

CHAPTER THREE: CHANGES IN THE CONSUMER LANDSCAPE

3.1 INTRODUCTION

Several changes have occurred within the national consumer landscape. Of specific importance here the impact of the rising black middle class and the increased government support available by way of social grants which are intended to curb poverty. These changes have had a positive impact on increased and sustained demand for commercial products and services within these second economy landscapes. This chapter highlights the dominant changes within the consumer landscape and the impact on the commercial market.

3.2 CHANGES IN THE CONSUMER LANDSCAPE IN SECOND ECONOMY AREAS

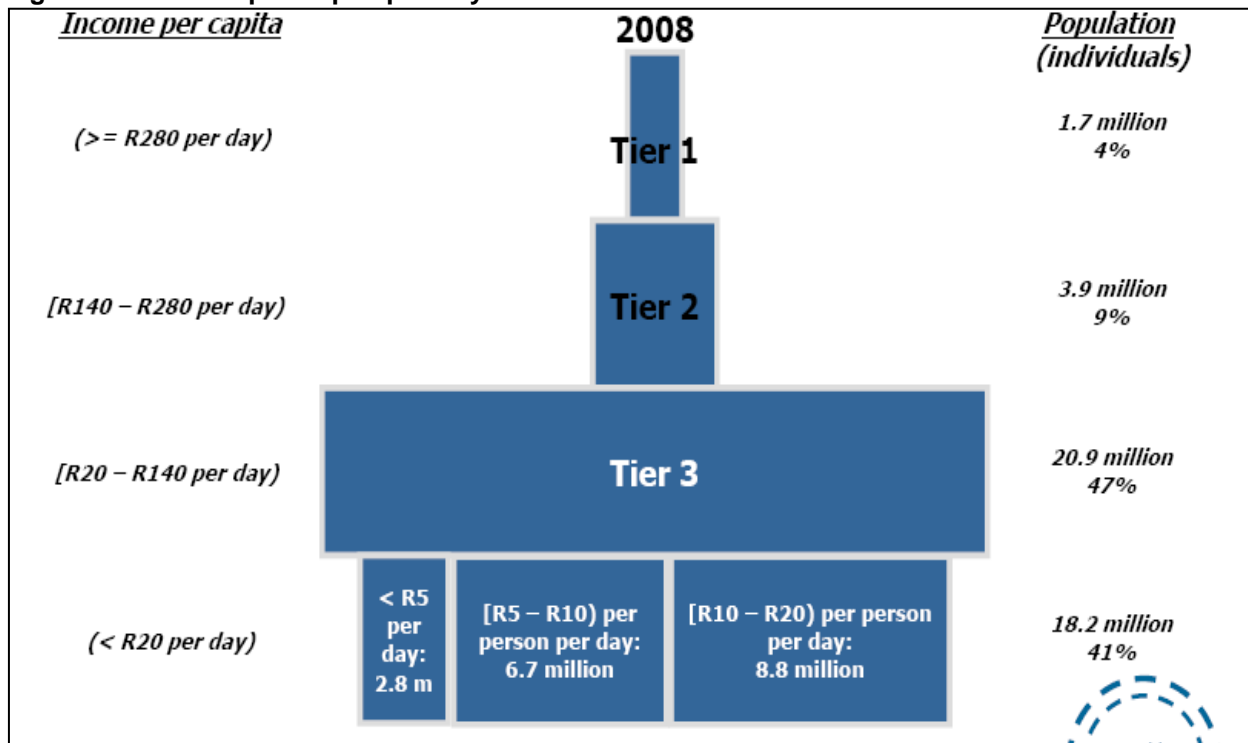
This section is addressed in terms of:

- ✓ Income, expenditure and LSM trends;
- ✓ Social upward mobility, demographic shifts and migration trends;
- ✓ Artificial effect of remittances and government grants;
- ✓ Synthesis.

3.2.1 INCOME, EXPENDITURE AND LSM TRENDS

A number of changes have taken place with regard to income, expenditure and living standard measurement (LSM) since 1994. Subsequent paragraphs indicate the current socio-economic pyramid and changes since 2000.

Figure 3.1: Income per Capita per Day



Source: Demacon Ex. Eighty 20, 2009

Note: Based on AMPS 2008 RA – Household, Eighty 20 Analysis

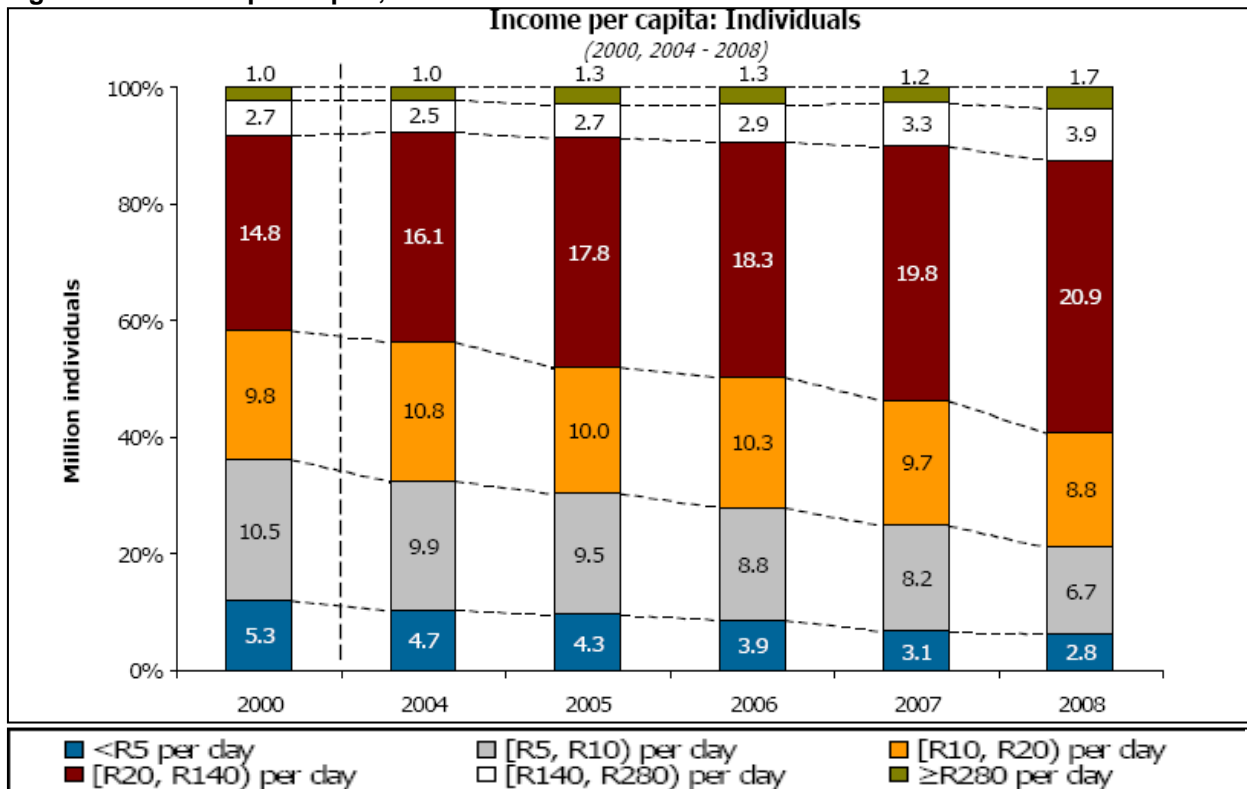
Per capita income is calculated using the midpoint of the household income bands provided by AMPS. Household size is adjusted for the number of children (children under 10 count as half an adult). Totals may not add up due to rounding.

Findings: (Figure 3.1)

- ✓ It is evident that 18 million South Africans live on less than R20 per day. Of these, almost three million live on less than R5 per day.
- ✓ Approximately 20 million live on between R20 and R140 per day, nearly four million live on R140 to R280 per day and nearly two million on more than R280 per day.

However, per capita income has increased over the past eight years, following a positive trajectory – refer to Figure 3.2. This has resulted in a noticeable and relatively stable shift in the economic pyramid since 2000. From this it is evident that the South African consumers have become richer³⁵.

Figure 3.2: Income per Capita, 2000 to 2008



Source: Demacon Ex. Eighty 20, 2009

Note: Based on AMPS RA Household, 2004-2008

Actual amounts have been inflated to June 2008 Rands using CPIX Inflaters.

In terms of the racial distribution throughout the pyramid it is evident that the middle and the top of the pyramid are increasingly racially diverse – refer to Figure 3.3. However, the lower levels of the pyramid are not and are largely made up of Blacks, Coloureds and Asians (BCA)³⁶.

Tier 1 includes 34% of Blacks, Coloureds and Asians – reflecting a market segment that earns more than R280 per day, the second tier include 51% of Blacks, Coloureds and Asians. This constitutes 901 000 BCA households. The largest segment of Tier 3 is made up by the BCA population segment and the lowest tier is completely made up by the BCA³⁷.

