



SHOPPER INSIGHTS:

CONSUMER SPENDING & TRENDS

SA CONSUMERS SET TO FACE FURTHER FOOD PRICE PRESSURE

- Food inflation is set to increase in the short term due to various macro-economic indicators, which means that South African consumers can expect further food price increases.
- The average 'thrifty, healthy food basket' for April 2019 cost R2 524/month for a family of four, and R814/month for a single adult male household.
 - The same basket for a family of four cost R1 843/month in 2013.
- The increase in food inflation from 2018 to 2019 was projected to be 5%, while a further 6% was expected between 2019 and 2020, bringing the basket up to a projected cost of R2 655/month in 2020.
- Foodstuffs containing animal protein made up the largest proportion of the thrifty food basket at 30%, followed by vegetables at 19%, starch-rich staple foods at 17,9%, liquid dairy at 13,3%, and fruit at 8,7%.
- To be able to afford the thrifty food basket in April this year, a household of four people required a monthly income of R7 212/month, if 35% of total expenditure was allocated to food.
- The main driver of staple food inflation for the coming year would be maize meal, with prices expected to increase 11%.



Real consumer spending was growing faster than real per capita income, which meant people were incurring debt to finance household expenses.

BASKET PRICE COMPARISON



The Household Affordability Index index tracks two baskets of foods – being a basic food basket needed for a family to survive, as well as a nutritionally complete food basket, which contains the foods needed for family to gain all the nutrients they need to lead healthy lives.

- The essential food basket has increased by 3.6% over the last year, totalling R1,289.89 in September 2019, with increases largely limited due to the zero-rating of VAT for many essential products
- The complete food basket increased by 3.5% to R3,127.21.
- Price changes in the the food basket were mixed, ranging between decreases of 27% (for carrots) to increases of 37% (for tomatoes).
- The average wage in South Africa is R3,300 a month, and this has to support four people.
- A nutritionally complete basket of food for a family of four comes to R2,327.17 a month, leaving very little (R973) for other costs, such as transport, basic insurance, education, clothing, school fees, etc.
- 56% of South Africans (30.4 million people) currently live below the upper-bound poverty line of R1,227 a month, with a quarter (25.2% or 13.8 million) living on even less (R561 a month).

SHOPPER UPDATE

Spend per trip now averaging at R210

Consumers limiting the number of trips, to 60 trips a year on average, and the top-up shop that used to be twice or three times a week has dropped to once every two weeks.

The repertoire or number of stores that consumers visit has increased to 4.9 retailers a year. Consumers are extremely price conscious - seek out deals and are more prepared to shop around

Shift towards modern branded retail outlets away from independent retail within the LSM 1-6 market. This could be due to more stores available & competitive pricing.

Higher LSM groups are increasing their spend in independent retail; going to branded retail for their big monthly shops and utilising independent retail outlets to do their more frequent top-up shopping

There is a move towards consumers spending more on dry groceries and perishables with staples remaining stable. The highest amount of spend is happening in frozen chicken and ready to eat cereals, sugar and UHT milk (a long-term trend) and canned meat.

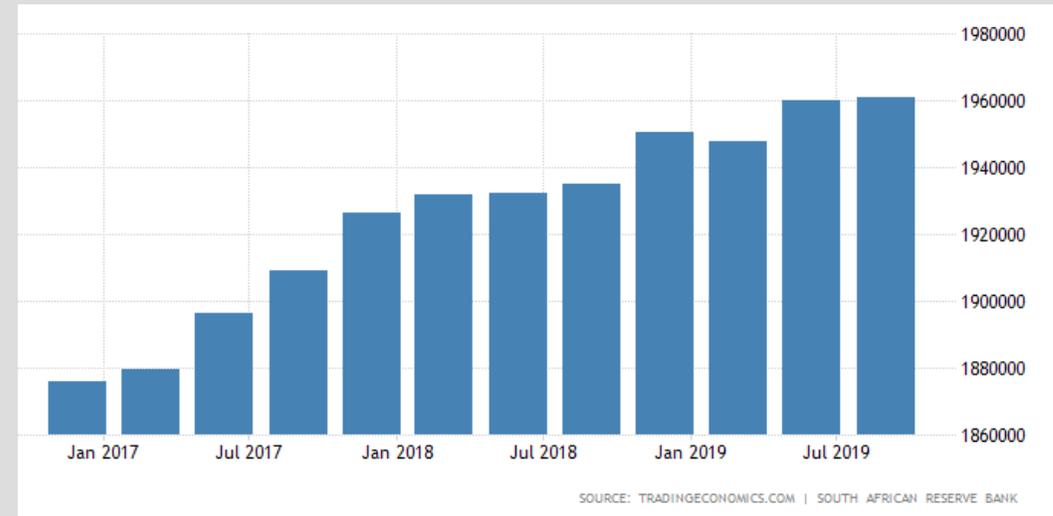
Categories that have experienced the biggest declines are Household/Cleaning Goods by 6% which are no longer seen as a necessity, and Beverages by 6%, with Carbonated Soft Drinks (CSDs) experiencing particularly negative performance.

