

Harmony and stability needed

to unlock Middle Eastern promise

The region has attracted considerable investment and everything is in place to reward those that have, reports Richard Corbett.

As the soft drink giants and pioneers seek out new global opportunities many think automatically of Asia. Demand for soft drinks there has jumped by 80% in the last decade and not surprisingly the region has attracted considerable investment. Investors are however also putting their money into the Middle East and North Africa (MENA) where the consumption of soft drinks has jumped by more than 70% in the same ten years.

Long-term potential

You could put an argument together that MENA has every bit as long-term potential as Asia and maybe even more. For a start there is no real culture of alcohol consumption in the region.

In fact, beverage researcher GlobalData's numbers show that alcoholic drinks make up just 1% of commercial beverage volumes in the region. Not only that but the often-sweltering climate is very conducive to soft drink consumption.

As the affluent middle class grows, the expat community swells and more tourists come to the region, then sales of soft drinks should continue to climb. What is notably appealing is that consumers in this part of the world have shown a willingness to embrace Western consumption habits.

This means that international operators do not have to adapt or create new products to fit with local tastes and customs to the same extent as they would need to in other developing parts of the world.



Carbonates

For this reason, the soft drinks marketplace is developing in a far more conventional 'Western way'. This is best illustrated by the carbonates category which makes up 41% of soft drinks sales – that's even 5% more than in North America. In Asia, the carbonates category makes up less than a fifth of overall soft drinks demand. According to GlobalData, the market for CSDs has jumped by nearly 50% in the last decade in the Middle East and North Africa.

The numbers over the last ten years would seem to justify Coca-Cola's ongoing investment in the region. Back in 2015 the company announced that Aujan Coca-Cola Beverages Company (ACCBC), a partnership between Coca-Cola and Saudi Arabian-based Aujan Industries, would be spending \$500m building up its 'capacity, geographical coverage, and on brand development'. Coca-Cola has done well since the Arab League boycott ended in 1991 but it did set back their development and the company is keen to continue its rapid progress.

The main beneficiary of the boycott, PepsiCo, is also lavishing investment in the region and last year announced they would be constructing one of its biggest plants in Jeddah in Saudi Arabia. The plant is responsible for bottling the flagship Mountain Dew, Mirinda and Pepsi brands and the aspiration is for the site to service markets further afield than just the Gulf.

PepsiCo is also looking to tomorrow and has set up an innovation facility in Dubai's life sciences cluster DuBioTech to develop new products.

Packaged water

Not surprisingly, the packaged water category provides plenty of opportunities and several of the leading global per capita markets for water are found in the region. The market for bottled waters has doubled since 2007 and with growth

Share of Throat MENA



■ Alcoholic Drinks ■ Dairy & Soy Drinks & Milk Alternatives ■ Hot Drinks ■ Soft Drinks

Source: GlobalData

With limited demand for alcoholic drinks opportunities for soft drinks are pronounced in the Middle East.

of 8% in 2017 there remains plenty of momentum.

Water giant Nestlé has been very active in the region since 1997 and has pumped in over \$400m in the last five years. Nestlé’s interests are multi-faceted but half of the 11,000 people directly employed by the company work for Nestle Waters.

Vimto tradition

Packaged water and CSDs may make up more 81% of soft drinks sales in the region but it is not just fizzy drink and water operators that are successfully exploiting the potential of the region. Longstanding UK soft drinks player Nichols have enjoyed fabulous success with their Vimto squash brand.

