Global Consumer Insights Survey Pulse 6

Key trends and insights impacting the South African consumer

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Introduction

In a time of rapid technological advancements and shifting economic landscapes, understanding consumer behaviour and market dynamics is important for companies that want to thrive in the South African market.

We present the findings of the Global Consumer Insights Survey Pulse 6, tailored to the unique challenges faced by consumer market companies in South Africa. This publication delves into the impact of key factors such as load-shedding, economic growth, inflation, interest rates, and the unemployment rate, shedding light on their influence on the consumer landscape.

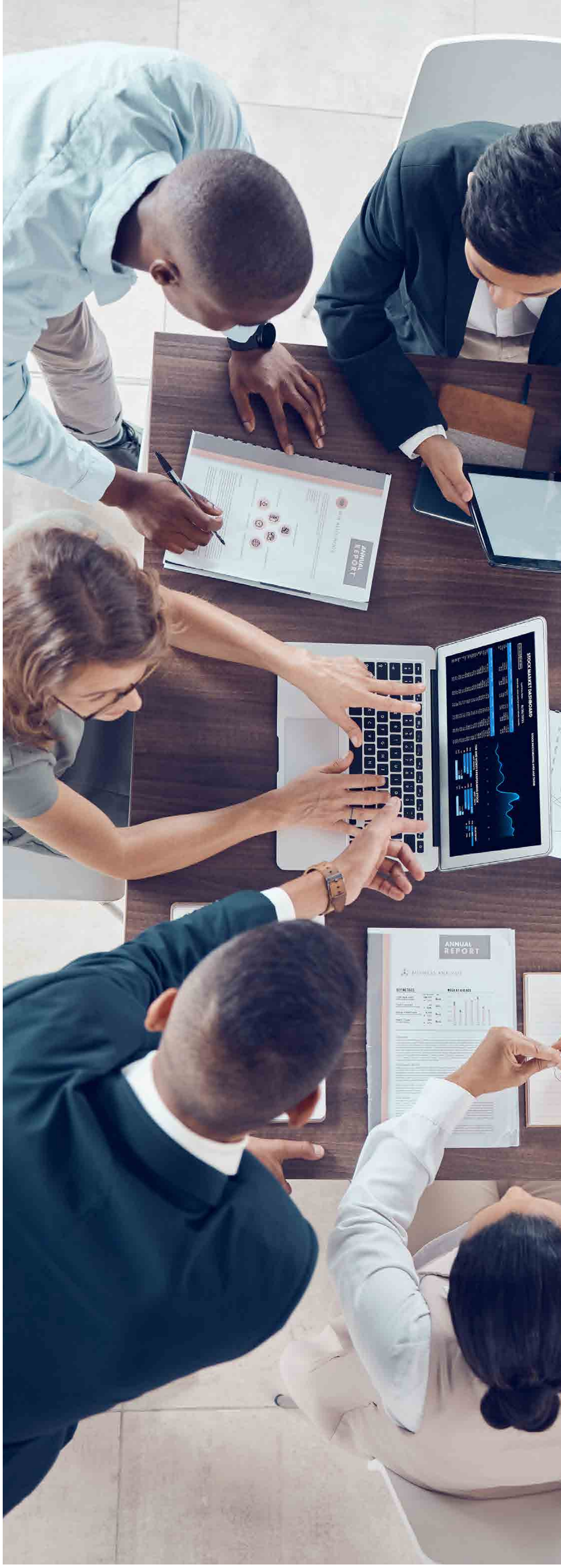
We explore the key trends shaping the behaviour and preferences of South African consumers, including the transformative effects of load-shedding on retailers, the evolving shopping behaviours and channel trends, the rising significance of chatbots and the Metaverse, the direct-to-consumer purchasing revolution, the shifts in spending trends, and the growing emphasis on sustainability considerations.

These localised insights equip businesses with a nuanced understanding of the challenges and opportunities that lie ahead to help them navigate this ever-changing consumer market with confidence.

The Global Consumer Insights Survey is an online survey assessing a global sample via a panel provider. Twenty-five territories participated in the survey and, on average, 500 responses were collected from each territory. Pulse 6 is the latest of the survey series that started with Pulse 1 in November 2020, Pulse 2 in March 2021, Pulse 3 in September 2021, Pulse 4 in March 2022, and Pulse 5 that ran in November 2022.

25 Territories

500 Reponses



Challenges facing consumer market companies in South Africa

Load-shedding

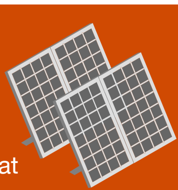
Electricity load-shedding in South Africa has worsened, reaching an average of Stage 4 in 2023 so far, negatively affecting consumer confidence, retail spending, business investments, and international perceptions. The South African Reserve Bank estimates that load-shedding reduced economic growth by 1.4 percentage points in 2022 and forecasts a further loss of two percentage points in 2023.

On a positive note, it appears that the South African economy is growing more resilient towards load-shedding. The recent lower-than-expected impact of power cuts on GDP is being driven by the adaptability of large companies and wealthy households. That, however, tells only part of the story. The other part of the story includes millions of small businesses who have a small impact on GDP but a large impact on employment, food security and community stability. These small businesses are seeing production downtime, increased supply chain costs, reduced operating hours, and increased security risks due to the lights going out.

