

Corporate and Investment Banking



Consume This Newsletter

Volume 3 – Mar 2023

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Welcome to the Consume This Newsletter

This publication gives you the latest news in the consumer goods and services sector. It is also an opportunity for us to share some of our key insights and findings. We consistently highlight consumer priorities, constraints and new patterns that emerge and are likely to stay. With the *Consume This Newsletter*, we share our views on how retail and related sectors are being shaped by the current and other events in this fast-changing world.



Leveraging the power of influencer marketing in the beverages industry

The consumer goods and services (CGS) sector remains one of the most important industries on the African continent. It includes businesses operating in the retail sector, professional services, e-commerce, education (private and non-public), FMCG (wholesale and manufacturers), fast food, tobacco, and beverages. The beverages industry is a significant subsector within CGS and consists of two major categories, namely alcoholic beverages, which include beer, wine, spirits and ciders; and non-alcoholic beverages, which include soft drinks, fruit juices, water, coffee and tea.

Shaken by the COVID-19 pandemic, the global beverage industry remains resilient. According to an article written by Market Watch (2023)¹, the global beverage market size was valued at USD 239 billion in 2022 and is expected to expand at a compound annual growth rate (CAGR) of 13.77% during the forecast period, reaching USD 518 billion by 2030. To cope with the challenges brought on by the pandemic, many industry players have managed to renew themselves in terms of sales and marketing by digitising their offerings and trying new channels and performance levers such as influencer marketing.

The purpose of this article will be to explore how influencer marketing has become a dominant force in the highly competitive beverage sector and highlight examples of successful campaigns in the industry. Influencer marketing, which is estimated to be valued at USD 21.1bn by Stastica.com, is the collaboration between popular social media users and brands, to promote brands' products and services. These partnerships have been in place albeit informally since the advent of social media. Since then, the market has seen significant growth and over the past five years, it has increased by more than 50% on platforms such as Instagram, TikTok and YouTube (McKinsey & Co 2023) ("Influencer Marketing", McKinsey & Co, 10 April 2023).

In today's digital age, influencer marketing has emerged as a powerful tool for businesses – particularly within the beverage industry. In the past, beverage companies would communicate to their customers through TV ads and billboards, but now, new growing marketing strategies are sweeping the industry in the form of influencer marketing. As a result, businesses have recognised the value of collaborating with influencers to enhance brand visibility, build credibility, drive sales, and connect with their consumers in a more authentic way.



Is influencer marketing really worth it?

The psychological connection between a consumer and an influencer is more intimate than the relationship between consumers and brands. A survey conducted by Matter, a brand agency specialising in digital marketing, highlighted that 61% of consumers trust influencer recommendations, and 31% trust branded social media content². When done correctly, influencer marketing can give rise to many benefits such as expanding reach and building brand awareness. It can also create authentic connections with consumers and demonstrate product innovation and unique features.

By partnering with influencers with a strong following and an engaged audience, beverage brands can leverage their reach and credibility to introduce their products to a wider range of consumers. This allows the brand to gain exposure to new potential customers, driving brand recognition and visibility in a crowded market. Consumers today, more than ever, crave authenticity and value the opinions of the influencers that they trust and especially those to whom they can relate. It is therefore not surprising that influencers possess significant influence over their followers' purchasing decisions. When an influencer recommends or endorses a beverage brand, it can have a substantial impact on consumer behaviour.

This is evident where Pepsi successfully partnered with TikTok star Khaby Lame, a comedian who became the most followed TikTok star in the world in 2022, for an advertising campaign to roll out Nitro Pepsi – a nitrogen-infused cola. The campaign was created to assist the brand remain fresh and innovative in an ever-shifting youth culture. In doing so, Pepsi was able to demonstrate its product innovation to new customers while expanding its product range.



A “Prime” example of the power of influencer marketing?

In the highly competitive beverage industry, enhancing brand visibility and consumer engagement, and establishing credibility is crucial for success. Prime Hydration has leveraged the power of influencers to achieve these goals. Prime Hydration is a sports energy drink that is a “naturally flavoured” beverage containing 10% coconut water, antioxidants and electrolytes. The drink was launched in the US, UK and Australia in 2022 and became the most sought-after drink when its founders Logan Paul and KSI promoted it.

Logan Paul, an American wrestler, and actor KSI, a video content creator, rapper and boxer, are two of the most famous YouTube personalities globally. The duo have been building their individual digital brands for over 10 years and have over 39 million subscribers and a billion views on their main YouTube channel. It was reported by News24 that Prime Hydration drink generated USD\$250 million in retail sales worldwide since it was first introduced in 2022, with \$45 million of that in January 2023 alone.

