

2018 National Tobacco Market Study



Highlights

- Cigarette sales at prices below the minimum tax owed to SARS (R17.85 per pack) were found in almost 3 out of 4 non-organised shops¹ – a total of 100 000 shops. These shops account for 79.7% of all tobacco sales.
- 33.4% of cigarettes sales in these shops are below the minimum tax owed per pack².
- According to TISA, brands retailing at prices consistently below the tax owed on a pack of cigarettes (R17.85) are assumed not to have paid the tax due. It is also possible that some brands retailing at or above this level are also illicit but it's impossible for research to assess this.
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- GLTC's number one brand, RG, is now the second biggest brand in the market overall and the biggest selling brand selling below the tax due. It is followed by Savannah, also from Gold Leaf Tobacco Company, Caesar from Best Tobacco Company and Sharp from GLTC.
- GLTC's RG sells for R10.50 per pack on average or 60c per cigarette. Some brands were found at as low as R5 per pack.
- 77.8% of GLTC's cigarette sales are below the minimum tax owed per pack.



Methodology

The methodology used was a retail audit carried out in June 2018 (mobile hawkers, taverns and shebeens were excluded from the retail universe in scope). Ipsos first conducted a retail census to estimate the size of the retail universe and then selected a representative sample from that universe to audit. It audited 2058 outlets and each one was audited twice.

The research methodology has been peer reviewed by local and international research experts and academics. The research was commissioned by the Tobacco Institute of Southern Africa (TISA).



Commentary

The non-organised trade accounts for the vast majority of total cigarette sales. There are approximately 135,000 shops operating in this channel. Companies selling ultra-cheap cigarettes at prices below tax owed have made deep inroads into the non-organised market and have developed a highly efficient distribution and marketing system. Ultra-cheap brands are available in almost three out of every four of these shops, enabling manufacturers to focus retailers on brand equity building and sales instead of logistics.

According to TISA, a typical indicator of an illicit cigarette is pricing below R17.85, which is the sum of the excise tax due on a pack of 20 cigarettes and 15% VAT. Our

research found brands selling for as low as R5 per pack and the most popular, RG, sells for R10.50 on average (or 60c per cigarette). The price gap between RG and the most popular legal brand is approximately R26.

Independent superettes, corner cafés and semi-wholesalers (general dealers) are key channels for ultra-cheap brands. However, table tops (hawkers) provide a key entry point mainly through loose stick sales.

One tobacco manufacturer is overwhelmingly dominant in this trade.

¹ Independent small and medium businesses, including spazas, general dealers, corner cafes and hawkers

