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To spend or not to spend, *that* is the question - an analysis of the retail sector in South Africa

The FinScope™ 2006 survey of South Africa's financial habits reveals that, for a significant portion of the adult population, buying anything other than everyday necessities is rare, fuelling the argument that conspicuous spending is supported by only a niche segment within our society.

Contextualising the landscape

The retail landscape in South Africa must be understood in the context of the state of the nation as a whole. Black South Africans comprise the majority of the nation over 16 years old, numbering around 23,9 million. Whites are the next largest racial group (3,4 million), followed by coloureds (2,9 million) and Indians/Asians (less than one million).

Employment is one of the most important issues facing South Africans and an area where the divide between the race groups is most obvious. As the retail sector is dependent on disposable income, any change in the employment status quo will have major repercussions for retailers.

Firstly, the *happily unemployed* account for about one-third (32%) of people over 16 years of age. These individuals are either studying, retired, unemployed but not seeking employment, or housewives/househusbands. In contrast, the *unhappily unemployed*, that is those who seek employment, account for about 29% of adults. Accounting for the remainder, 27% are employed in the formal sector, with 13% being supported by informal employment.

The median household income is R2 250. The median income per race group is as follows:

- Black - R1 950
- White - R12 750
- Coloured - R3 400
- Indian/Asian - R5 850

This brings into stark reality the divide between the relatively rich and poor residing in South Africa. Around 500 000 black South Africans claim to have no household income at all. Around half of South Africans (51%) are formally banked.

The retail mindset

Many people lack knowledge about financial management. When asked on what topics they would desire education or information, the following were mentioned: *how interest rates work and are calculated* (33%), *how to draw up and manage a budget effectively* (34%) and *how to work out how much credit you can afford* (23%). Therefore, a great propensity for financial mismanagement exists.

This is reflected in the fact that 27% of people agree with the statement that *furniture, food and clothing stores give too much credit, resulting in financial trouble*.

Store and loyalty cards

Twenty percent of South African residents have a store or loyalty card of some kind. This is down from the figure of 23% recorded in 2005. White consumers have a much higher percentage of these cards (42%) than their black (15%), coloured (30%) and Indian/Asian (20%) counterparts. Use is concentrated in the 30 - 59 year age bracket and in Gauteng and the Western Cape. The appeal of these offerings appears to be limited, with less than 50% of all LSM 7 - 10 having them.

The most prevalent cards by the total population and by race group are as follows:

	Total %	Black %	White %	Coloured %	Indian/Asian %
Store card where you buy on account and pay later e.g. Edgars, Sales House	18	14	34	25	20
Loyalty card that gives you cash back e.g. Clicks, Edgars Cash Card	4	2	20	7	3
Other club or loyalty cards such as Voyager, Ster Kinekor	1	0	5	3	1
Retail/Hire purchase store account for the purchase of household goods	3	2	4	5	0

When probed as to the reason for not having a retail card of any kind, those who did not possess such a card cited affordability as the main barrier to entry: *unemployed* (39%), *can't afford it* (29%) and *don't have a regular income* (20%). However, respondents claim to have an aversion to debt, with 20% of those without a card saying that they do not desire a store card, and a further 13% claiming that they prefer to use cash. Among white consumers, 43% of those without retail cards claim not to want such a card.

So where is the money going?

The study focused its attention on the purchase of groceries, clothing and large household appliances or items of furniture.

Groceries

According to the survey, some South Africans have never personally bought groceries. Seven percent claim not to have done so. Although this may be expected among young people for whom adults are making purchase decisions, the incidence of not having had this retail experience is surprising among older age groups. The figures are as follows:

- 16 - 17 years - 41%
- 18 - 29 years - 10%
- 30 - 44 years - 3%
- 45- 59 years - 3%
- 60+ years - 4%

Geography is a key predictor of the likelihood of buying groceries, with the incidence of grocery purchase in tribal areas at 89%, possibly due to higher incidence of own produce growth. As one would predict, gender also appears to play a role, with women more likely to have bought groceries, than

men (95% and 90% respectively). This trend for men to be less involved than women in this activity may account for the fact that 14% of Asian/Indian adults have not bought groceries.