Through its influencer founders’ ability to authentically engage their audience and the clever use of YouTube’s algorithmic networks, Prime quickly became a worldwide sensation. Logan Paul and KSI used their own social media channels to create a buzz around the drink with one social media post generating 1.1 million likes. The duo understood their audience and used them as their target market of under 25 or even 16 to generate demand.

According to News24 when Prime was launched in the UK, there was an urgency to purchase the drink and join in on the hype that resulted in queues and massive purchase waves across the country, with stores constantly selling out of restocks. The popularity of Prime and stock shortages led to buying restrictions set by supermarkets, with some consumers reselling the drink that was originally priced at £24.99 for 12 bottles for over £1000.

Checkers’s partnership with Prime

When Prime first made its appearance in South Africa, fans of Logan Paul and KSI (in particular, the Gen Z market) could not wait to join the hype and found themselves buying a bottle at prices between R400 and R700!

That is until Checkers, one of the leading retailers in South Africa, announced a partnership with Prime in April 2023. The retailer announced that the drink would be available in most stores from midday 1 May 2023, retailing at R39.99 but limited to eight per customer. The retailer had been negotiating directly with Prime’s suppliers in the United States early in the year to secure large volumes of stock. This, combined with its established distribution and freight networks, enabled Checkers to bring Prime Hydration to South African consumers at supermarket prices.

Furthermore, it is widely reported that the retailer’s decision to introduce Prime to the local market was about more than just the product. There was a broader strategy at play: expanding its reach by getting a foothold in the Gen Z market – Prime’s target audience.





Talking about this target market, Renaldo Phillips, Head Buyer of Private Label and Imports at Checkers, was quoted by Business Live as saying: “They have so much influence on their families. They want instant gratification; they’re on these trends all the time. It’s a very exciting market because you have to be on top of your game — ahead of it — as to how [you] give people what they want”.

This strategy paid off as South African tweens and teens, and their pressured parents, queued for hours outside Checkers stores as soon as the drink hit the shelves.



Checkers also announced that customers could place advance orders on their Checkers Sixty60 app from 10pm on 30 of April. This resulted in their online stock being sold out within one and a half hours. By the end of the first week of selling Prime, Checkers had sold more than half of its original stock. Phillips, when interviewed by Radio 702 about the Prime purchasing frenzy that was observed in the stores, said: "Everyone I have spoken to, retailers who have been around for 30 years in the industry, have never seen anything like this. It really has blown our minds and shows you the power of social media".



¹ Market Watch – <https://www.marketwatch.com/press-release/beverage-market-strong-cagr-of-1422-percent-indicates-a-bright-future-in-2023-2030-2023-06-16>

² Matter Now – [<https://www.matternow.com/blog/matter-survey-reveals-consumers-find-influencers-more-helpful-and-trustworthy-than-brands-during-the-pandemic/>]

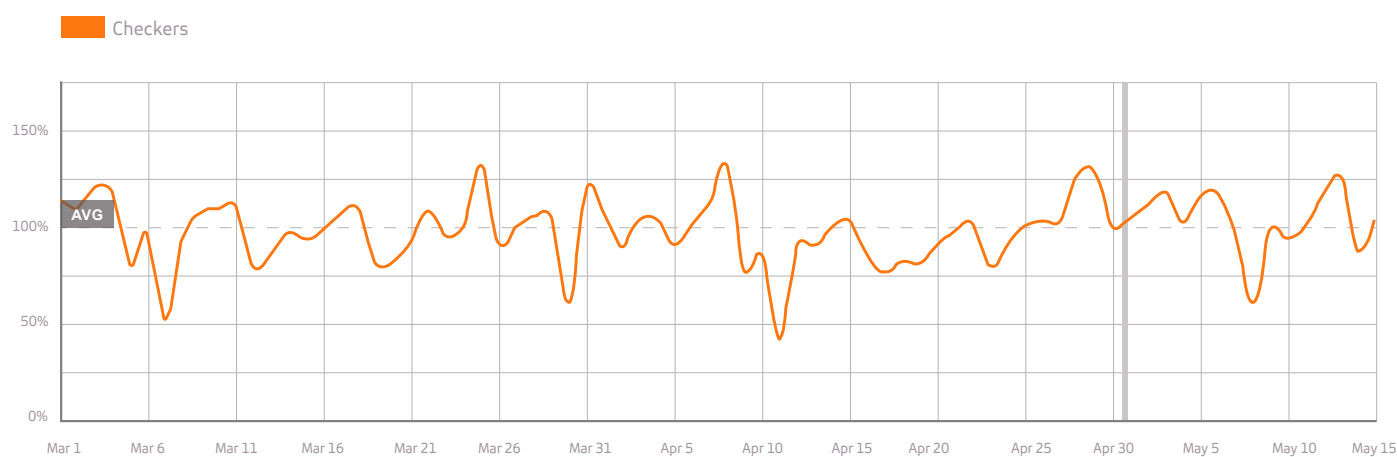


Analysis and output - Prime Launch

The analysis on the following pages was carried out by IRL Consulting. IRL combines new and disparate data sets in innovative ways to represent what is happening in the real world today. IRL achieves this by creating data products that make extracting location-specific insights easy, thus empowering large organisations to make better decisions that have an impact at a local level.