² 26.8% of total cigarette sales, including organised retail



Findings Detail by Brand

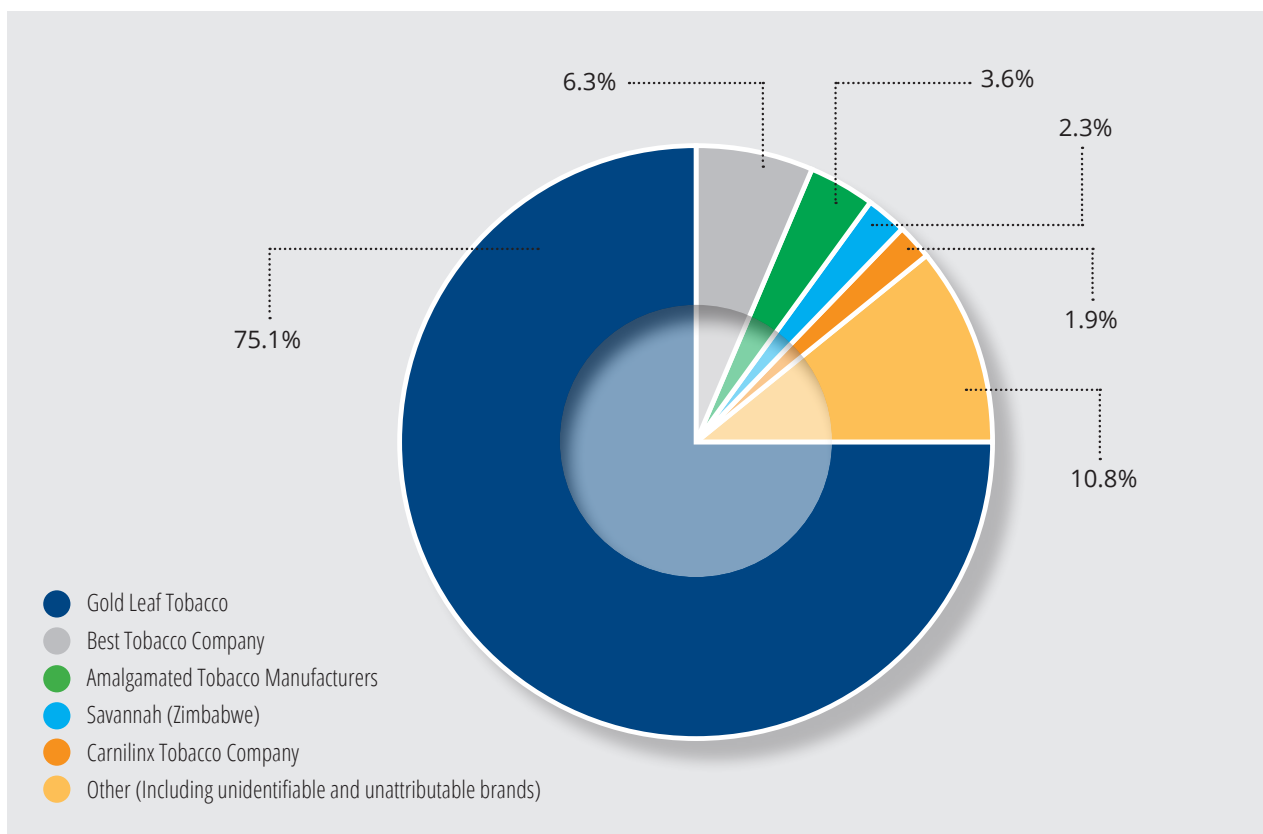
GLTC's RG, is the dominant brand in the market for ultra-cheap cigarettes. It is the largest brand in the non-organised trade and the second largest overall, retailing for

R10.50 on average. At the portfolio level, 75.1% of sales below the tax due are accounted for by GLTC brands.

Top 10 brands in the market for ultra-cheap cigarettes (Packs and loose sticks)

#	Brand owner	Brand	Share of market	Lowest price	Average price
1	GLTC	RG	50,5	R 9,90	R 10,50
2	GLTC	SAVANNAH	8,9	R 10,00	R 13,10
3	BEST TOBACCO	CAESAR	6,3	R 6,40	R 10,20
4	GLTC	SHARP	6,3	R 9,80	R 11,90
5	GLTC	CHICAGO	5,8	R 10,00	R 12,00
6	GLTC	SAHAWI	2,5	R 10,00	R 10,60
7	SAVANNAH (ZIM)	PACIFIC	2,3	R 8,20	R 10,60
8	MASTERMIND TOB	YES	2,2	R 10,00	R 10,40
9	CTC	JFK	2,2	R 10,00	R 10,40
10	ATM	CK	1,7	R 10,00	R 11,80
Top 10 Contribution to Total:			88,70%		

Share of volume below Minimum Collectable Tax by Manufacturer





Findings Detail by Region

The Western Cape, followed by Gauteng, Eastern Cape and North West, are the key hotspots where ultra-cheap cigarettes are most readily available.

Provincial availability by Brand (Packs and loose sticks)

#	Province	Percentage of stores where ultra-cheap brands were found	#1 Brand (availability)	Manufacturer	Percentage of stores where brand was available
1	WC	79	CHICAGO	GLTC	71
2	GP	75	RG	GLTC	65
3	EC	66	SAVANNAH	GLTC	36
4	NW	71	RG	GLTC	67
5	FS	66	RG	GLTC	55
6	LP	63	RG	GLTC	56
7	KZN	65	PACIFIC	SAVANNAH ZIMBABWE	32
8	MP	51	RG	GLTC	44
9	NC	37	RG	GLTC	33



Conclusion

Ultra-cheap brands retailing for below the tax due on a pack are widely available and gaining volume share within the non-organised sector. It has become very difficult for retailers to compete if they do not stock these brands, given their ultra-low prices.

One manufacturer, GLTC, is developing a strong portfolio of brands, led by RG.

One manufacturer, GLTC, is developing a strong portfolio of brands, led by RG. The RG brand has gained a significant

share of the total tobacco market, and is now the dominant brand within the non-organised retail sector.

A combination of price and availability has enabled these brands to gain market share. With a significant presence in wholesale channels and the mainstay spaza and table top network, they are perfectly primed to continue to grow share at a fast rate.

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