

SA food producers expect muted demand from struggling shoppers

By Nqobile Dlodla

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RCL Foods and AVI said demand was expected to remain muted as consumers grapple with high costs of living and they saw little relief in input cost pressures, which will force them to continue raising prices.



Source: Reuters/Siphiwe Sibeko

Consumer goods producers globally have lifted prices to cope with surging costs for almost all raw materials, energy and packaging after Russia's invasion of Ukraine compounded pandemic-related supply chain logjams. But they face a challenge in how much they can raise prices without sacrificing sales as increasingly cost-conscious consumers trade down.

The effects of high commodity and energy costs were felt by South Africa's RCL Foods as it [dropped interim dividend plans](#) after its half-year earnings slumped 22.4% and dented margins despite price hikes to offset the costs.

AVI, which also sells clothes, managed to clinch a [marginal rise in half-year earnings](#) due to price increases but sales volumes suffered in some categories as a consequence.



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The food producers said further price hikes were expected in their second half, with the costs to run diesel generators to deal with the rolling power cuts exacerbating input cost pressures.

"We need that input cost relief as soon as possible," RCL's chief financial officer Rob Field told *Reuters*. He saw little relief in sight for better commodity pricing in the short term.

Last month, SA's biggest food producer [Tiger Brands said](#) while it expected a significant reduction in inflation in its basket in the second half, prices were expected to rise in low double digits.



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Protecting margins

The further price increases are expected to continue to mute consumer demand, the producers said, with AVI chief executive Simon Crutchley telling investors that the main focus would be on protecting margins.

Many consumers have turned to cheaper private label products and alternative brands as they grapple with once-in-a-generation levels of inflation, high-interest rates and transport costs.

Volumes of RCL's value-tiered products were significantly up in the period and the producer plans to bring more to the market, Field told *Reuters*.

Both companies said they were considering increasing investments in backup power to deal with the energy crisis.

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