Chocolate Confectionery
<b>Store Name</b>	Checkers
<b>Store Type</b>	Supermarket
<b>Date Published</b>	May 2011
<b>Pack Size</b>	180 g
<b>Price in Local Currency</b>	7.99
<b>Price in US\$</b>	\$1.16

**Product Description:**

Nestlé Walnut Whip Milk Chocolate Whirl features a vanilla flavoured fondant cream centre and a walnut on top. This product has been repackaged and now retails in a one-count pack.



**Ingredients:**

Milk Chocolate (Sucrose, Whole Milk Powder, Cocoa Fat, Cocoa Liquor, Lactose, Whey Protein, Whey Powder, Vegetable Fats, Lecithin [Emulsifiers], Butter Fat), Sucrose, Walnut, Glucose Syrup, Glucose Fructose Syrup, Dried Egg Whites, Glycerol (Humectants), Flavouring Substances, Tartaric Acid.

### KIT KAT FAMILY BREAK

<b>Company</b>	Nestlé
<b>Brand</b>	Nestlé Kit Kat
<b>Category</b>	Chocolate Confectionery
<b>Store Name</b>	Pick n Pay
<b>Store Type</b>	Supermarket
<b>Date Published</b>	April 2011
<b>Pack Size</b>	150 g
<b>Price in Local Currency</b>	17.99
<b>Price in US\$</b>	\$2.59

**Product Description**

Nestle's Kit Kat (crisp wafer fingers covered in milk chocolate) has been repackaged in a 150g Family Break pack. This product is halal and kosher certified and the packaging reflects the brand celebrating its 75th anniversary.



**Ingredients:**

Cane Sugar, Full Cream Milk Solids, Non-Hydrogenated Vegetable Fats (Palm Oil, Shea Oil, Illipe), Wheat Flour (Gluten), Cocoa Liquor, Cocoa Fat, whey powder (milk), emulsifiers (Lecithin, Polyglycerol Esters of Interesterified Ricinoleic Acid), Fat Reduced Cocoa Powder, raising agents (Sodium Hydrogen Carbonate, Yeast), Vanilla Flavour, Calcium Sulphate.



## ► OPPORTUNITIES FOR CANADIAN PRODUCERS

South Africa presents a series of opportunities for Canadian producers. More specifically, producers of fresh fruit and vegetables, nuts, grains, healthy foods and beverages, as well as free range and organic products, will find a growing middle class interested in purchasing these products. An increasing preference for “on-the-go” products also present the opportunity to export ready meals and pre-made, convenient and easy to prepare meals. Finally, it is important to note that while South Africa is a big market itself, as a member of the South Africa Development Community (SADC), it can also provide an entry platform to the other 14 SADC member states (Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe).

## ► RESOURCES

Euromonitor International (2010). “Chocolate Confectionery.” Retrieved March 2011.

Euromonitor International (2010). “Consumer Lifestyles: South Africa.” Retrieved March 2011.

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The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada assumes no liability for any actions taken based on the information contained herein.

**Packaged Food in South Africa**

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