

# Covid pandemic shifts consumer demand for dairy-based beverages

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7 Dec 2022

Growing consumer demand for nutritionally-rich and convenient beverages that are thought to boost overall health is a major factor driving the dairy drinks market in South Africa. At the same time the value-add or plant-based component of dairy products is outpacing that growth with lactose intolerance being cited as the key driver of this beverage trend.

Bm Research reveals that Covid-19 and its aftermath played a central role in the performance of dairy and plant-based products in the market.

The product range is a mix of essential low-price foods and luxury products. The biggest volume increases in the aftermath of Covid came from the Flavoured Milk and Value-Added Dairy (VAD) sectors. This contrasts to 2020 when the Buttermilk and Maas category surprised by having recorded growth in both the previous years. But in 2021 it was the second worst performer behind Spoonable Yoghurt. The other dairy beverages - Dairy Juice Blends and Drinking Yoghurt – both registered small declines in volume in 2021.

The 2022 flooding that occurred in KwaZulu Natal affected one of the biggest milk producing areas of the country, but fortunately had little impact on milk production other than the actual period of flooding. The same applies to drought in the Eastern Cape, another milk producing region, which has not yet impacted on supply. The major constraint on the market is therefore economic, pricing, as well as loadshedding which affects production, and particularly reduces its shelf-life.



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Against positive predictions, one of the largest dairy beverage categories, **Buttermilk and Maas**, declined slightly in volume in 2021 compared to the prior year though value increased slightly. During the Covid pandemic in 2020, demand for the two products had been notably positive as these products remain well priced compared to proteins and other alternate products - and were effectively promoted as providing good sustenance during the lockdowns and economic hardship for many. Thus, in 2020 volumes were higher than expected, and players were not able to maintain those volumes in 2021 as some consumers reverted to their primary products as they go back to work.

Maas is typically a low-income rural product and its demand is highly price sensitive, with local taste preferences being an important factor for manufacturers. The category is expected to remain stable in the short term and see growth in the medium to long term.

The **Drinking Yoghurt** category in 2021 saw a small increase in value and a slight decrease in volume compared to 2020. The slow pace of the post-Covid recovery has resulted in a continued focus on value-based purchasing by consumers, with this category having a relatively higher average price compared to some alternatives. Drinking Yoghurt is generally perceived as an on-the-go beverage, and volumes have consequently been dampened by the remote and hybrid working environment in which consumers have been somewhat less active on average.

Drinking Yoghurt is expected to perform better over the medium term as economic activity improves. The category volume is expected to grow notably in 2022 and then stabilise in the medium to long term.

Worst performer, the **Spoonable Yoghurt** category, experienced the most decline in volume and value in 2021 compared

to 2020. This is attributed to a spike in demand during the previous Covid-19 pandemic stay-at-home period when it was seen as a nutritious and convenient snack especially for children. That spike has not been maintained post-Covid and the decline represents a drop below the norm with tough economic prospects leading some consumers to reconsider their disposable spending, especially as rising input costs resulted in an unfavourable reaction to higher prices. The demand also shifted back from the larger pack sizes like the 1kg to the smaller 6-packs which are used for lunch packs.

The category is expected to recover the volume lost and go back to pre-Covid levels in the medium term. This favourable projection reflects the positioning of the product as a healthy alternative and convenient on-the-go meal, snack or lunchbox treat for children. Increased awareness around healthy eating has allowed this category to enjoy acceptance by new consumer segments in recent years.

The **Ready to Drink (RTD) Dairy Juice Blends** category in 2021 saw a modest increase in value and a slight decrease in volume compared to 2020. It is believed this marginal decline could be reversed with some promotional and pricing support, the absence of which has resulted in some consumers shifting to other beverages. The slow pace of the post-Covid recovery has resulted in a continued focus on value-based purchasing, with this category having a relatively higher average price compared to those alternatives.

The **Flavoured Milk** category grew in both volume and value in 2021 compared to 2020. The product is a popular lunchbox treat for school children and the improvement is associated with the ending of lockdown restrictions and children being more consistently at school. As such, it comes off a relatively low 2020 base and is more a return to norm. Improvements in volume were also derived from ever improving execution across the value chain and effective pricing and promotional activity to entice sales.

This category's performance is expected to parallel that of the economy and so volumes are expected to grow in the medium term as economic activity recovers.

The **Value Added Dairy (VAD)** category grew in volume and value by in 2021 compared to 2020 – a performance which was below expectations according to consensus. This category is composed of Enhanced Milk; Premium Plain Cow's Milk; Premium Plain Plant; and Flavoured Plant products. This growth was a recovery from the low base recorded in 2020 in which the product was negatively affected by the Covid pandemic. Some of these products are imported and were affected by delays at ports in 2020, which eased in 2021. Some of the products are imported as the investment cost of production would be too high considering the size of the local market. Some plant-based products within the category experienced a significant increase in average selling price due to global supply and distribution issues affecting raw material and this may affect the expected sales volume in the short term. This category covers a number of sub-categories which had a varied performance in 2021: products like soy milk were under pressure in 2021 after a higher base in 2020, while products like almond milk improved in 2021 after a difficult 2020.

The VAD category is expected to continue to perform well over the medium term as economic activities and lead times improve.

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