To counter these trying times, retailers need to ensure they have the right composition of goods for their shoppers, at the right price given that positive price perception is extremely important for future success.



'It's no secret that South African consumers are experiencing a severe wallet squeeze thanks to a raft of rising costs including spiralling petrol and electricity prices, the implementation of sugar tax and a VAT increase to 15%. The effect that this has had on consumer behaviour is profound and we're now clearly seeing shoppers jumping out of some categories and consolidating their spend.'

- Nielsen CPG Client Service Director Kelly Arnold



Consumer Spending in South Africa increased to 1961051 ZAR Million in the third quarter of 2019 from 1960080 ZAR Million in the second quarter of 2019

SOURCE: NIELSEN

SHOPPER PROMOTIONS

South Africa is home to a nation of promotion obsessed shoppers.

Consumers, in their desire to ease their financial strain, are **cutting back on their discretionary spending**, which in turn has taken a toll on their grocery baskets.

75% of South Africans claimed to know the prices of grocery items they regularly buy and notice changes in price, versus 69% in 2018

Despite ongoing, relatively low inflation rates and improving consumer confidence; **fixed expenses like the spiraling price of petrol, taxes, and utilities have placed a massive strain on essential living costs**

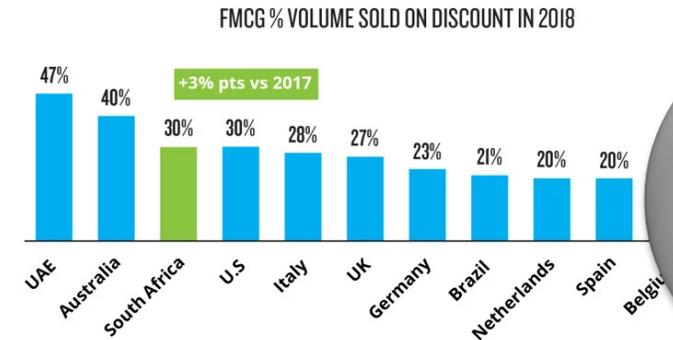
22% of South Africans state that they change stores based on the best promotions on offer. Similarly, more consumers (34%) claim to actively search for discounts in-store even if they don't change stores.

A DELUGE OF DISCOUNTS

The intensity of promotions within the local retail market becomes apparent when one considers that in 2018, 30% of the total volume of FMCG products in South Africa was sold at a discounted price, up from 27% in 2017

Unfortunately, this 'money's too tight to mention' scenario has also seen South African shoppers prone to severe cases of Promo FOMO. The danger with this is that for manufacturers and retailers alike promotions can be a double-edged sword. They bring consumers into the store and result in temporary lifts in brand sales but the long-term impact of promotions is more severe and can lead to loss of brand and store equity.

OBSESSION WITH PROMOTIONS IN SOUTH AFRICA



Nielsen studies found that the most successful promotions provided deeper discounts rather than more frequent

Source: Nielsen Price and Promotion Studies

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ONE STRATEGY DOES NOT FIT ALL

While balancing depth of promotions vis a vis frequency of promotions can deliver efficiencies up to a certain extent, not all items are equally responsive to promotions. Pricing strategies need to be tailored to ensure the right categories and products are positioned at the right price. Products need to be treated individually, as consumers display different sensitivities to everyday price increases and promotions on different items

REACHING THE SOUTH AFRICAN CONSUMER

- Perception of the **price to quality ratio is extremely important** to SA consumers and generally plays a key role in the purchase decision
- Purchases are increasingly made at discounters or using different channels. **Modern retailers are no longer preferred** to small traders and informal traders.
- According to an EM study, **72% of consumers use comparison sites** to find the lowest prices.
- Internet penetration has been rising in recent years and this is reflected in the evolution of online sales. The EM also revealed that lower prices and **free deliveries would encourage consumers to buy on the internet.**
- Consumers tend to be **loyal to brands, only if the price charged by the company is right.** About three-quarters of South Africans have changed their favourite brand habits to access more accessible products
- The second-hand market is growing in the country, and it is estimated that **15% of the South African population sells used online products** (fashion items, phones, DVDs, CDs, books and electronics), and this figure is increasing



The adoption of a more responsible mode of consumption is under development, driven by consumers wanting to reduce their spending. First, **cocooning is developing, entertainment is increasingly at home rather than in shopping malls, clubs and other establishments.** This is also the consequence of rising fears for personal safety. **Inexpensive Experiences** like going to the beach are increasingly preferred to material goods as are listening to music or watching sports events on TV.