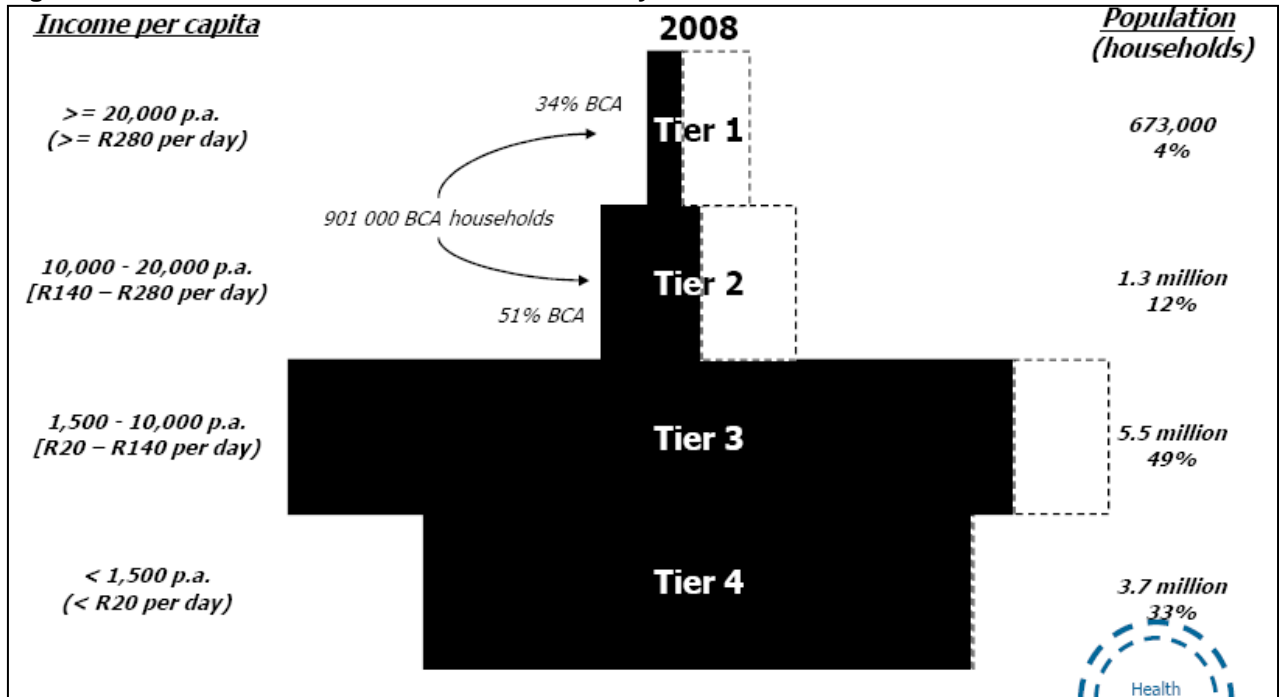
³⁵ Source: Eighty 20. 2009. The Bottom of the Pyramid in South Africa.

³⁶ Source: Eighty 20. 2009. The Bottom of the Pyramid in South Africa.

³⁷ Source: Eighty 20. 2009. The Bottom of the Pyramid in South Africa.

However, a definite trend has taken place in the upward movement of the BCA group – refer to Figure 3.4. A black middle class has emerged since 2000 – increasing its share from just above 20% of Tier 3 to just more than 40% of Tier 3 in 2008. Its share in terms of Tier 4 has also increased to nearly 25% in 2008.

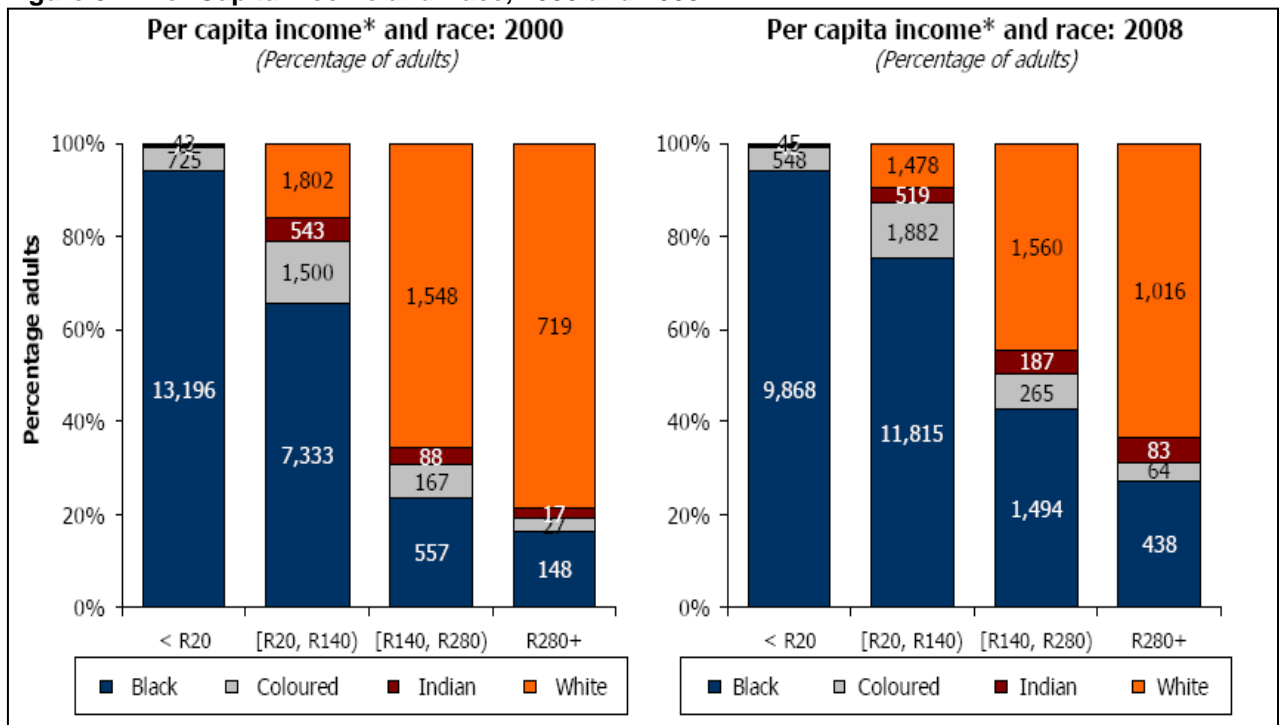
Figure 3.3: Racial Profile of the Socio-Economic Pyramid



Source: Demacon Ex. Eighty 20, 2009

Note: Data based on AMPS 2008 RA – Household, Eighty 20 analysis

Figure 3.4: Per Capita Income and Race, 2000 and 2008



Source: Demacon Ex. Eighty 20, 2009

Note: Data based on AMPS, 2000

Mid-points of household monthly income bands used as average household income in calculation of per capita income. Important to note that HH monthly income band sizes are not exactly the same in AMPS 2000 and 2008 – data therefore not directly comparable. 2000 income values are inflated up to 2008 values using CPIX.

This trend is also apparent from LSM trends between 2006 and 2008 – refer to Table 3.1.

The LSM index is an internationally recognised instrument designed to profile a market in terms of a continuum of progressively more developed and sophisticated market segments. The LSM system is based on a set of marketing differentiators, which group consumers according to their standard of living, using criteria such as degree of urbanisation and ownership of assets (mainly luxury goods).

Essentially, the LSM system is a wealth measure based on standard of living, rather than income alone. The market segmentation continuum is divided into ten LSM segments, where LSM 1 signifies the lowest living standard and LSM 10+ signifies the highest living standard.

The LSM categories are defined and weighted in terms of the following 29 variables:

1. Hot running water	16. Have a deep freeze
2. Fridge/freezer	17. Water in home or on stand
3. Microwave oven	18. Have MNet and/or DStv
4. Flush toilet in house or on plot	19. Have a dishwasher
5. VCR in household	20. Metropolitan dweller
6. Vacuum cleaner/floor polisher	21. Have a sewing machine
7. Have a washing machine	22. DVD player
8. Have a computer at home	23. House/cluster/ town house
9. Have an electric stove	24. 1 or more motor vehicles
10. Have TV set(s)	25. No domestic worker
11. Have a tumble dryer	26. No cell phone in household
12. Have a Telkom telephone	27. 1 Cell phone in household
13. Hi-fi or music centre	28. None or only one radio
14. Built-in kitchen sink	29. Living in a non-urban area
15. Home security service	

It is important to note that the LSM system is widely applied internationally for marketing and branding purposes, and that it is therefore not an instrument developed locally to label or stereotype certain market segments.

Table 3.1: LSM Trends, 2006 to 2008

	Penetration				Ave HH Income		
	2006RA	2007B	2008A		2006RA	2007B	2008A
SU-LSM 1	6.1	4.1	3.4	↓	R 999.06	R 1,028.15	R 1,080.45
SU-LSM 2	12.2	9.8	8.7	↓	R 1,214.18	R 1,275.25	R 1,401.29
SU-LSM 3	12.6	10.8	9.4	↓	R 1,521.09	R 1,638.06	R 1,794.81
SU-LSM 4	14.9	13.8	14.6		R 1,939.68	R 2,140.55	R 2,535.68
SU-LSM 5	13.5	14.5	15.5	↑	R 2,681.45	R 2,952.07	R 3,122.33
SU-LSM 6	14.4	17.3	17.9	↑	R 4,404.25	R 5,096.28	R 5,386.00
SU-LSM 7	7.8	9.3	9.4		R 6,840.77	R 8,320.26	R 8,667.33
SU-LSM 8	5.7	6.7	6.9		R 9,251.86	R 11,227.27	R 12,336.69
SU-LSM 9	6.7	7.6	8.1		R 12,557.86	R 14,740.73	R 16,296.05
SU-LSM 10	6	6.1	6.1		R 19,817.03	R 20,902.03	R 23,053.57

Source: Demacon Ex. SAARF, 2009

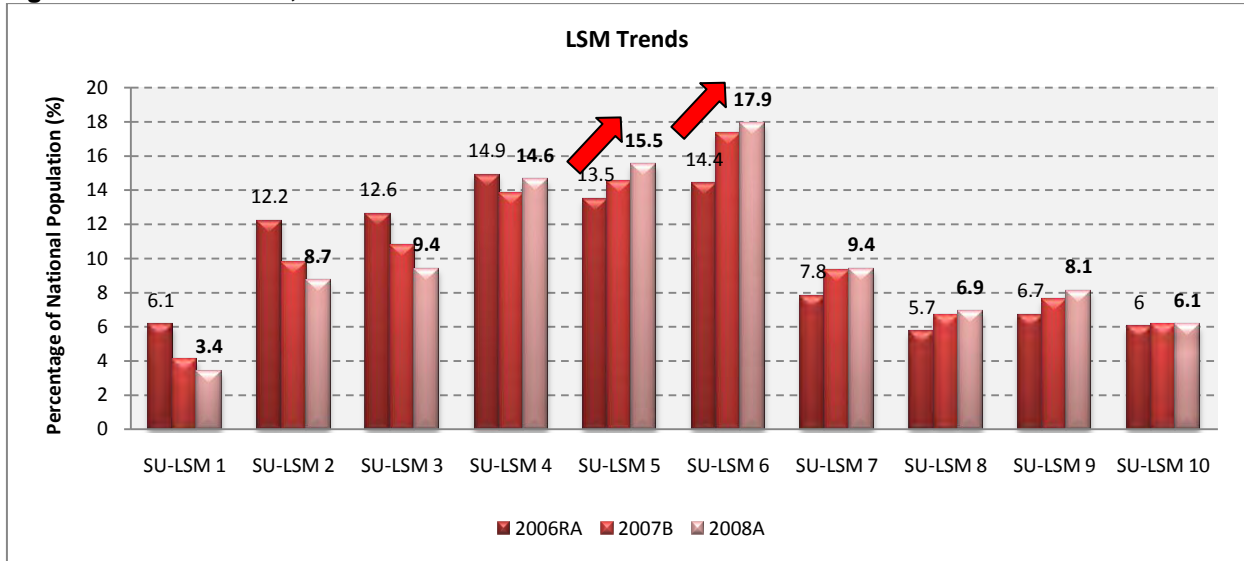
Note: RA, B and A refer to the specific SAARF AMPS datasets used in the compilation of LSM trends.