Footfall trend

This graph shows the daily footfall trend for Checkers for the period 1 March 2023 to 15 May 2023.



Key observations

The grey bar is the 1 May launch day at Checkers. We see a regular dip in footfall in week two of each month following month-end peaks. As we have observed in other retail categories, April holidays created below-average footfall. For the Prime launch, the footfall is on the rise (5% above average), but interestingly, we do not see a week-high spike – this is reserved for Friday, 5 May, at 17%. The trough normally seen after month-end does, however, not dip below average.

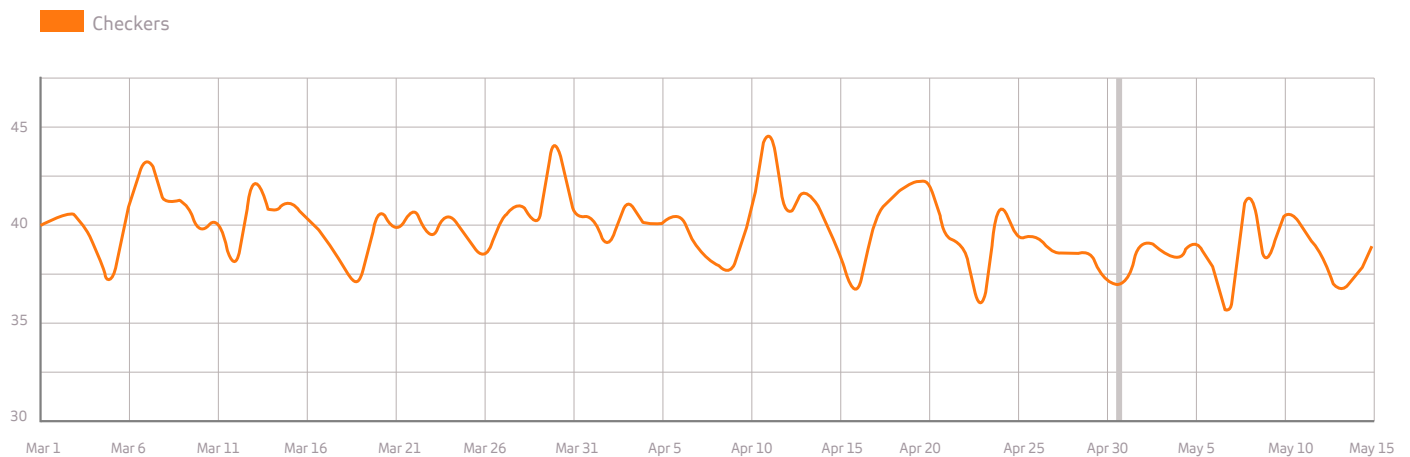
Key insights

The Prime launch did not make a 'month-end' level impact to footfall as would be expected given the hype, but did halt a footfall trend dip suggesting that early month footfall was improved by the Prime launch.



Dwell

This graph shows the daily footfall trend for Checkers for the period 1 March 2023 to 15 May 2023.



Key observations

The grey line is the 1 May launch day at Checkers. The average dwell for the period is 37.1 minutes. In March, we saw a dwell pattern that most likely represented the weekly shop vs the daily shop.

This dwell pattern falls away from late March and April during the holiday period. At the time just before the Prime launch, dwell is decreasing but begins to climb on launch day on 1 May 2023 – still this is 3 min below average. This suggests that the people visiting Checkers on the launch spent less time in the store than normal and are therefore more likely to have purchased Prime and left.

