

A glass half full?

Dairy, Cheese and Ice Cream ... a mixed bag of results

According to a report from the South African Milk Processors' Organisation (SAMPRO), Summary of Key Market Signals for the Dairy Industry, November 2021), "low levels of volatility of the dairy price index (the difference between the highest and lowest price index in a year) in 2019, 2020, and in January to November 2021 are indicative that the supply of and demand for dairy products in the international market remained high, amid changing circumstances."

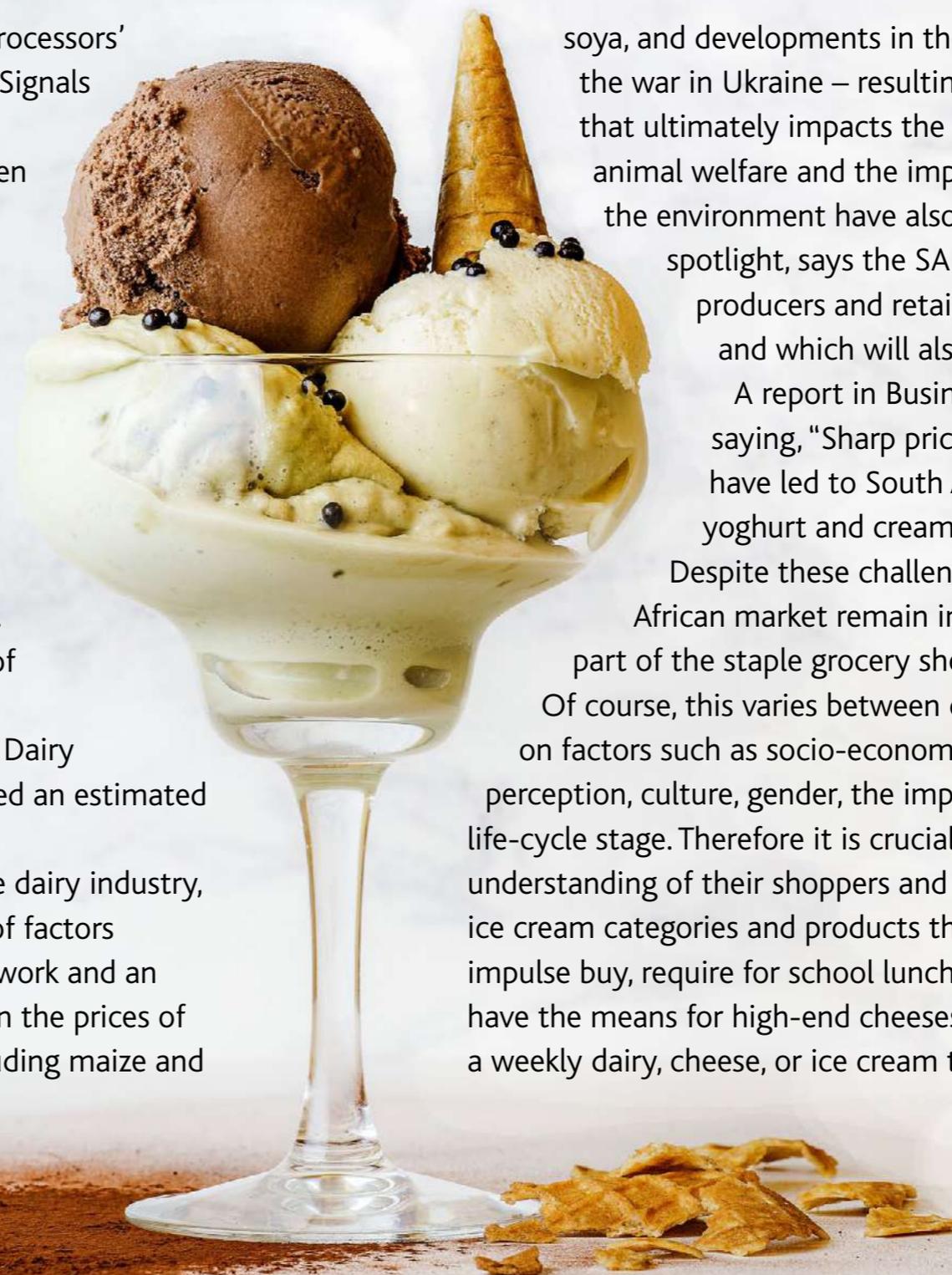
This viewpoint is backed up by a report from Mordor Intelligence which says the Covid-19 pandemic significantly affected the dairy market. "There was a change in the buying behaviour of consumers as the demand for dairy products increased. During 2020/2021 FY, the out-of-home consumption of dairy products declined, but the growth in the in-home consumption of dairy products was high." According to Dairy Global, Lactalis, a huge player in this market, experienced an estimated growth of 5.9% in sales during FY 2021.