Significant increase on 2007B, Significant decrease on 2007B

It is evident that there has been a significant decline in the LSM 1 to 3 categories and a significant increase in the LSM 5 and 6 categories since 2006. This is clearly visible in Figure 3.5.

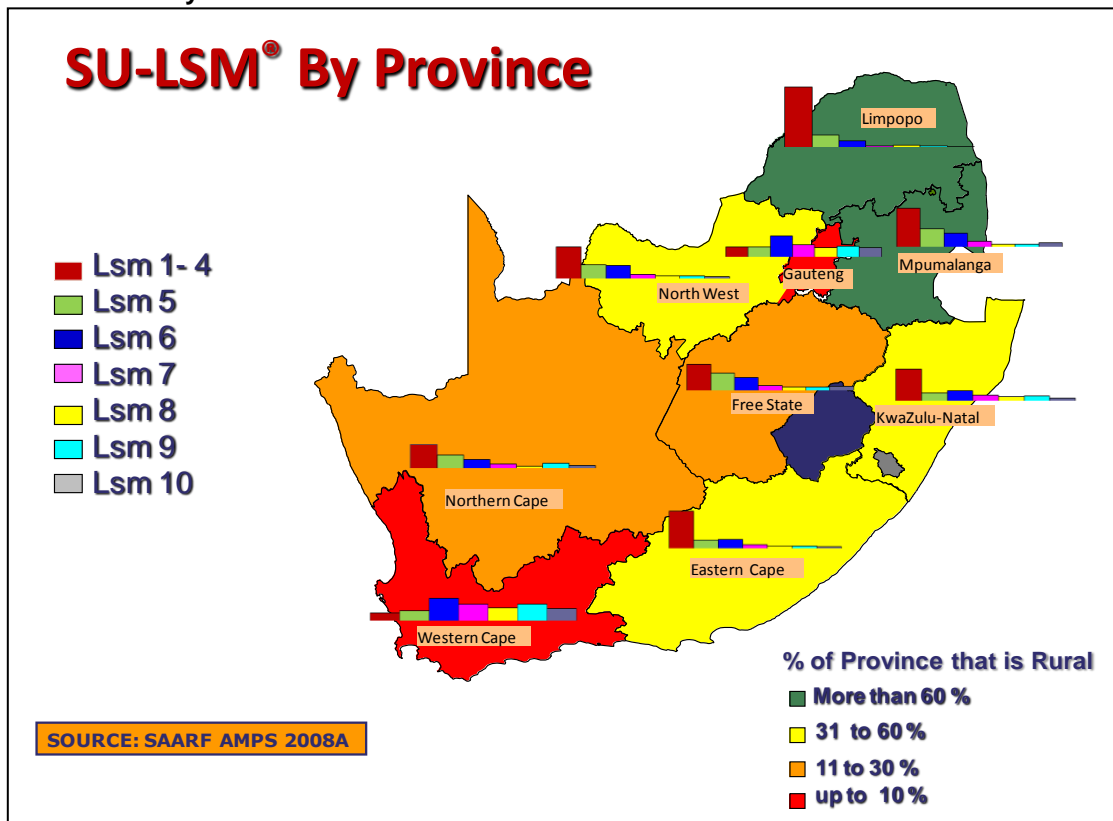
In terms of provincial LSM profiles it is evident that provinces with large rural segments are inclined to a more dominant presence of lower LSM households. The more urban the province the higher the LSM profiles – Refer to Map 3.1. Rural areas generally offer limited employment opportunities, lower levels of formal residential accommodation, lower levels of infrastructure and access to services.

Figure 3.5: LSM trends, 2006 to 2008



Source: Demacon Ex. SAARF, 2009

Map 3.1: SU-LSM by Province

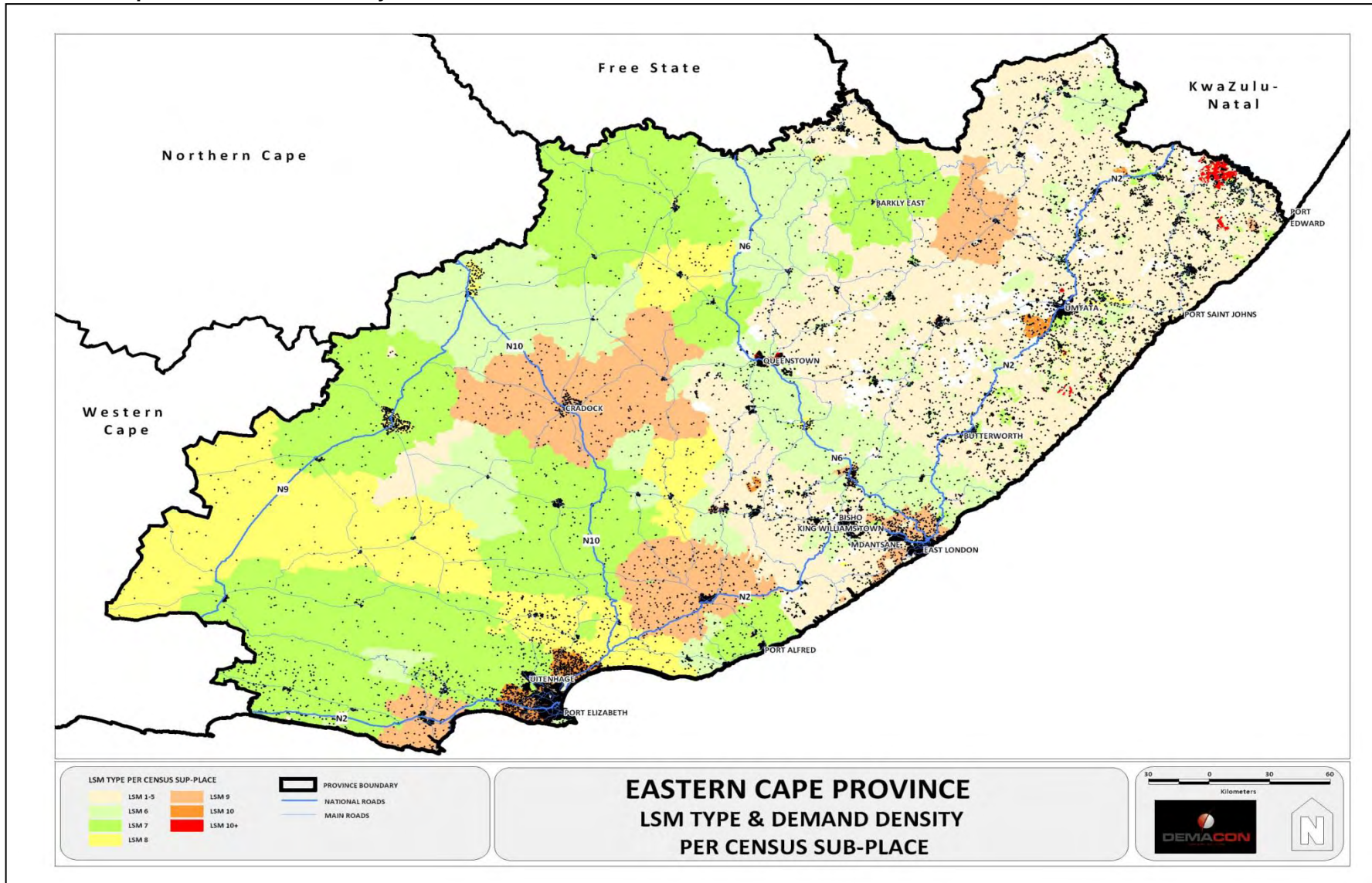


Source: Demacon Ex. SAARF, 2009

The LSM profile can also be combined with retail demand densities – indicating potential areas for retail investment. Maps 3.2 to 3.11 indicate these variables on a provincial basis. Subsequent bullets explain the data on the maps:

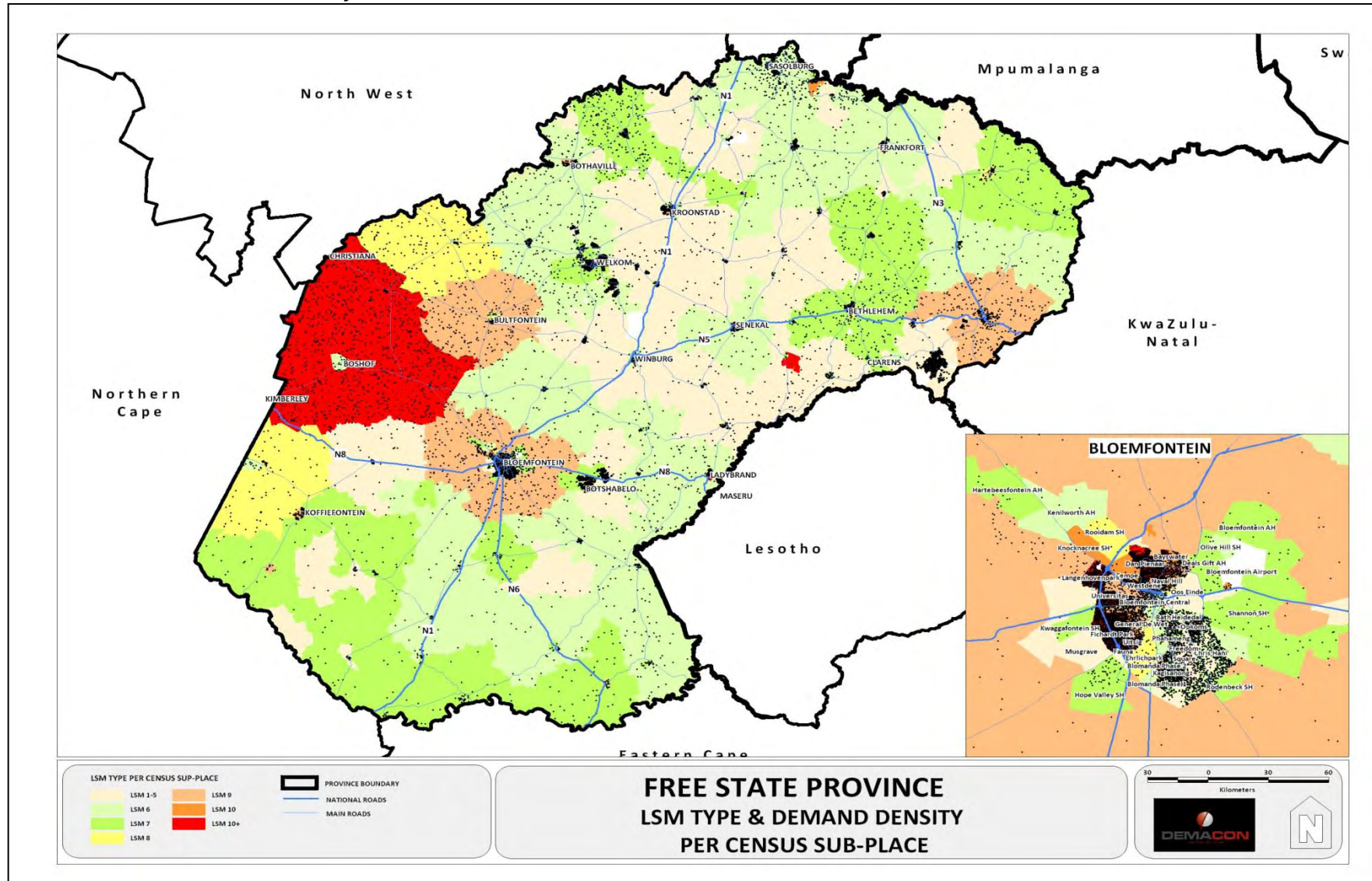
- ✓ Retail Demand Density – A single dot refers to a demand for 100m² of retail GLA (floor space).
- ✓ LSM – shading refers to the LSM classification within each of the provinces.
- ✓ The retail demand density is reflected by census sub-place in terms of the dots, however the exact location of the demand within the sub-place is not indicated.

