

# What's brewing? The current state of SA's coffee industry

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13 Dec 2022

South Africa's coffee sector took a huge knock in 2020, as lockdown forced food service outlets to close, and dwindling disposable income saw premium coffee products swapped out for more affordable alternatives. While prospects are looking up for the industry, recovery has not gone as expected.

Never having been in a lockdown situation before, the industry largely believed it would bounce back in 2021 to pre-lockdown levels. After all, 2019 was one of the biggest years to date for the local coffee industry. But that was not to be the case.

Constrained operating conditions in the food service sector in 2021, combined with large numbers of people still working from home, reduced coffee demand by sit-down and takeout customers, as well as consumer capacity to purchase more expensive coffee products that would normally be enjoyed at the office.

In the latter case, consumers made significant brand swaps, moving from pure instant coffee to mixed instant coffee, to enable families to continue purchasing this 'luxury product' during lockdown.

This was mostly observed in the middle-class consumer bracket – the largest coffee consumers in South Africa. Interestingly, as people have ventured back to full time work at the office, and disposable income has begun to slowly climb in 2022, so these consumers have started buying their preferred pure instant coffee brands again.

But not to the same extent; ongoing, restrained economic conditions brought on by increased costs of living are keeping significant product switchbacks at bay. That, and the fact that there was lessened promotional activity between brands during lockdown and since then, manufacturers have had to cope with increased costs as a result of load shedding. Where these costs would have been partially absorbed before, they are now being wholly passed on to consumers.

The result is that middle-class consumers are simultaneously putting their mixed instant coffees of lockdown and their pure instant coffees of pre-lockdown, into their shopping baskets. The larger sized and more affordable mixed instant coffee is still used for the family, with the more premium products being kept for office lunch breaks, as weekend treats or for special occasions.

From this we can see a clear picture emerging. Consumers are starting to buy more coffee again and slowly switching some product categories, but not at the pre-lockdown levels as originally expected.

However, the future outlook is promising. Research conducted by BMI Research of nine coffee product categories in 2021 showed that the overall coffee category is expected to perform well over the medium term as economic activity continues to improve. It's anticipated that local industry players will remain aggressive going forward through increased promotional and pricing activity to regain the ground lost in 2020.

There is a possibility that volume growth may exceed forecasts estimated in 2022 should industry players be more successful in their promotional endeavours than expected, such as with Black Friday and festive holiday promotions.

In fact, preliminary data from 2022 seems to support this. The first three quarters of the year showed positive growth, though the third quarter experienced increased load shedding and therefore pressure on manufacturers. The fourth quarter



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has got off to a solid start, thanks to Black Friday sales.

It's important to note that the majority of coffee sold in South Africa is also processed locally. This points to the potential impact of challenges such as the riots and looting of 2021 and ongoing load shedding, on the availability and price of coffee in the country.

According to food service trends researched by Stats SA, consumption levels in South Africa will be restored, reaching pre-pandemic levels by 2025.

It's safe to say the local coffee sector is on track for recovery and positive growth. Now it's just a case of which coffee categories within the broader sector will outpace the others, as consumers decide on their favourite pick-me-upper cuppa in the years ahead.

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