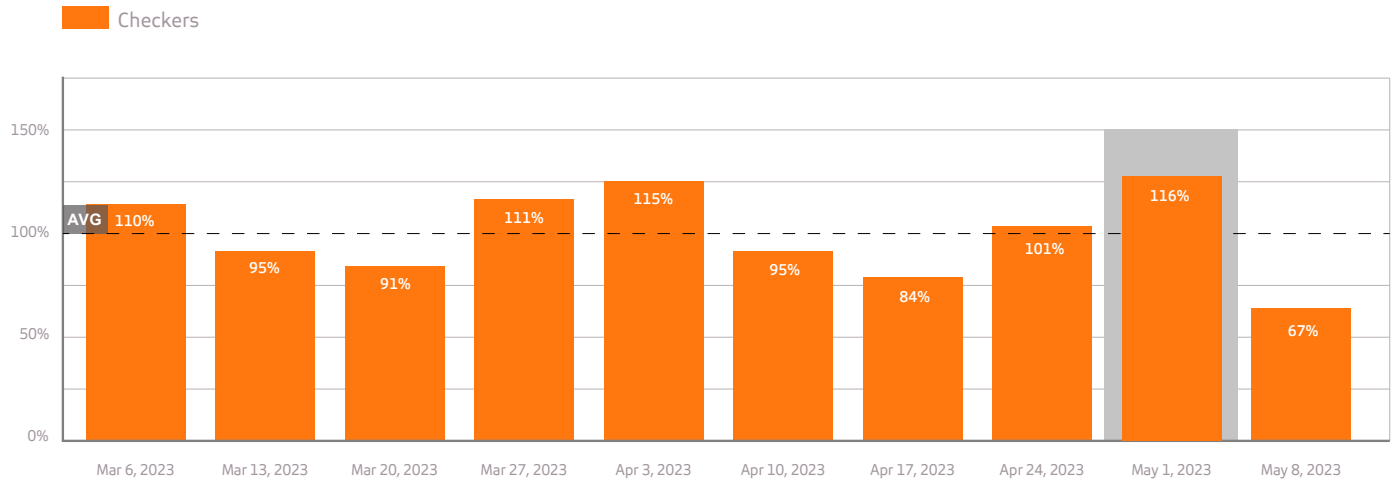
Key insights

The Prime launch managed to turn into a negative dwell trend but the launch did not rise to average dwell levels, suggesting that Checkers did not capitalise on the opportunity to its potential.



Footfall trend - Monday

This graph shows the Monday footfall trend for Checkers stores nationally for the period 1 March 2023 to 15 May 2023. The values here represent how footfall on each Monday compared with the average Monday for the period.

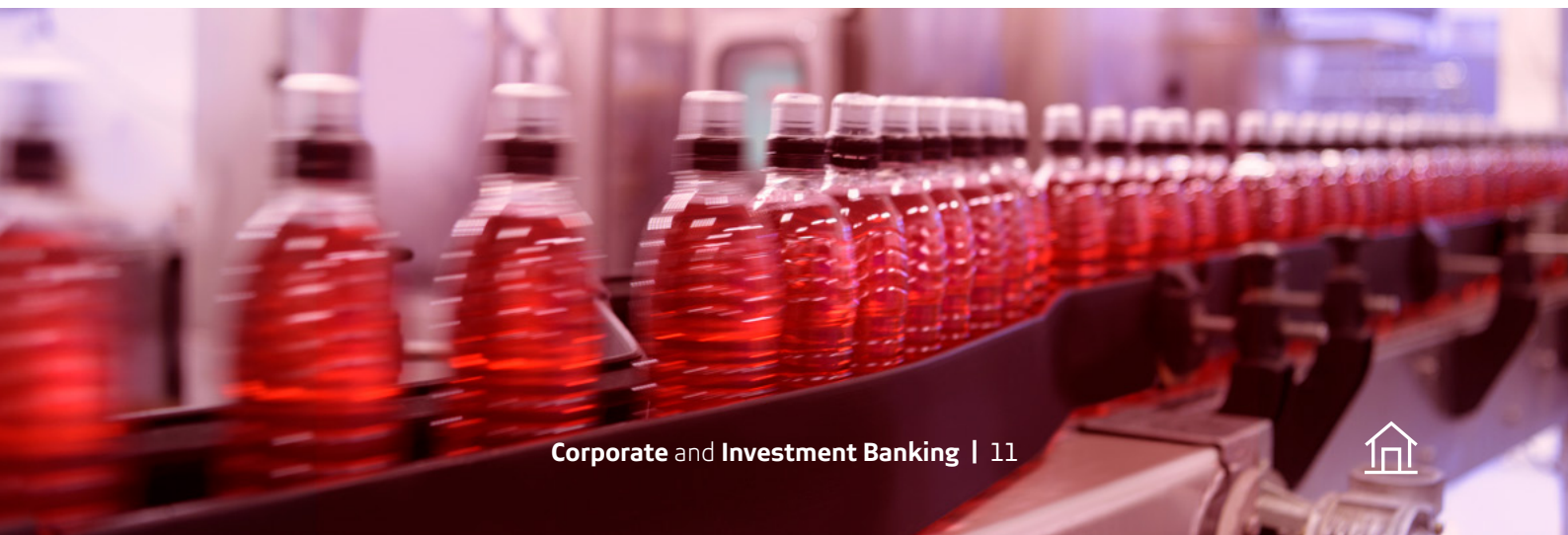


Key observations

There are only five Mondays in the selection that are above average and the Prime launch is the most successful at 16% above average. The remaining over-indexing Mondays are at month-end and the start of the month. Mid-month Mondays are below average. The Monday following the Prime launch is the lowest in the period.