However, towards the end of 2021 and into 2022, the dairy industry, like many others, has been confronted by a multitude of factors (the 'ending' of the pandemic, consumers returning to work and an increase of out of home dairy consumption, increases in the prices of important inputs such as fuel, energy, animal feed including maize and

soya, and developments in the international market such as the war in Ukraine – resulting in dairy product price increases that ultimately impacts the end consumer. Animal health, animal welfare and the impact of the dairy industry on the environment have also increasingly come under the spotlight, says the SAMPRO report, which dairy producers and retailers must take into consideration, and which will also impact on cost.

A report in Business Insider corroborates this view, saying, "Sharp price increases in ... dairy products have led to South Africans consuming less milk ... yoghurt and cream cheese."

Despite these challenges, dairy products in the South African market remain immensely popular and form part of the staple grocery shop for millions of South Africans. Of course, this varies between consumer segments –depending on factors such as socio-economic status, personality, brand perception, culture, gender, the importance of health, age and life-cycle stage. Therefore it is crucial for each store to have a deep understanding of their shoppers and in which dairy, cheese and/or ice cream categories and products they will be willing to experiment, impulse buy, require for school lunches, look for a specific pack size, have the means for high-end cheeses on each shopping trip, or want a weekly dairy, cheese, or ice cream treat.





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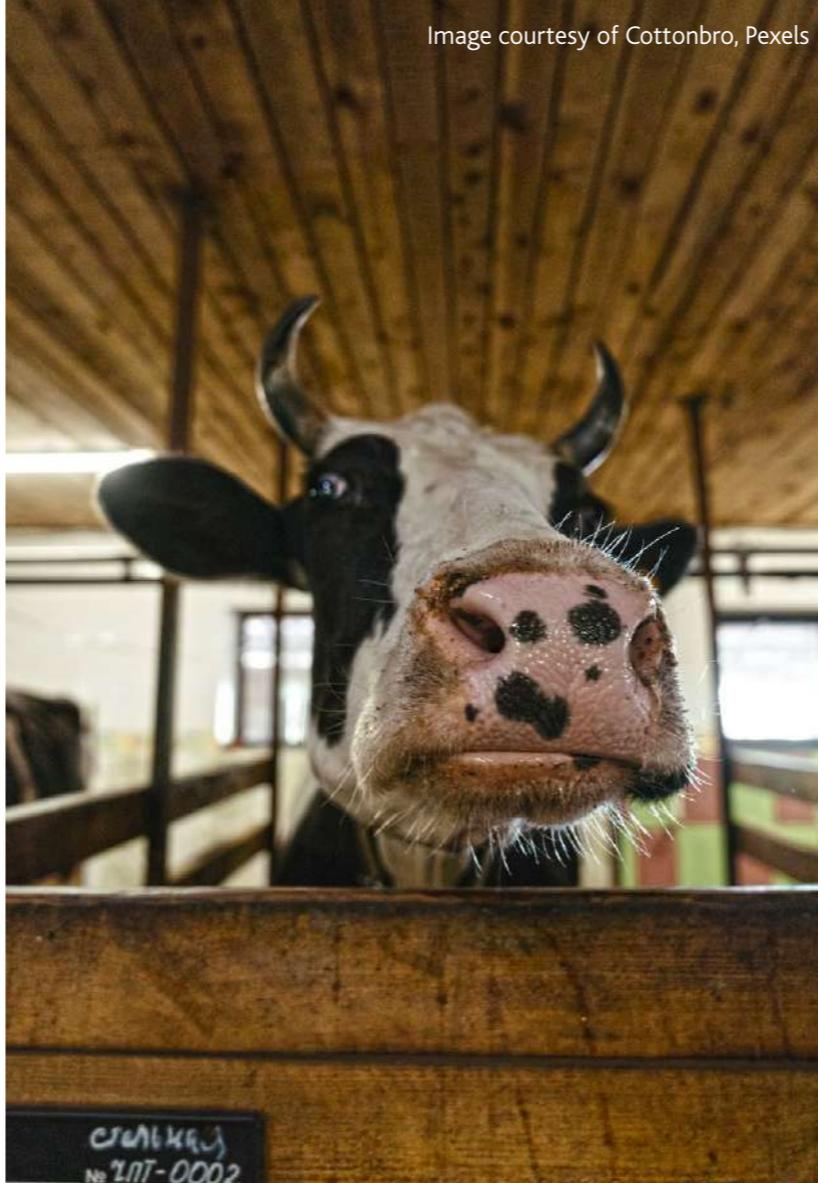
The rising number of variants in dairy products provides consumers with increased on-shelf/on-leaflet brand exposure, which increases interest in these products and willingness to 'buy and try'.