Map 3.2: Eastern Cape Retail Demand Density and LSM Profile



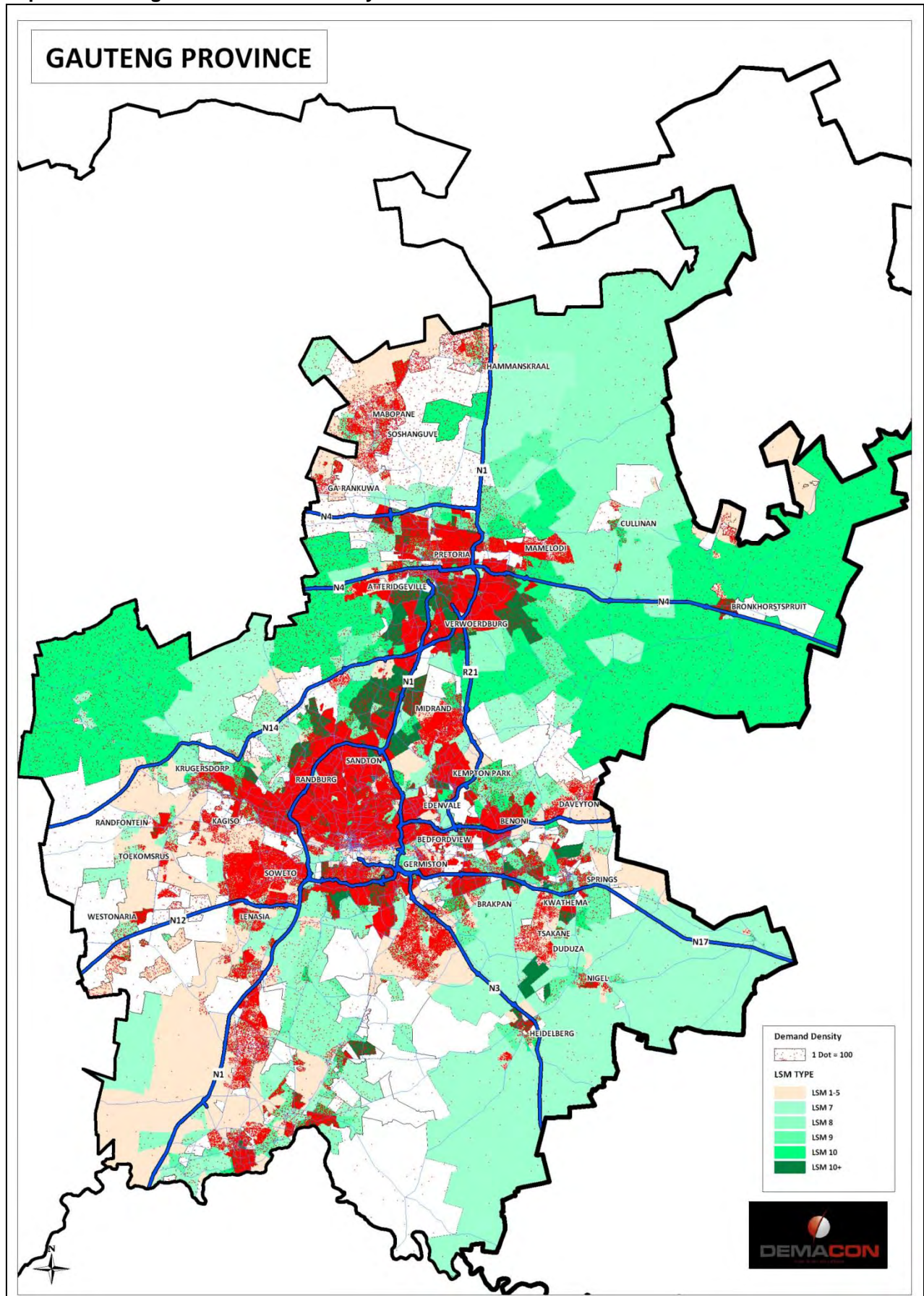
Source: Demacon Ex. Stats SA, 2010

Map 3.3: Free State Retail Demand Density and LSM Profile



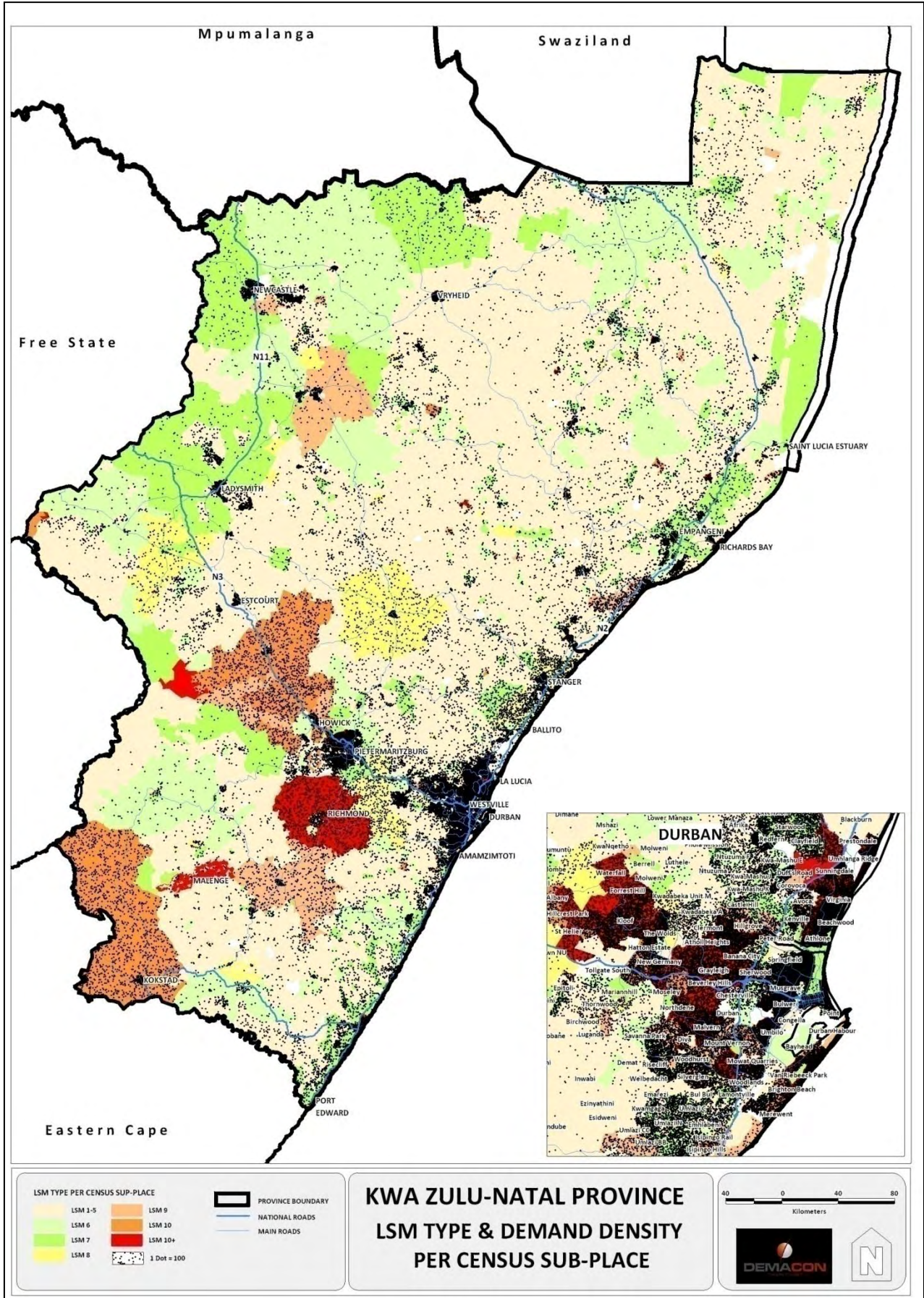
Source: Demacon Ex. Stats SA, 2010

Map 3.4: Gauteng Retail Demand Density and LSM Profile



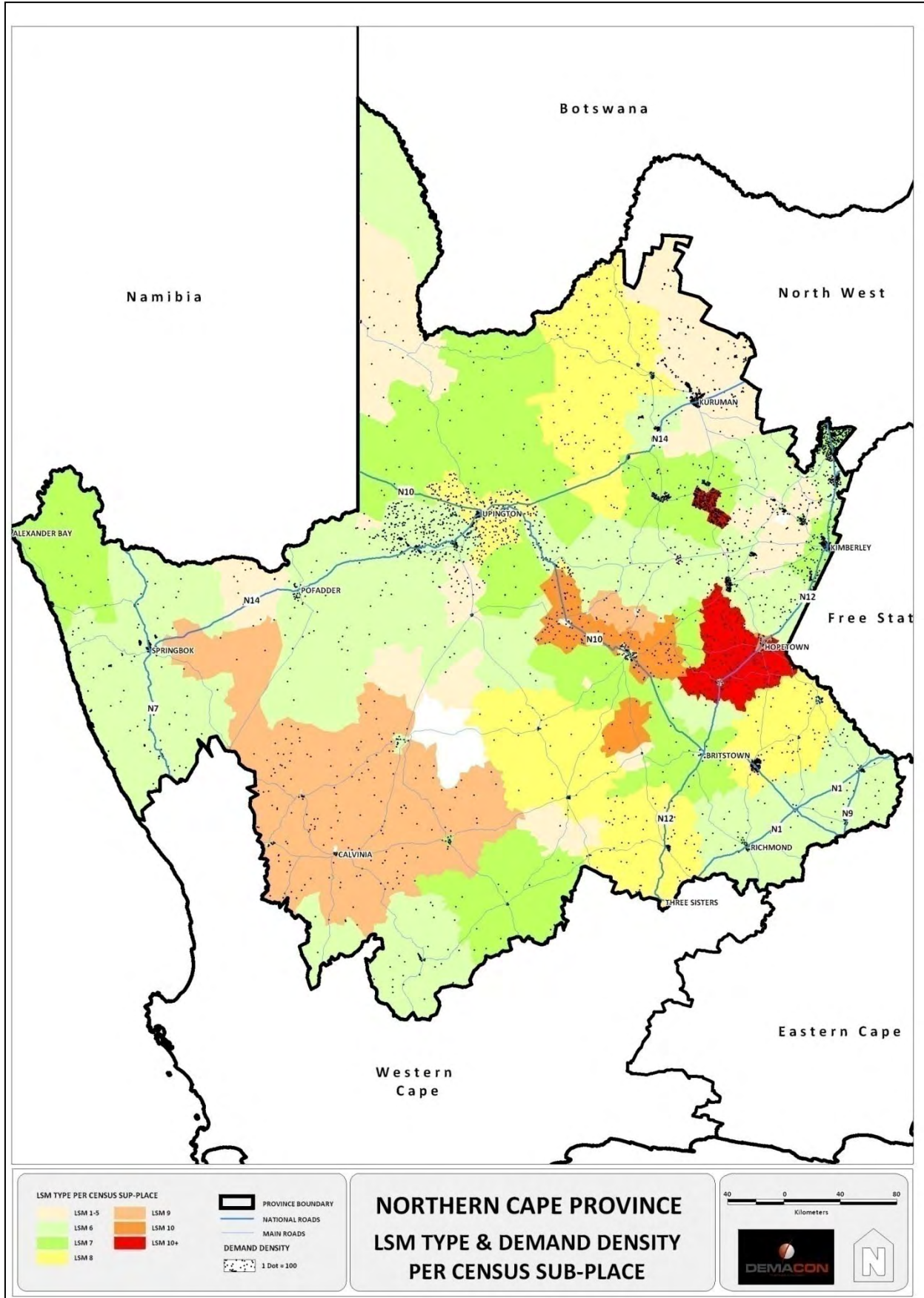
Source: Demacon Ex. Stats SA, 2010

Map 3.5: KZN Retail Demand Density and LSM Profile



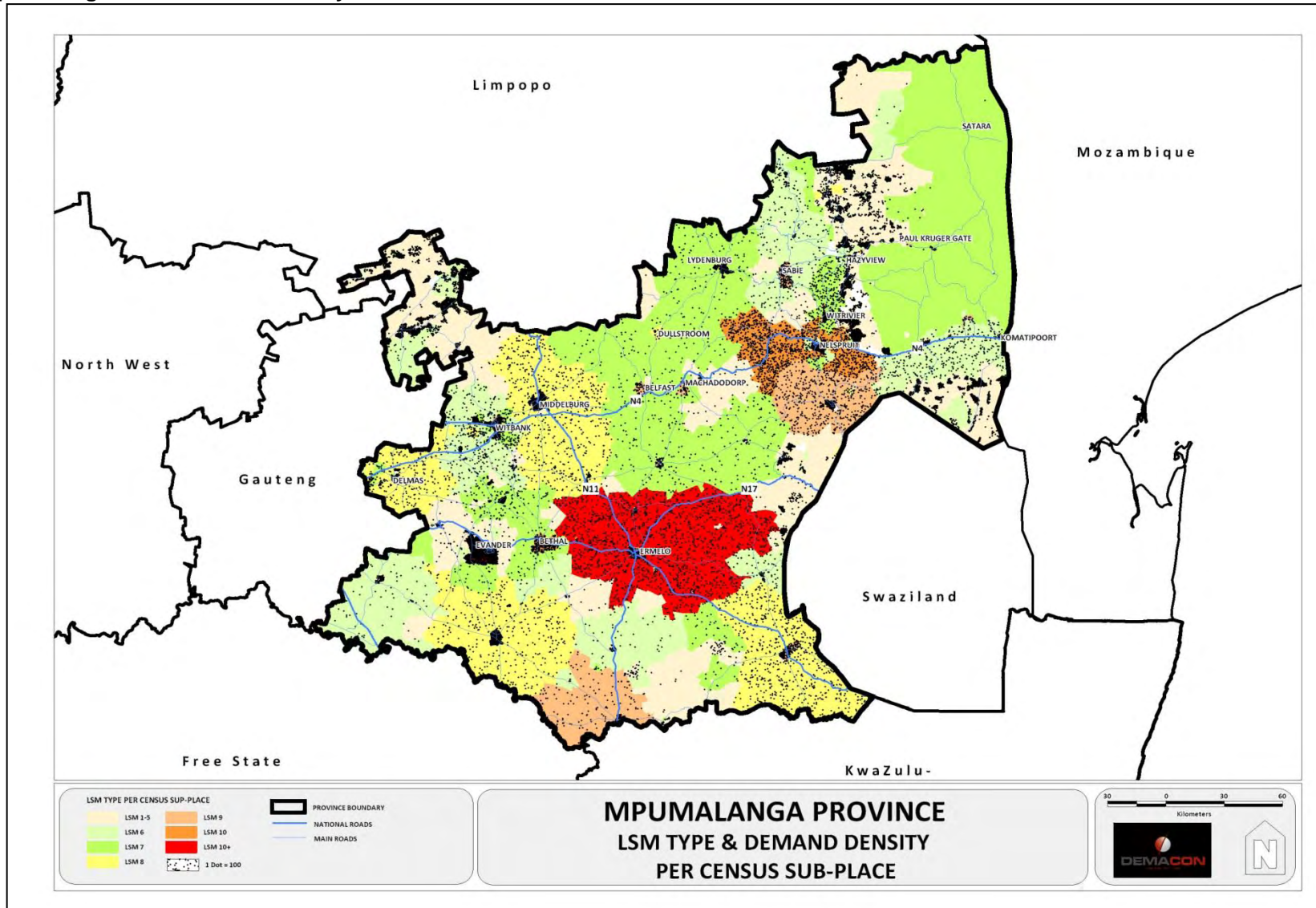
Source: Demacon Ex. Stats SA, 2010

Map 3.6: Northern Cape Retail Demand Density and LSM Profile



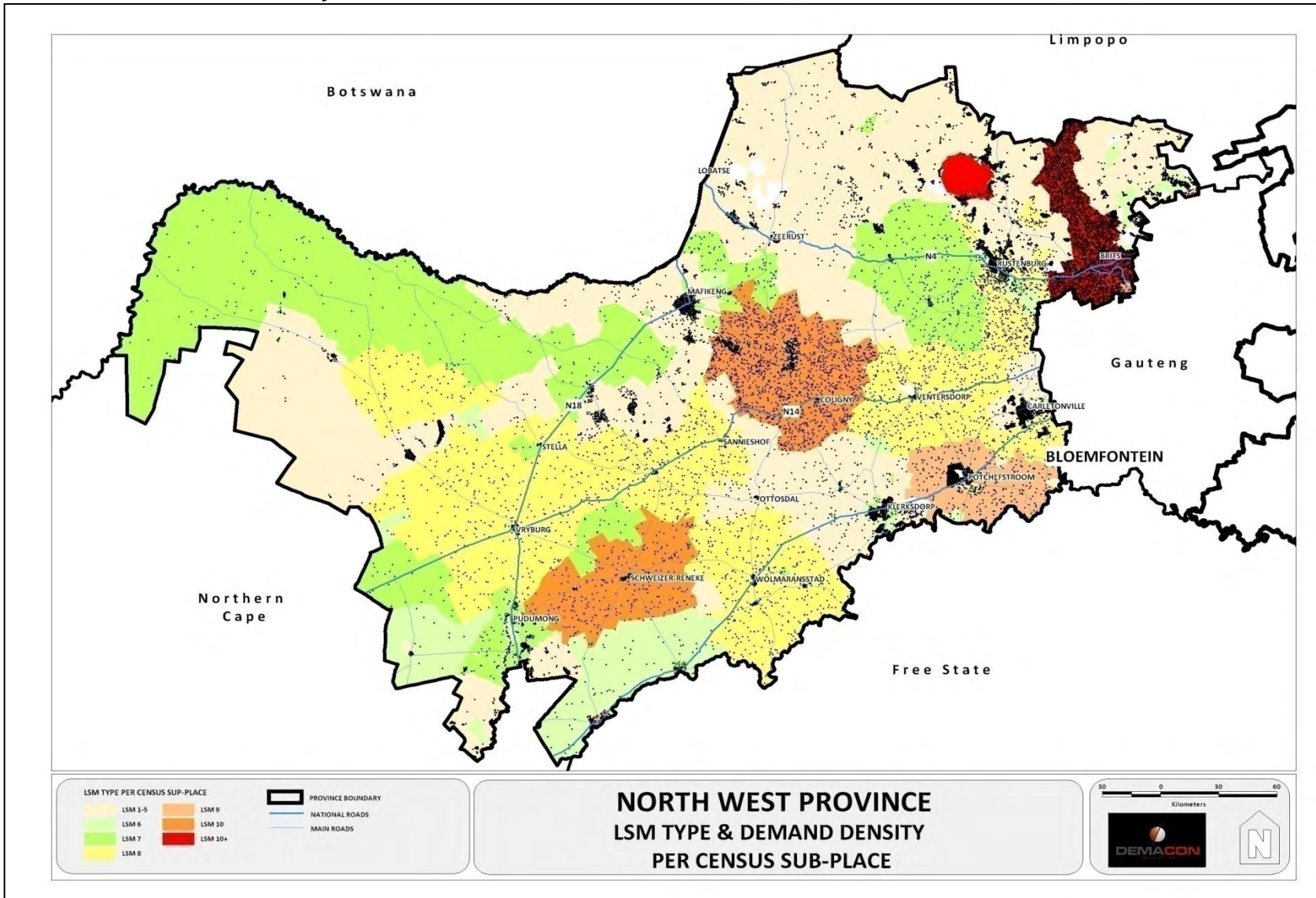
Source: Demacon Ex. Stats SA, 2010

Map 3.8: Mpumalanga Retail Demand Density and LSM Profile



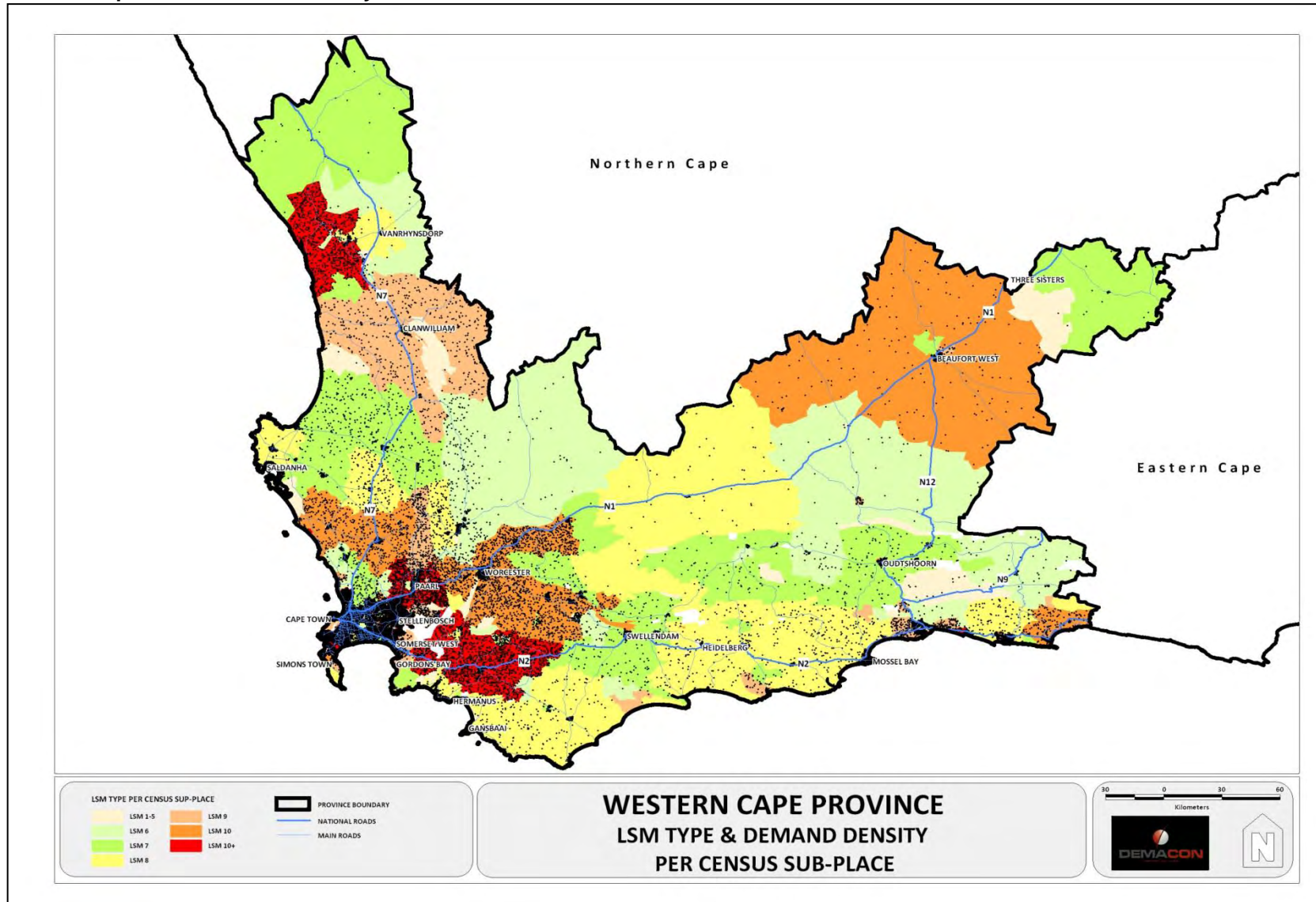
Source: Demacon Ex. Stats SA, 2010

Map 3.9: North West Retail Demand Density and LSM Profile



Source: Demacon Ex. Stats SA, 2010

Map 3.10: Western Cape Retail Demand Density and LSM Profile



Source: Demacon Ex. Stats SA, 2010

It is evident that retail demand density is the highest in dominant economic nodes within the provinces – however, there are also high retail demand densities in other rural and township areas, although these are associated with lower LSM profiles. This reflects scope for retail investment in the majority of provinces.

3.2.2 SOCIAL UPWARD MOBILITY, DEMOGRAPHIC SHIFTS AND MIGRATION TRENDS

- ✓ Large numbers of black South Africans are migrating to higher income groups after the positive economic cycle experienced over the past few years. The shift of large numbers of people up the income scale is creating a change in the country's consumer base. According to Jeremy Stevens (Standard Bank economist), black people make up approximately 59% of the South African middle-income group and 24% of the high-income group. Middle-income households are those earning incomes between R38 401 and R153 600 per annum. He indicated that the growth in income of black people outperformed that of the other population groups over the past few years and it is anticipated that this trend will prevail over the longer term³⁸.
- ✓ Black consumers' choices were changing from being dominated by food, clothing and footwear towards a range of goods including household appliances, vehicles and aspirational assets.