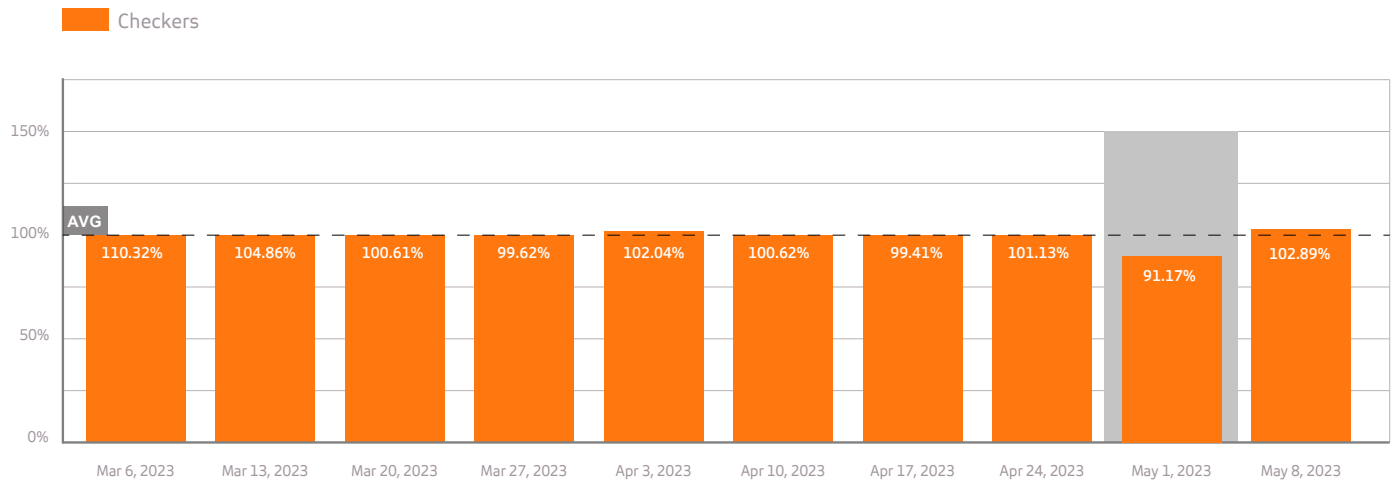
Key insights

Prime accounted for the highest footfall in the selection of Mondays, so the sole distribution of Prime created a Monday footfall impact.



Dwell - Monday

This graph shows the Monday dwell for Checkers for the period 1 March 2023 to 15 May 2023 and how it compared to the average Monday dwell over the period.



Average monday dwell: **37.77**

Dwell on monday: **34.44**

Key observations

Dwell on the Prime launch Monday is down by 8.9% compared to the average Monday in the date range. It is the only significant deviation from the average over the period.