GLOBAL CONSUMER TRENDS FOR 2020



SOURCE: BIZCOMMUNITY

1. BEYOND HUMAN:

Artificial intelligence is becoming mainstream. Consumers are embracing AI for convenience, and businesses are integrating this technology to automise operations and deliver personalised solutions.

2. CATCH ME IN SECONDS: With the amount of information readily available, capturing consumer attention requires concise, relevant and multisensory content that can be processed in an instant.

3. INCLUSIVE FOR ALL:

Authenticity and inclusivity are in the spotlight. Brands are reframing their products and services to be accessible to everyone. Diversity will become a measure of brand relevance.

4. PRIVATE PERSONALISATION:

Consumers want tailored experiences but are concerned about the collection and sharing of personal data. Consumers will likely opt out of digitally manufactured experiences that do not add value.

5. REUSE REVOLUTIONARIES:

Ethical consumers are looking for alternatives to single-use products to reduce environmental footprint and waste. New circular business models aim to offer more with less through sharing, reusing, refilling and renting.

6. PROUDLY LOCAL:

Consumers are returning to their roots. Niche brands start their global route to success by accentuating their local credentials. Multinationals are becoming more sophisticated in shaping their products to local culture.

GROCERY TRENDS 2020

CONVENIENCE FOODS

Expect much more than ready-made sandwiches and rotisserie chicken. We'll see healthier and more diverse to-go meals, such as single-serve refrigerated snacks, like hard-boiled eggs with savory toppings, pickled vegetables and drinkable soups..

PLANT-BASED FOODS

Proteins from plants are a culinary trend and grocers are taking notice. Dole Food, for example, says it is adding plant-based proteins to salad kits for "a more satiating salad that eats like a meal."

MEAT-VEGETABLE BLENDS

People who eat mostly vegetables yet enjoy some beef and fish may be intrigued by products blending ground meat with mushrooms and other vegetables, lowering fat, cholesterol and even prices.

FOOD STORIES

Consumers like learning "the story" behind foods, to discern if products they buy align with their values. Food makers think you'll trust a brand if you learn about its benefits and production. They are focusing, for example, on products' taste, uniqueness and sustainability efforts, their origins and how they are used traditionally.

REGENERATIVE AGRICULTURE

We want our food to support farming and grazing practices that restore degraded soil, improve biodiversity and increase carbon capture for long-lasting environmental benefits. Grass-fed beef exemplifies this trend.

MASHUPS

Products that experiment by crossing cultures offer consumers a low-key adventure and a chance to sample new flavors. This trend embraces hybrid flavors, category fusions and mixed taste profiles — doughnut ice cream cones and cold brew lattes, for a couple of examples.

INDULGENCES

Indulgent sweets give consumers a momentary escape from our always-on, busy lifestyles, says Dawn Foods. Treats can help elevate your mood or offer a moment of relaxation.

CBD PRODUCTS

Hemp-derived CBD-infused products are spreading to retailers across the country.

ZERO-WASTE COOKING

The environmental impact of food (or "foodprints") will sway more purchases as consumers become aware that 570,000 tons of fresh, useable meat and poultry products are thrown away every year globally. Discarded products can be used in sustainable and creative ways.

NO-ALCOHOL DISTILLED DRINKS

"Zero-proof" cocktail alternatives re-create classic cocktail flavors using distilling methods typically reserved for alcohol, says Whole Foods. They're often used with mixers.

GLOBAL TASTES

Ethnic foods from around the world are gaining favor, particularly with younger folks who enjoy street foods

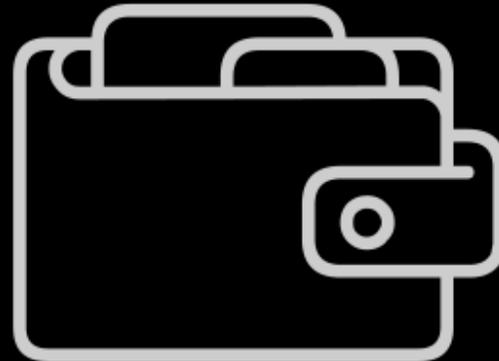
TRACKING OUR HABITS

Supermarkets are tracking your shopping habits more than ever before. Loyalty programs already serve up promotions and coupons based on buying history, online behavior and more.

SUMMARY



Shoppers are experiencing the wallet squeeze, with basket size at R210 and number of shopping trips made dwindling. Shoppers are changing how the shop – a shift towards modern branded retailers, and spending more on dry perishable goods.



South Africans are price sensitive and promotions obsessed. Brands need to be wary of creating price sensitivity due to too frequent promotions.



Key grocery trends include convenience based meals, cutting back on waste, innovative mashups and global flavour influences