The Mordor Intelligence report says the market overview going forward looks positive. Their report on the local dairy-based beverage market says, "The African dairy-based beverages market is projected to register a CAGR of 3.6% during the forecast period. Consumers are becoming increasingly health-conscious, especially the younger generation, driving a forceful demand for functional beverages to meet their needs. The market is mainly driven by the value of nutrition and functional properties of milk and the rising demand for probiotic drinks by health-conscious consumers.

“ Food manufacturers are focusing more on functional and probiotic drinks, which offer additional health benefits compared to standard milk. Omega-3, fibres, bioactive compounds, and phytosterol are some of the functional components added to the dairy beverages. ”

People generally prefer dairy products in their diet because consuming [dairy] provides strength and helps build and maintain strong bones.”

The rise of dairy alternatives, a call for more ethical and sustainable products, and healthy and mindful eating practices as consumers search for ways to optimise health and well-being are also impacting the dairy market.



Milk

Local milk production is up, and consumption remains steady in most sectors. Overall, despite tough economic times and unexpected challenges, the outlook is good and moderate growth is expected. According to the Western Cape Government, "While the number of producers in South Africa has declined by 46% from January 2015 to January 2022, milk production has increased by 7.2%. This indicates increased output per cow and significantly greater numbers of cows per producer, to name but a few reasons."

They also noted, "Of the more than 1 million tonnes of milk produced in the Western Cape, 62% is sold in the liquid form as fresh, flavoured, or long-life milk. The remaining 38% is processed into concentrated products such as custard, yoghurt, and a great variety of cheeses, amongst other products. As a result, dairy product value-add plays a significant role in sustainable job creation."

South Africans, it seems, are proud consumers of milk. The Milk Producer's Organisation says, "In 2021, the South African dairy products market was divided into approximately 61,6% liquid products and 38,4% concentrated products. Pasteurised liquid milk and UHT processed milk were the major liquid products, with hard cheese the main concentrated product."

The Lacto Data Report dated May 2022 is a Milk South Africa (Milk SA) publication compiled by the Milk Producers' Organisation. It gives a comprehensive overview of the local and global markets, with a strong focus on past performance and future predictions within the local market.

The report says, "In 2021, unprocessed milk production decreased in line with reduced sales quantities of dairy products at retail level. The change in the severity of different lockdown levels introduced changes in consumer behaviour regarding product mix bought and the quantity of products purchased."

This behaviour was also affected by the continued and increasing economic challenges being faced by local consumers. The report continues with a frank look at the challenges.