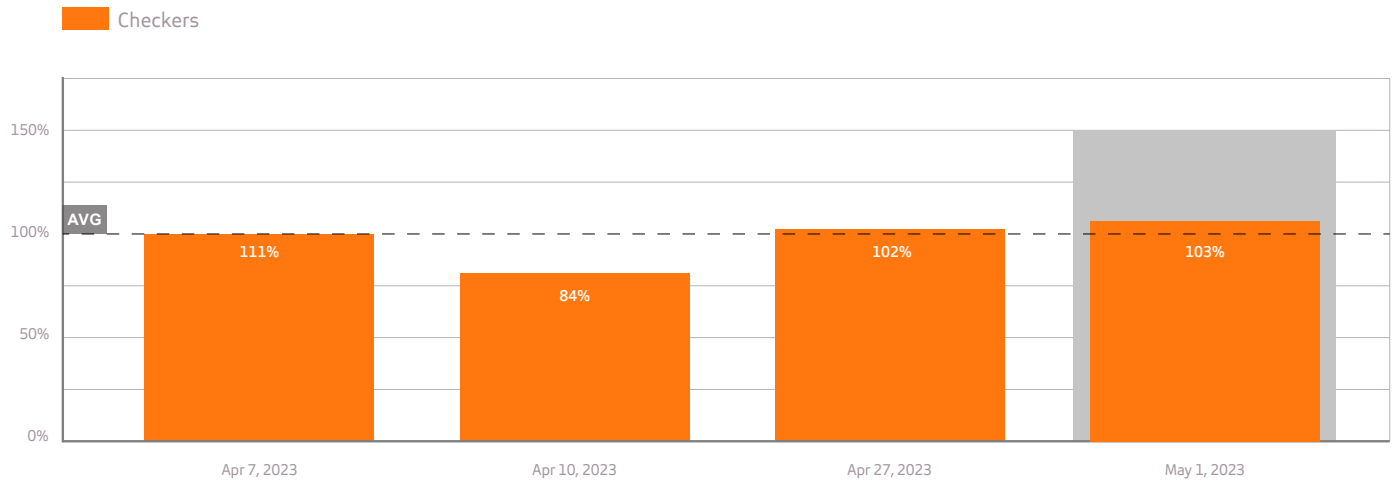
Key insights

The Prime Monday is significantly lower than all other Mondays in the set. This may be due to it being a public holiday. The increased footfall but lower dwell on the Prime launch Monday suggests that Checkers was unable to convert large basket sizes from the additional visitors created by Prime.



Footfall trend - Holidays

This graph shows the public holiday footfall trend for Checkers for the period 1 March 2023 to 15 May 2023.



Key observations

We identified four holidays in the time period.

Easter – 7 April and 10 April.

Freedom Day – 27 April

Workers' Day – 1 May (Prime launch)

Good Friday has the highest footfall of the selection, with Easter Monday being the lowest footfall.

Freedom Day and Workers' Day are 9% and 8% lower than the average footfall respectively vs Good Friday.

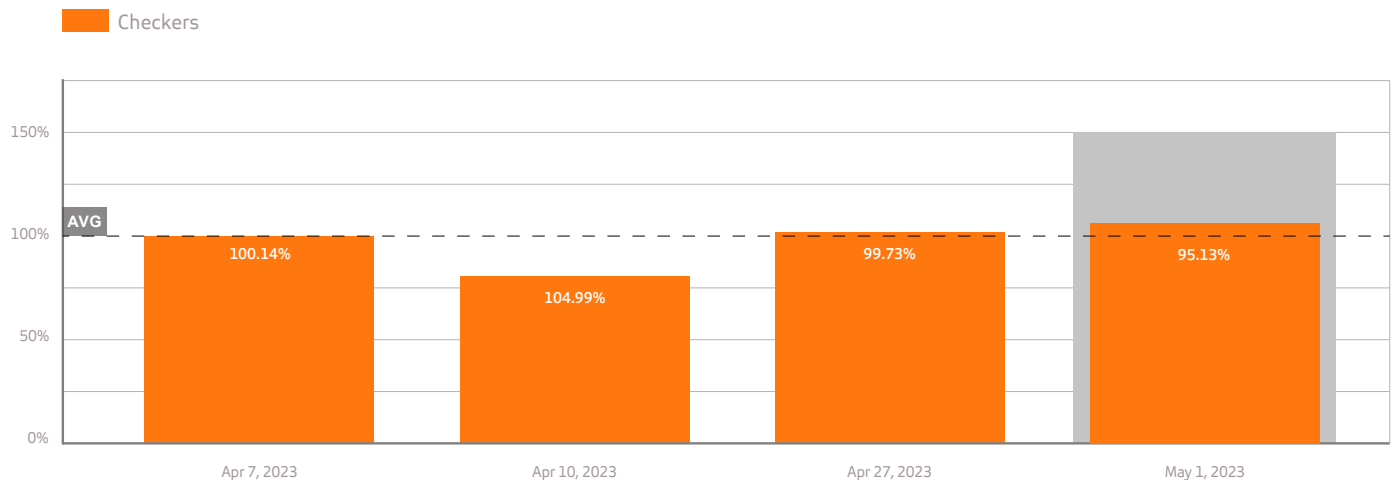
Key insights

Good Friday was more significant for footfall to Checkers than the Prime launch on Workers' Day – this again suggests that either Checkers did not capitalise on the hype around Prime effectively or that Checkers used Prime to offset typical poor post-holiday performance (this would need to be explored).



Dwell - Holidays

This graph shows the Monday dwell for Checkers for the period 1 March 2023 to 15 May 2023 and how it compared to the average Monday dwell over the period.



Average public holiday dwell: **36.2**

Dwell on 1 May 2023: **34.44**

Key observations

The Prime launch day had a two minute shorter than average public holiday dwell time per visitor. Dwell on the Prime launch Monday is down by 5% compared to the average dwell on a public holiday. Easter Monday has the highest dwell period in the selection, and Good Friday is marginally above average. The Public holiday dwell is only lowered by an underperforming Workers' Day (Prime launch).