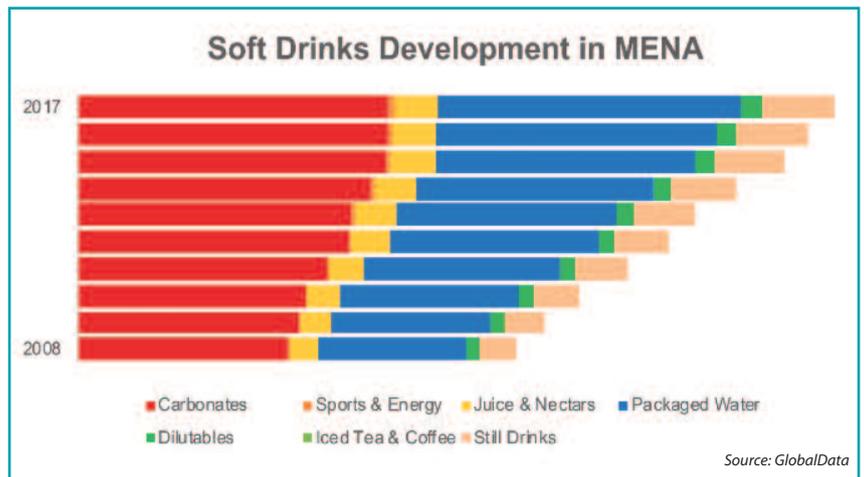
The grape, blackcurrant and raspberry flavoured drink with a high sugar content has developed a strong association with Ramadan and drinking it during the Holy Month has become a tradition in many households. The success is ongoing and last year the company reported growth of 13% in the region. At just 1% of the total soft drinks consumed in Middle East and North Africa, prospects must be upbeat for the squash category if more operators can follow Nichols’ example.

Troubled times

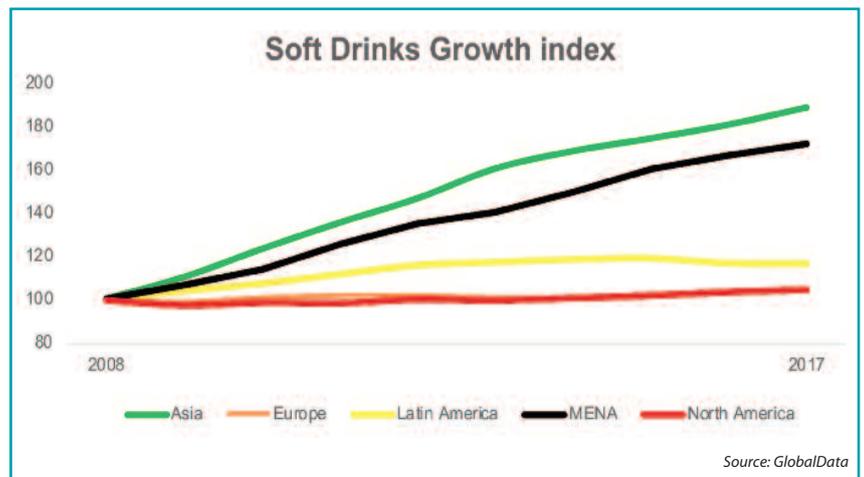
The region is undoubtedly bursting with opportunities but exploiting them has become more complex in recent times. Parts of the Middle East continue to be plagued by instability and tragic and bloody conflict. The economic conditions are deteriorating too.

This is already being borne out in the numbers, with GlobalData reporting the growth rate for soft drinks has roughly halved in the last two years to between 3 and 4%. The carbonates category has virtually flattened in 2017. As recently as 2015 the market had added 900m litres or 5% before growth dropped to 0.6% in 2016.

Sales of flavoured waters and fruit powders in



Perhaps not surprisingly, carbonates still outsells plain packaged water in the region.



In the last ten years, the Middle East and North Africa (MENA) has seen growth similar to Asia. North America and Europe sit bottom of the Class.

the region have even dropped into the red. If you discount packaged water then soft drinks growth in the Middle East and North Africa falls to below 1% last year according to GlobalData projections.

If you drill down deeper into the numbers, many markets are prone to considerable fluctuations in demand for soft drinks but it is the influential markets of Iran and Egypt that have recently dented the sales of soft drinks.

Bright future

The hope is that the Middle East as a whole can settle down and make the most of playing host to pivotal Global events like World Expo 2020 and the Soccer World Cup in 2022. These events will improve the standing of the region in the eyes of the worldwide business community and consumers in general.

For some time now, the region’s governments have been conscious to dilute their reliance on oil and to put in place the infrastructure, invisible borders and free zones to appeal to international business to set up enterprises.

Everything is in place for the region to reward all those that have put money into the soft drinks industry in this part of the world. It just needs to a period of harmony and stability to take off again. The soft drinks industry will be one of the main beneficiaries when it does.

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