“The growth in the intake of unprocessed milk for 2021 was subdued, due to lower retail sales quantities experienced during 2021, farm economics being under pressure, and adverse climatic conditions prevailing over certain parts of South Africa. The cost-price squeeze farmers experienced, due to high levels of grain prices (yellow maize and soya), deepened the level of negative farm economics.”

Ice cream

Ice cream stands firm as nostalgia and innovation win big

The ice cream market is “booming across the globe”, says Market Watch. And according to MarketResearch.com, the South African ice cream market experienced a compound annual growth rate (CAGR) of 9.4% between 2015 and 2019. The report adds ...



Image courtesy of Saltandsons

“ Market consumption volume increased with a CAGR of 5% between 2015 and 2019, to reach a total of 60.4 million kilograms in 2019. Rapid urbanization and changing consumer lifestyle are the factors supporting the market growth. ”

In their report on bulk and take-home products, the take-home and bulk ice cream market “registered a positive CAGR of 9.76% during the period 2015 to 2020, with a sales value increase of 11.00% over 2019. Rapid urbanization and changing consumer lifestyle are the factors supporting the market growth.”

A combination of innovation and nostalgia is driving new product launches in the Ice Cream category. In South Africa, Cadbury launched three new ice cream flavours based on nostalgic favourites, namely Crunchie Blast; Flake 99; and Dairy Milk. Magnum UK launched a vegan Magnum. In the US, Jenni’s launched Frosé, a rosé-based boozy sorbet for grown-ups.

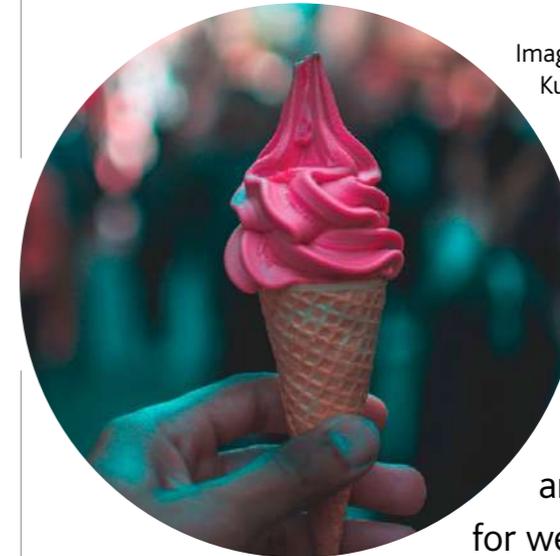


Image courtesy of Kumaran, Pexels

Craft producers such as Paul’s Homemade Ice Cream prove that consumers are willing to pay for well-crafted gourmet

ice cream that is innovative in terms of presentation and flavour.

From Eid crescent moon cakes (a pistachio & gulab jamun ice cream cake) to the vanilla bean mocha frappé flavour of the month, Paul’s shows just how versatile and exciting the ice cream category can be.

According to a report from Euromonitor, bulk dairy ice cream remains the largest category due to the value for money and variety it offers consumers.

There is strong brand and private label presence in Ice Cream, adding to already intense competition in this category.



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Frozen yoghurt

Renewed interest in frozen yoghurt with many new product launches

Famous Brands bought the Wakaberry Frozen Yoghurt Bar franchise a few years ago and saw great success with their frozen yoghurt in South Africa. This brand was particularly popular with tweens who could now serve themselves frozen yoghurt from a soft-serve machine and top it with toppings like candy, nuts, and various sauces.



Image courtesy of Wolfram, Pexels



Image courtesy of Nastyasensei, Pexels

use, value-for-money popular favourites such as Cheddar, Gouda, and Mozzarella

According to Rediscover Dairy, “Cheddar, Gouda and Mozzarella dominate the everyday cheese market. Manufacturers have historically prioritised these cheeses owing to their commercial popularity, both in the food service and retail sectors.”

Cheese

Market Research says the cheese market in South Africa registered a positive compound annual growth rate (CAGR) of 9.04% during the period 2015 to 2020, with an increase of 15.70% over 2019. The market achieved its strongest performance in 2020, when it grew by 15.70% over its previous year.