Key insights

Dwell on the Prime launch on 1 May underperformed to what we would expect on a public holiday. This further emphasises that visitors arrived to purchase Prime and left without exploring the store.

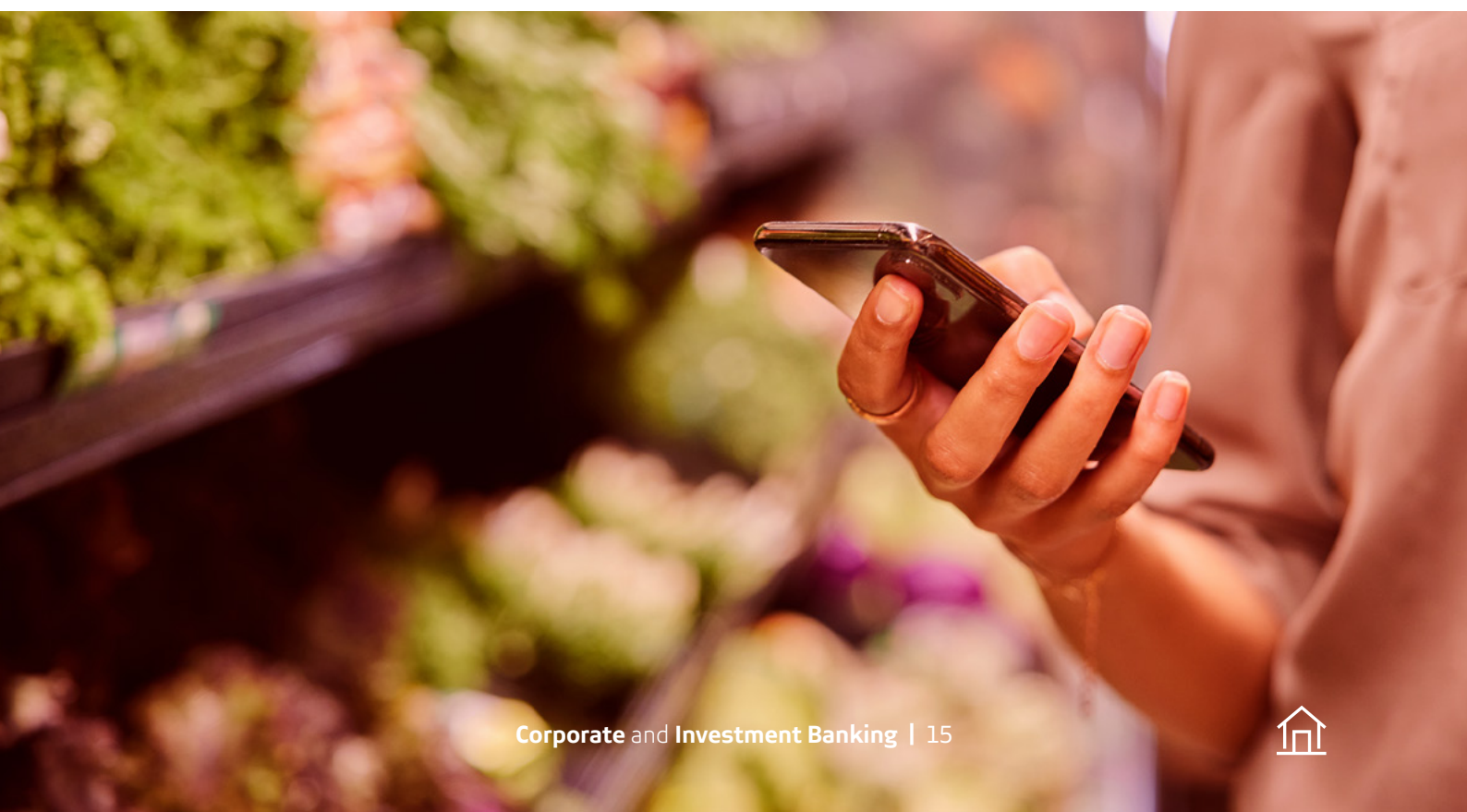


March merchant spend analysis¹

The effect of inflation and interest rate hikes

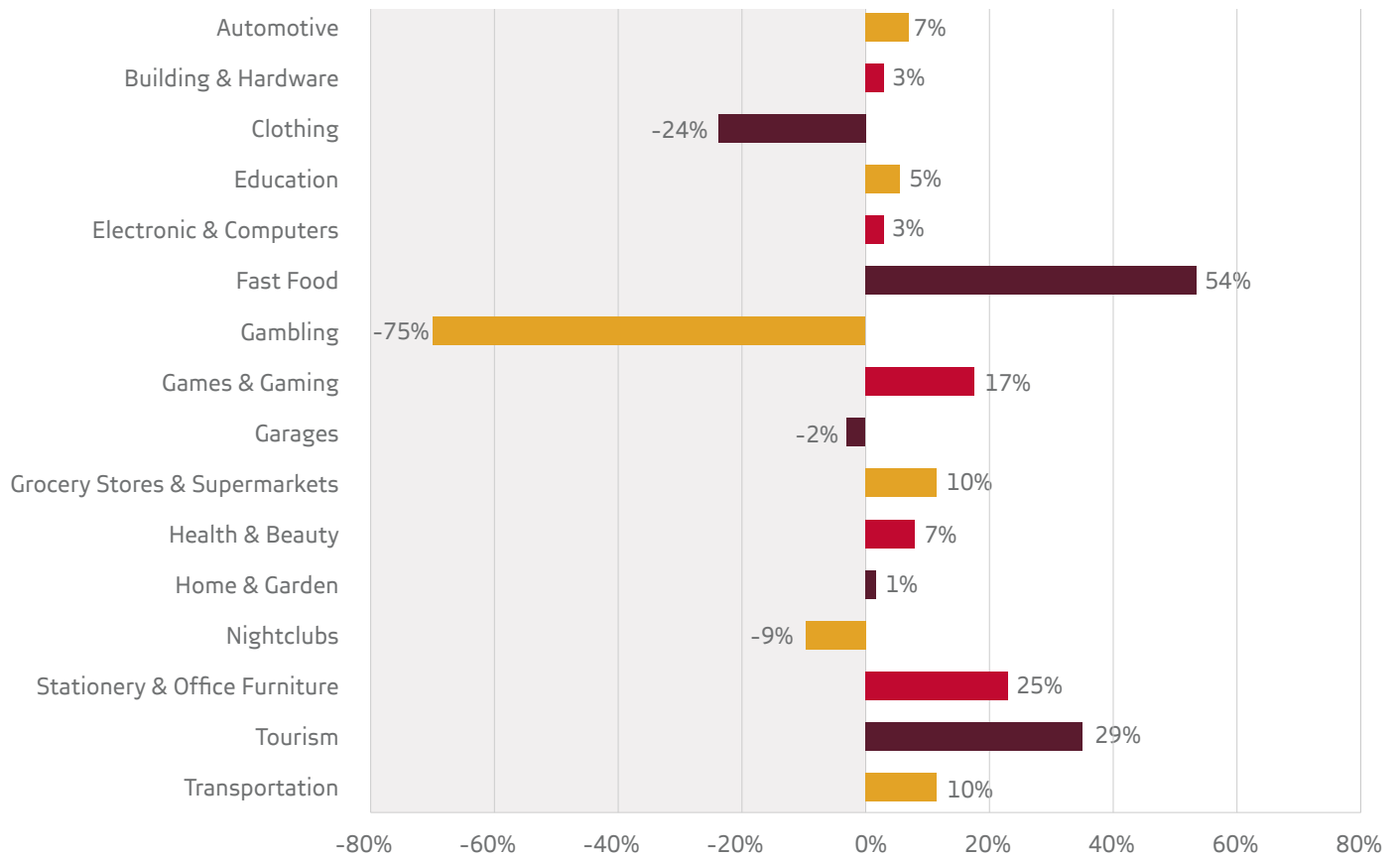
When comparing spending in March 2022 and 2023, we see the biggest declines in spend on clothing and gambling. This is a clear indication that consumers are forced to choose between needs and wants.

| YTD March | 2021-2022 | 2023 | CAGR | Full year 2022 |
|---------------------------------|-----------|------|------|----------------|
| Automotive | 24% | 7% | 15% | 13% |
| Building and Hardware | 9% | 3% | 6% | 6% |
| Clothing | 27% | -24% | -2% | 1% |
| Education | 155% | 5% | 64% | 30% |
| Electronic and Computers | 12% | 3% | 7% | 10% |
| Fast Food | 41% | 54% | 47% | 57% |
| Gambling | 94% | -75% | -30% | -9% |
| Games and Gaming | 125% | 17% | 62% | 72% |
| Garages | 32% | -2% | 14% | 19% |
| Grocery Stores and Supermarkets | 9% | 10% | 9% | 8% |
| Health and Beauty | -5% | 7% | 1% | 17% |
| Home and Garden | 8% | 1% | 4% | 0% |
| Nightclubs | 511% | -9% | 136% | 22% |
| Stationery and Office Furniture | 55% | 25% | 39% | 23% |
| Tourism | 126% | 29% | 71% | 80% |
| Transportation | 32% | 10% | 20% | 105% |





Merchant spend % change per category



¹ MSA data as at 13/02/2023



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