Continued Economic Downturn Brews Changes For Hot Drinks In The Baltics

Contributed by Euromonitor International
Thursday, 10 March 2011
Last Updated Thursday, 10 March 2011

Foodservice sales take the larger hit in Estonia

Effects of the economic downturn lingered in Estonia in 2010.Â Hot drinks' consumption in on-trade channels such as restaurants, cafÃ©s and bars dropped significantly as consumers in Estonia adopted saving habits that cut down the frequency of eating outside in these more expensive channels.

Enjoying hot drinks in cafÃ©s, restaurants and bars remained a privilege for those who are more affluent. Instead, people continued to buy the products from supermarkets and prepare them in the home.

Local players and private label thrive in Latvia
In terms of the recession, many consumers in Latvia switched to products by local manufacturers, such as Inteka SIA with its brand Mozums, as well as Spilva SIA, which in 2009 acquired local brand Latplanta. Local products appeared to offer the best combination of quality and price.

In 2009 and 2010, Rimi Latvia SIA, running the largest network of supermarkets/hypermarkets in Latvia, launched numerous private label hot drinks, causing the share of private label to double in retail value terms in 2010. The company's private label portfolio includes products of different price segments, from economy to premium.

Economizing tea consumption
Foodservice sales declined by 9% and accounted for just 6% share of total tea volume sales in Latvia in 2010. During the recession, consumers preferred to drink tea at home and, while going out, ordered more dedicated drinks which require more effort to be prepared, such as different coffee variations (cappuccino, lattÃ©).

In many canteens in schools, offices, and universities there is an option to order just hot water and then add a tea bag, brought from home, which is much cheaper and therefore also popular among Latvians. In addition, there are not many specialised tea houses in Latvia like there are in the case of coffee bars.

Limited rebound begins in Lithuania
Tea is a staple part of the Lithuanian diet. As a result, consumers were quick to trade back-up to higher quality tea brands as the Lithuanian economy started to recover in 2010.

However, sales of more expensive high quality teas available within the growing range of specialty tea stores have not yet recovered as consumers remain relatively price sensitive. In addition, the health and wellness trend also positively influenced sales, with some coffee consumers shifting towards healthier positioned tea brands.

Unpackaged tea is also widely available and highly popular in Lithuania, with most cafes and restaurants offering at least three different kinds of loose specialty tea (black, green, and fruit). The vast majority of unpackaged tea is sold in speciality stores which offer a comprehensive range of different brands.

In addition, a large amount of homemade tea is purchased within markets. Consumers perceive loose tea as being more natural and of higher quality than packaged tea. As a result, there is little evidence of a shift from unpackaged to packaged tea in Lithuania even though packaged tea is more convenient.

Price sensitivity among consumers will remain a challenge
The experience in these three markets in 2010 illustrates the challenges manufacturers will still face as they seek to expand higher margin, well known brands to new markets. Â

Even as Western-style chained coffee shops and imported teas help create a consumer understanding of quality differences in hot drinks, consumers will make purchasing decisions based on affordability first and turn away from these brands in times of economic hardship. Â

At the same time, competition at the premium end will arise from local varieties and flavours sold through traditional means.Â International players will likely not be able to adapt to these kinds of nuanced regional differences everywhere. Â

Instead, creating a clear message of quality and value for money behind their brand will help create the authenticity and trust needed to keep consumers' interest, and help ensure that any substitution for cheaper alternatives is a temporary change in behaviour.

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25 February 2011