According to News Channel Nebraska, the Global Processed Cheese market is anticipated to rise at a considerable rate during the forecast period, between 2022 and 2028.

Competition in the local Cheese category is stiff, with excellent high-end offerings across formal retail, and highly competitive pricing in the daily-



“Cottage or cream cheese and feta cheese are becoming increasingly popular, indicating a shift in consumer focus. However, this shift has not negatively affected the Cheddar and Gouda markets.”

Artisanal cheeses are also finding a firm footing with South African consumers. According to The Mousetrap, “Just a few decades ago South Africans didn’t expect to find much more than basic cheddars and goudas in shops across the country.”



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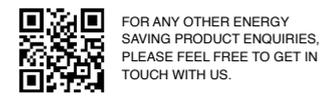
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Current and upcoming Dairy, Cheese and Ice Cream trends

- Consumers are very interested in foods that claim to help or heal the body, boost the immune system, improve gut health, or those that contain added vitamins and minerals. The most obvious of these is the calcium as well as probiotics in yoghurt and yoghurt drinks. The Mordor Intelligence report titled Africa dairy-based beverages market – Growth, trends, covid-19 impact, and forecasts (2022 – 2027) states, “Consumers perceive fermented products as healthy products as they aid in the control of intestinal diseases. Africa has well-established markets for fortified food items and fermented dairy products. Changing consumer lifestyles, rising healthcare expenditure, and growth of the retail sector are playing a vital role in the growth of the probiotic drinks market.”

- Clean eating, which includes sustainable farming practices as well as low-fat and fat-free options, low-calorie substitutes, high protein treats, and lactose-free alternatives are of interest to consumers looking for what they perceive to be healthier or more environmentally friendly options. Local giant Lancewood recently launched a double cream Lactose-Free Tropical Fruit Yoghurt, ideal for consumers who want full fat dairy, as well as lactose-sensitive or intolerant customers. Shereen Anderhold, Lancewood’s marketing manager, says “Consumers are constantly looking for new and delicious ways to spoil themselves. With our expanding yoghurt range, we strive to offer the perfect flavour for every moment to meet various consumer demands.”

- Flavoured milk-based drinks are growing in popularity globally. Closer to home, UltraMel recently launched full fat milkshakes in chocolate, strawberry, and vanilla. For players already in the market, coffee- or tea-based milk drinks, as well as innovative new flavours (Woolworths also recently launched a Chuckles-based malt and chocolate milkshake) and interesting taste combinations, are a good way to attract consumers.

- Convenience is king for many consumers. Grated, sliced, bite-size, wedges – anything that saves time and makes life easier is in demand. Snack options, particularly now schools are back, and many consumers are either back in the office full-time or as part of a hybrid system, are also in greater demand.





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- Dairy-free and plant-based alternatives. As the number of lactose-intolerant consumers increases, so too do the number of dairy-free consumers. This can be for various reasons, including health, environmental and ethical concerns.



- Artisanal, gourmet, decadent options are, for the upper LSM market, still highly intriguing. This is particularly true in the ice cream category. Novelty, limited-edition, and unique flavours are popular.

• Artisanal cheeses present significant opportunities. For the most part, artisanal cheeses are relatively cost-effective. When compared to commercial cheese processors, artisanal operations require a much less intensive equipment set-up, use fewer raw materials, and are entirely locally processed. In addition to these factors, consumers are inclined to support local and proudly South African products, particularly if they are also labelled as natural or organic. Locally produced artisanal cheeses present an intriguing opportunity for retailers as a niche or speciality product. Due to increased freight and import costs, as well as soaring fuel prices impacting the cost of imported cheeses, many local products are likely to be significantly cheaper – another selling point for increasingly constrained consumers.



Overall, these categories have proved to be surprisingly resilient, weathering the Covid-19 storm with agility and tenacity. Despite the many challenges dairy and dairy product face, sales appear to be remaining firm. Although the industry itself has several difficulties to surmount, not least the effects of climate change and the current economic downturn, Dairy, Ice Cream and Cheese look set to be with us for the very long run. **SR**



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