- ✓ The spending patterns of the emerging new consumers differ from the established middle income group due to their asset deficit – the emerging class spends a bigger share of their income on things such as microwaves, tumble driers, cars, education and reading matter.
- ✓ South Africa's 2.6 million 'black diamonds' are likely to grow to 22 million in the next 20 years – according to M. Masito, a University of Cape Town lecturer in marketing³⁹. He said that given the moderate fertility rates of black and white women, the spending power of the black middle class could soon outstrip that of whites. This could be linked to the white fertility rate and high emigration rate.
- ✓ This has taken off in a space of 10 to 15 years – since the end of apartheid in 1994. Since then, the black middle class has been growing at approximately 50% per annum.⁴⁰
- ✓ The black middle class has spending power worth R180 billion a year (excluding access to credit). This represents 28% of South Africa's total spending power. Total black spending power averaged at R335 billion and white spending power at R235 billion⁴¹.
- ✓ Research by UCT also indicates that 47% of the black middle class live in suburbs, as opposed to townships. The remainder live in townships because of social and cultural bonds. They live mainly in brick houses with electricity and running water⁴².
- ✓ Those not residing in townships, however, visit family and friends in townships on a monthly basis.
- ✓ The black middle class earns an average of R6 100 a month, compared with an average of R6 000 for the white population.
- ✓ Overall, black South Africans' average income rose by 180% over the past decade, while that of whites increased by 162%. It is evident that the income gap is closing. The question, however, remains as to whether this is happening fast enough.⁴³

³⁸ Source: Business Report. E.Hazelhurst. November 2007. Rising Black Middle Class is changing the way SA spends.

³⁹ Source: Business Report. E. Hazelhurst. July. 2008. Rising Black Middle Class to hit 22m by 2028.

⁴⁰ Source: Business Report. March. 2006. South Africa hit by black consumer market.