When respondents are probed about how groceries are paid for, interesting trends based on race appear. The payment methods used by each race group are outlined below:

	Total %	Black %	White %	Coloured %	Asian/Indian %
Cash	91	92	87	95	85
Debit card	4	2	17	4	1
Credit card	3	1	19	3	2
Vouchers	1	1	1	0	1
Lay-by	1	1	0	1	0
Store credit card	1	1	1	1	1
Cheque	1	0	4	0	0

Whites use formal banking products such as debit and credit cards, most intensively, in line with the fact that they are the most banked of any race group (91%). However, across all race groups, cash is king, with use of debit and credit cards low.

Also worth considering is the strained financial circumstances in which many South Africans find themselves. Asked what would be the primary motivation for taking out a loan or for having taken one out, the number one reason given was to buy food.

Clothing

Ninety-four percent of South African adults claim to have bought clothing. The incidence is lowest among 16 - 17 year olds (74%) for whom other people may buy clothes. For other age groups the percentages are:

- 16 - 17 years - 74%
- 18 - 29 years - 96%
- 30 - 44 years - 96%
- 45- 59 years - 95%
- 60+ years - 91%

Some people therefore must rely on second-hand clothes, or on someone else buying clothing on their behalf. Although the percentages may be low, the actual number of people they represent is not. For example, 9% of adults in tribal areas do not buy clothing, representing almost one million consumers.

Although cash is still the preferred method for buying clothing, use of alternative methods is higher than for grocery shopping. A significant number of consumers use lay-bys and store credit cards. That one in ten buyers of clothing relies on a store credit card to buy clothing emphasises the inroads that these types of products have made into the financial arena and also the future potential in an improved economic environment. Purchase mechanisms by race group are shown below:

	Total %	Black %	White %	Coloured %	Asian/Indian %
Cash	80	81	74	77	90
Lay-by	13	15	4	10	4
Store credit cards, e.g. Edgars	10	9	18	16	12
Store account	6	5	13	8	5
Credit card	3	1	17	3	2
Debit card	2	1	10	2	1

As is evident, lay-bys are used primarily in the black, and to a lesser extent, the coloured markets. The white market is the most likely to delay payment on clothing through the use of credit facilities and store accounts.

Large appliances/furniture

Over half of the adult population has not bought large appliances or furniture. Due to the expense associated with many of these items, incidence of purchase correlates positively with LSM. This data is shown below:

- LSM 1 - 2 - 31%
- LSM 3 - 4 - 40%
- LSM 5 - 6 - 51%
- LSM 7 - 8 - 61%
- LSM 9 - 10 - 75%

The most common methods of payment for large appliances or furniture are shown below:

	Total %	Black %	White %	Coloured %	Asian/Indian %
Cash	21	18	39	23	33
Lay-by	14	16	6	10	6
Instalments	10	10	13	8	11
Store account	7	6	8	8	3
Credit card	3	1	19	3	4
Debit card	1	0	6	2	1
Cheque	1	0	4	0	0

Summary

Retail card penetration of the South African market remains low, with strong indications that South Africa is still mainly a cash-based society. This finding is congruent with a society with a high unemployment rate, as well as low household incomes in many sectors of society. However, that one in ten consumers buy clothing using a store card highlights the dependence of many consumers on this form of credit. Use of credit facilities is highest among the white population, who have the greatest access to banking and credit facilities.

There is an aversion to debt in some sectors, but lack of knowledge on financial matters leads to the hypothesis that money mismanagement is probably not uncommon. With this in mind, and coupled with the fact that many consumers believe that easy access to credit often leads to financial hardship, it is incumbent on the retailers to ensure responsible lending.

FinScope™ was launched in 2003 by the FinMark Trust. It was an attempt to establish credible benchmarks for the use of, and access to, financial services in South Africa. It was designed to highlight opportunities for innovation in products and delivery. The findings in 2003 and subsequent years have identified barriers to access for low income people and provided insights for policymakers, in both the public and private sectors, who wish to remove or reduce the barriers. For more information see: <http://www.finscope.co.za>.

FinScope™ SA 2006, a study to monitor use and perceptions of the financial sector in South Africa, was conducted by Research Surveys, South Africa's leading marketing insights company, on behalf of FinMark Trust and syndicate members. Face-to-face interviews were conducted among 3 894 South African residents aged 16 years and older, between June and August 2006. A nationally representative sample was drawn, which was weighted and benchmarked to the StatsSA 2006 mid-year estimates based on the Census 2001 estimate information.

The 2006 South African syndicate members are: Absa, First National Bank, National Treasury, Nedbank, Standard Bank, the Financial Services Board, Liberty Life, Metropolitan, Sanlam, Teba Bank and Old Mutual.