⁴¹ Source: Business Report. E. Hazelhurst. July. 2008. Rising Black Middle Class to hit 22m by 2028.

⁴² Source: Business Report. E. Hazelhurst. July. 2008. Rising Black Middle Class to hit 22m by 2028.

⁴³ Source: Business Day. L.Chilwane. November. 2009. Social Grants explain dip in poverty levels.

3.2.3 ARTIFICIAL EFFECT OF REMITTANCES AND GOVERNMENT GRANTS

- ✓ South Africa's social security system, a major monthly income source for over 12 million people, has been playing an increasingly important role in reducing poverty and inequality in the country since 2000.
- ✓ The latest five yearly income and expenditure survey (IES), released in March 2008, indicates that between 2000 and 2005/6 black households' share of consumption expenditure rose from 42.9% to 44.3%, while white households' share fell from 44.1% to 42.9%. However, it should be noted that the white population fell from 10.1% to 9.2% over the same period and black South Africans increased from 78.3% to 79.4%⁴⁴.
- ✓ Black households increased their share of expenditure in each category except for miscellaneous goods and services.
- ✓ According to the survey the government's social programme was having a significant impact on addressing inequality: if state social security grants were not included in calculating the Gini coefficient, the whole country would be at 0.8 rather than the current 0.72. This impact is also evident when income per capita is compared including and excluding these grants – refer to Figure 3.6. It is evident that the pyramid looks quite different: taking social grants into consideration, Tier 3 consists of six million households, while without social grants, Tier 3 consists of just 4.1 million households. Social grants reduce Tier 4 from 5.3 million households to 4.4 million households.
- ✓ The estimated annual gross income for all SA households in the 2005/6 Income and Expenditure Survey was R929.2 billion of which 64.4% was from work activities – wages and salaries. The remainder was from social grants and other sources of income.
- ✓ The number of South Africans living in poverty decreased from 22.2 million in 2004 to 19.6 million in 2008. Kevin Lebone said that that the decline in poverty could be attributed to the effects of social grants and a drop (until recently) in unemployment.
- ✓ Former Finance Minister Trevor Manuel announced in February 2009 that government's spending on social security would receive a R13.2 billion boost in the 2009 financial year – to provide some measure of protection to poor South Africans during the economic slowdown⁴⁵.
- ✓ The spending on social grants is planned to increase to R80 billion in 2009/2010, and will amount to approximately 12% of total government spending.

*Trevor Manuel said: social transfers were just part of South Africa's war on poverty, and had to be matched by investment in capabilities and opportunities through skills, economic expansion and development of social infrastructure. To fight poverty in a holistic manner, a developmental state must balance growth in social assistance with progress in other fronts.*⁴⁶

Social grants are classified as the following: Child Support Grant (CSG), Care Dependency Grant (CDG), Foster Care Grant (FCG), Disability Grant (DG), Old Age Grant (OAG), War Veteran's Grant (WVG) and Grant in Aid (GIA) – refer to Table 3.2.

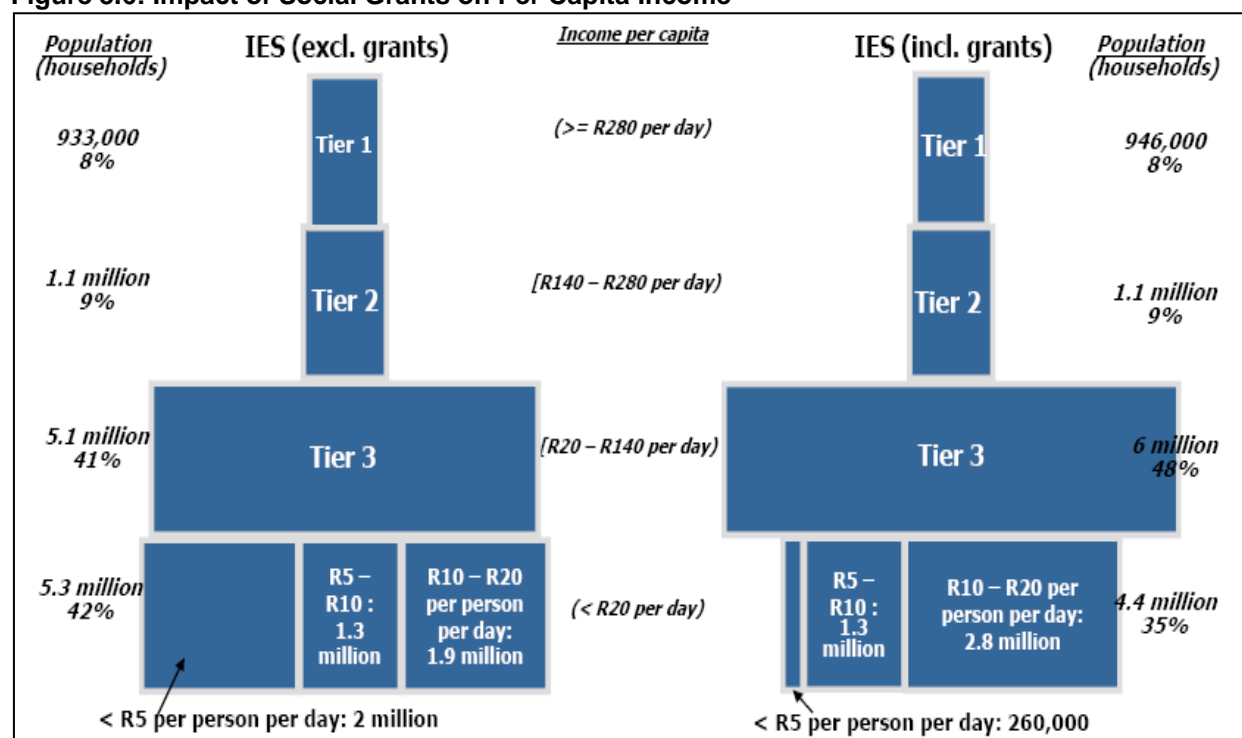
Table 3.2 provides a summary of the total number and growth rate of grant recipients by grant type between 1996 and 2009. The table indicates that, within all the grant types, there was a growth rate of 5.2% in 2008/09 as compared to 2007/08's growth rate of 3.4%.

⁴⁴ Source: www.southafrica.info/about/social. M. Appel. April. 2008. Social grants making impact.

⁴⁵ Source: www.vocfm.co.za. February. 2009. R13.2 million boost for social grants programme.

⁴⁶ Source: www.southafrica.info/about/social. B. Mbola. February. 2008. Social Grant Spending Increased.

Figure 3.6: Impact of Social Grants on Per Capita Income



Source: Demacon Ex. Eighty 20, 2009

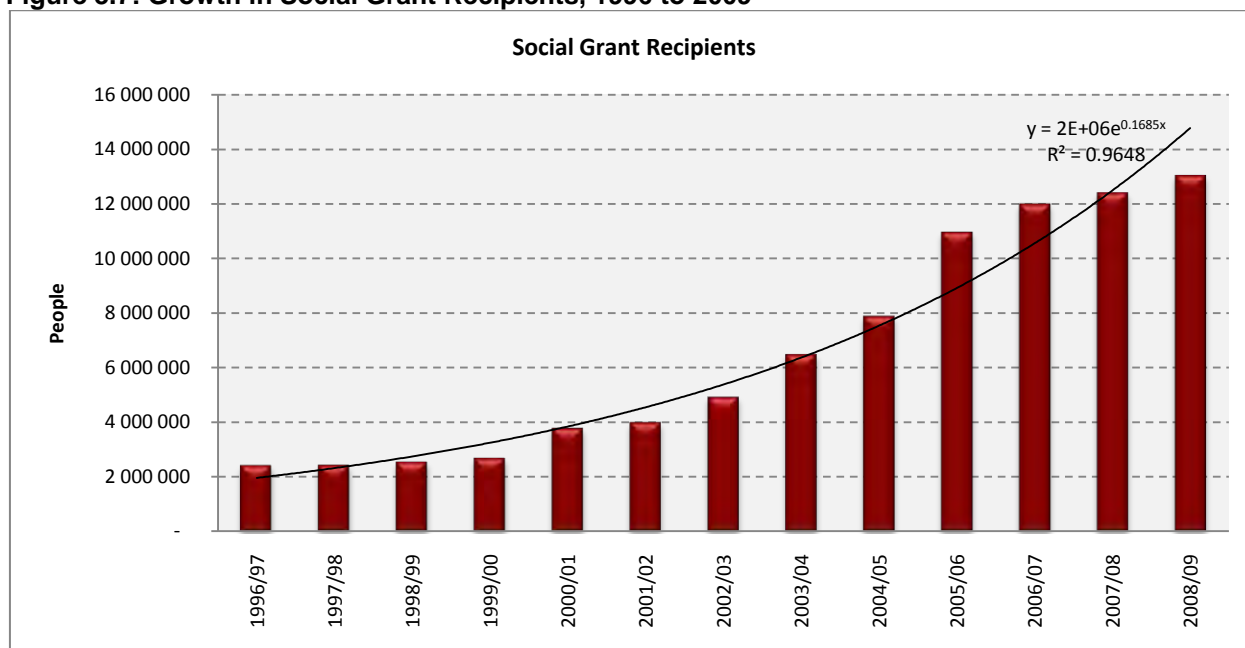
Table 3.2: Total Number and Growth of Grant Recipients by Grant Type

Years	OAG	WVG	DG	FCG	CDG	CSG	Total	Growth Rate
1996/97	1 637 934	13 473	711 629	42 999	2 707		2 408 742	
1997/98	1 697 725	10 525	660 528	43 520	8 172		2 420 470	0.50%
1998/99	1 812 695	9 197	633 778	46 496	16 835	21 997	2 540 998	5.00%
1999/00	1 848 726	7 908	607 537	49 843	22 789	150 366	2 687 169	5.80%
2000/01	1 900 406	5 617	655 822	66 967	33 574	1 111 612	3 773 998	40.40%
2001/02	1 903 042	5 336	694 232	67 817	34 978	1 277 396	3 982 801	5.50%
2002/03	1 943 348	4 638	840 424	83 574	42 355	1 998 936	4 913 275	23.40%
2003/04	2 050 572	3 996	1 228 231	120 571	76 494	2 996 723	6 476 587	31.80%
2004/05	2 124 984	2 963	1 293 280	195 454	86 917	4 165 545	7 869 143	21.50%
2005/06	2 146 344	2 817	1 315 143	317 434	90 112	7 075 266	10 947 116	39.10%
2006/07	2 195 018	2 340	1 422 808	400 503	98 631	7 863 841	11 983 141	9.50%
2007/08	2 229 550	1 924	1 408 456	454 199	102 292	8 189 975	12 386 396	3.40%
2008/09	2 390 543	1 500	1 286 883	474 759	107 065	8 765 354	13 026 104	5.20%
% growth (average annual)	3.20%	-16.40%	5.90%	23.90%	44.30%	147.53%		15.92%

Source: Demacon Ex. SASSA, 2008/2009. Annual Statistical Report on Social Grants

However, from 1996/07 to 2008/09 there was high annual average growth rate experienced within the Child Support Grant at 147.53%, Care Dependency Grant at 44.30% and Foster Care Grant at 23.90%. The negative annual average growth rate was only experienced on the War Veteran Grant at -16.40%. The data suggest that there has been a significant increase in the number of grant recipients – this is also illustrated graphically in Figure 3.7.

Figure 3.7: Growth in Social Grant Recipients, 1996 to 2009



Source: Demacon Ex. SASSA, 2008/2009. Annual Statistical Report on Social Grants

Table 3.3: Social Grant Recipients by Province as at March 2009

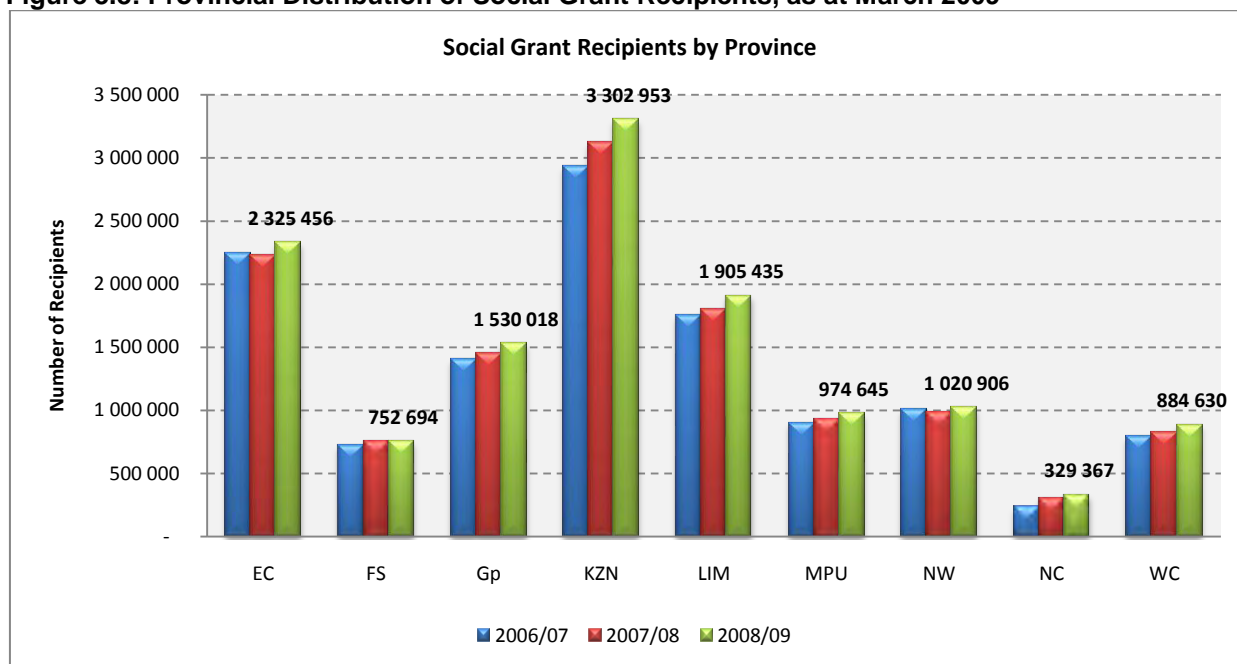
Region	Grant Type							Total		
	OAG	WVG	DG	GIA	FCG	CDG	CSG	2006/07	2007/08	2008/09
EC	448 436	198	209 520	5 572	83 403	19 297	1 564 602	2 244 303	2 228 201	2 325 456
FS	144 517	37	91 899	762	44 270	4 228	467 743	723 698	752 763	752 694
GP	299 416	416	134 601	716	59 767	12 834	1 022 984	1 406 445	1 450 009	1 530 018
KZN	494 048	182	369 496	18 605	124 941	32 040	2 282 246	2 931 722	3 119 502	3 302 953
LIM	373 333	138	109 992	5 726	51 306	12 353	1 358 313	1 751 512	1 802 325	1 905 435
MPU	158 060	61	82 922	976	27 041	5 617	690 944	901 386	924 958	974 645
NW	205 720	40	103 787	2 069	40 606	8 946	661 807	1 001 629	982 904	1 020 906
NC	53 351	64	46 681	3 267	15 094	3 790	200 387	232 102	303 974	329 367
WC	193 662	364	137 985	7 376	28 331	7 960	516 328	790 344	821 760	884 630
Total	2 390 543	1 500	1 286 883	46 069	474 759	107 065	8 765 354	11 983 141	12 386 396	13 026 104

Source: Demacon Ex. SASSA, 2008/2009. Annual Statistical Report on Social Grants

Table 3.3 provides a summary of social grants by grant type and region. The table shows that a total of 13 026 104 South Africans benefited from the social grants as at 31 March 2009. KZN has the highest number of grants followed by the Eastern Cape and Limpopo regions respectively. Amongst all the regions, the Northern Cape has the lowest number of grants. This is also illustrated graphically by means of Figure 3.8.

The data suggest that more intervention is needed mostly in rural regions. The information also suggests that the lowest number of grant recipients could be as a result of the lower population in these areas.

Figure 3.8: Provincial Distribution of Social Grant Recipients, as at March 2009



Source: Demacon Ex. SASSA, 2008/2009. Annual Statistical Report on Social Grants

3.2.4 CONSUMER PREFERENCES, NEEDS AND EXPECTATIONS

- ✓ Shopper expectations and demands have changed, especially as far as convenience, variety and shopping experience are concerned. Customers are far less predictable and much better informed than in the past.
- ✓ Changing lifestyles have resulted in higher frequency visits to retail centres and smaller shopping baskets per visit. This has resulted in higher demand for, and greater variety of, convenience centres.
- ✓ Consumers are also increasingly seeking a shopping ‘experience’. Centres are required to provide for good quality public space and ease of movement, whilst providing meeting places for relaxation such as coffee shops and restaurants⁴⁷.
- ✓ With emphasis on the emerging black middle class, it is evident that retail purchases are directed towards non-durable goods such as microwaves, tumble driers, cars, education and reading matter.
- ✓ As evident from retail centre tenant performance, there is a strong preference for stores offering credit and restaurants with liquor licenses – despite the nature and affordability of these outlets and restaurants.

3.3 SYNTHESIS

The following dominant trends prevail in the national consumer market landscape (the demand side of the retail market):

- ✓ The economic pyramid reflects high levels of poverty at the bottom tiers of the pyramid – 18.2 million people live on less than R20/day.
- ✓ However, since 2000 there has been a significant upward movement in per capita income and a movement upward through the tiers of the pyramid.
- ✓ The higher tiers of the pyramid have become racially diverse – however, the lower tiers are largely represented by blacks, coloureds and Asians.

⁴⁷ Source: Urban studies. Dr D.A. Prinsloo. 2009. Retail Trends in a Very Dynamic South African Market.

- ✓ Since 2000 there has been an upward movement of blacks in terms of per capita income and in terms of the higher tiers of the economic pyramid. It is anticipated that this rising black middle income segment will increase to approximately 22 million over the next twenty years. This market segment has a strong drive towards household appliances, vehicles and aspirational assets. A comparatively large portion (47%) of this market segment resides in white suburbs but maintains strong linkages with the townships. The income of African blacks has increased by 180% over the past decade.
- ✓ In terms of LSM trends, significant growth has taken place within LSM 5 and 6 brackets and a significant decline took place within the lower LSM 1 to 3 brackets.
- ✓ The LSM profiles are also strongly related to the rural character of a province – stronger rural characters reflect lower LSM profiles, stronger urban characters reflect higher LSM profiles.
- ✓ Untapped retail demand exists in rural and township areas in the various provinces, as is evident from retail demand densities, although against lower LSM profiles.
- ✓ Nationally, there exists a strong reliance on social grants to reduce the impact of poverty – with the emphasis being on the bottom tiers of the economic pyramid. The effect of social grants is the upward movement of approximately 0.5 million households from the bottom tier to a higher tier. The strongest reliance on social grants is in KZN, Eastern Cape, Limpopo, Gauteng and North West.

It is evident that the consumer landscape has improved nationally over the past few years – with the emphasis on the emerging black middle class. This has resulted in an upward movement along the national LSM profile, reflecting higher levels of retail demand within these previous disenfranchised areas. This positive trend, supported by the impact of social grants, has increased the financial stability within these consumer environments (appearing less vulnerable to economic changes).

Consumers have changed – they are becoming more informed about retail products and services and are less predictable. Changing lifestyles are resulting in changing expenditure patterns with consumers showing a tendency towards higher frequency convenience shopping and purchasing more non-durable goods. Consumers are demanding a shopping experience rather than just a centre which provides the basic essentials.

As retail development escalates in these second economy areas, developers are faced with the effort of refining their products to meet the demands of this changing and maturing market segment.

The subsequent chapter provides more emphasis on retail development in these areas over time.