South Africans have taken the following actions in response to the increased load-shedding in 2023:

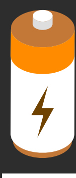
52%
Purchased non-perishable foods/bought smaller pack sizes to ensure groceries do not spoil

51%
Sought out alternative power sources to ensure that they have electricity during load-shedding



Rises to 66% in ages 45-54

50%
Changed the type of products they purchase to those that are less reliant on electricity/last longer



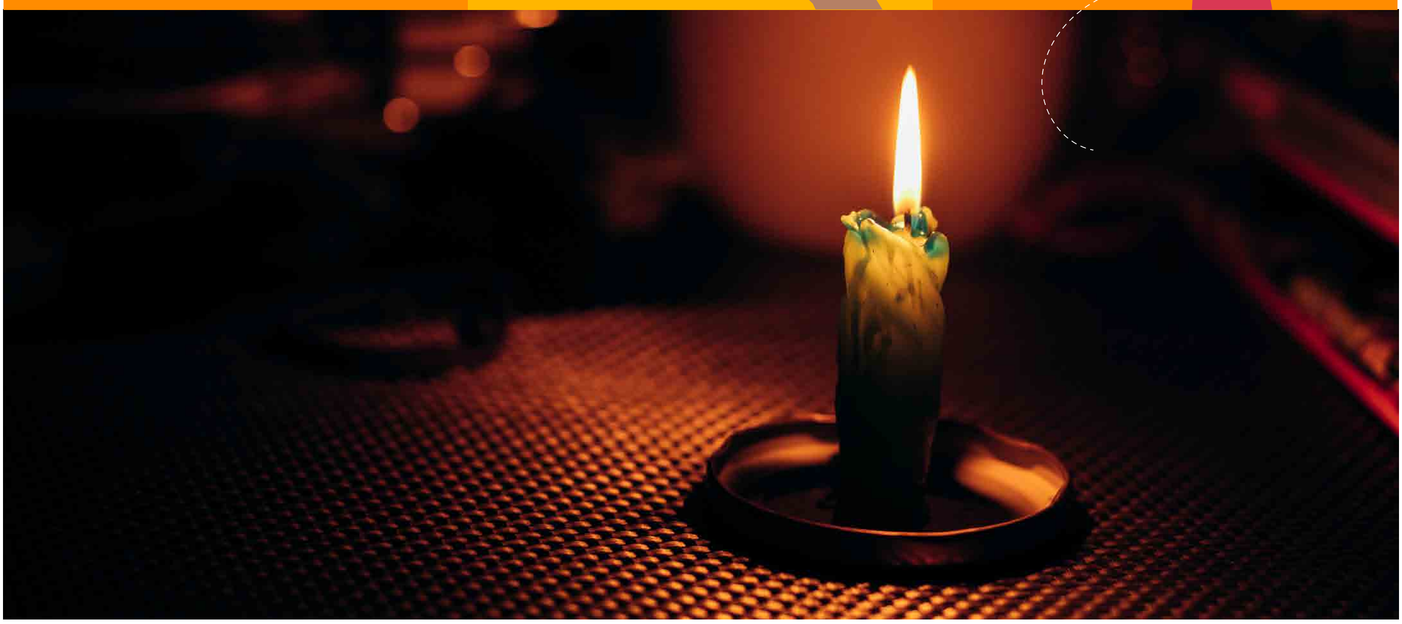
Rises to 57% in ages 25-34

40%
Purchased more takeouts/ bought more convenience food that can be quickly reheated/prepared

Rises to 46% in ages 18-34

31%
Purchased more goods online since going into stores is more difficult during load-shedding hours

7%
None of the above



Economic growth

Statistics South Africa reported in June that the local economy grew by 0.4% q-o-q in 2023Q1, preventing a technical recession after a decline in the previous quarter. However, the reality is that we expect the economy to grow by a meagre 0.3% in 2023, indicating a virtually stagnant economy.

Looking ahead to 2024, there is some optimism based on the expectation of improved power supply. Private investments in alternative energy sources, apart from Eskom, are significant, with a pipeline of 10,000 MW private sector energy generation projects being tracked. This increase from the previous year's 4,000 MW projects is anticipated to positively impact power supply and business operations, leading to a slightly less pessimistic outlook for economic growth in 2024.

Inflation

Consumer price inflation has been above the central bank's 3%-6% target range since May 2022 and was most recently measured at an 11-month low of 6.8% in April 2023. The SARB said in May that risks to the inflation outlook are assessed to the upside. We expect inflation to average 6.1% this year — only 0.8 percentage points down from the 2022 mean.

Interest rates

The central bank has lifted interest rates by a cumulative 475 basis points since November 2021. The SARB estimates that load-shedding will add 0.5 percentage points to inflation this year largely due to the costs (e.g. diesel generators) incurred by businesses to keep the lights on. This has resulted in more interest rate hikes than would have normally been expected were electricity supply more reliable. In other words, South African consumers have experienced additional financial strain in the form of more expensive credit due to the electricity situation. On a positive note, we believe interest rates have likely reached their peak.

Unemployment rate

In 2022, the South African economy added a higher-than-expected 1.39 million jobs — that was a gain of 9.6% in spite of an increase in load-shedding. However, the number of unemployed people in the country was measured at 7.7 million at the start of 2023. Around eight out of ten of these are long-term unemployed, i.e. have been without a job for at least 12 months. Seven out of ten youths (aged 15-24) who are not in high school or tertiary education are unemployed. The number of discouraged workers (people who are willing and able to work but have given up on finding a job) are now more than 3.2 million.

Global Consumer Insights Survey trends

Key trends

1. Load–shedding has changed the landscape for retailers

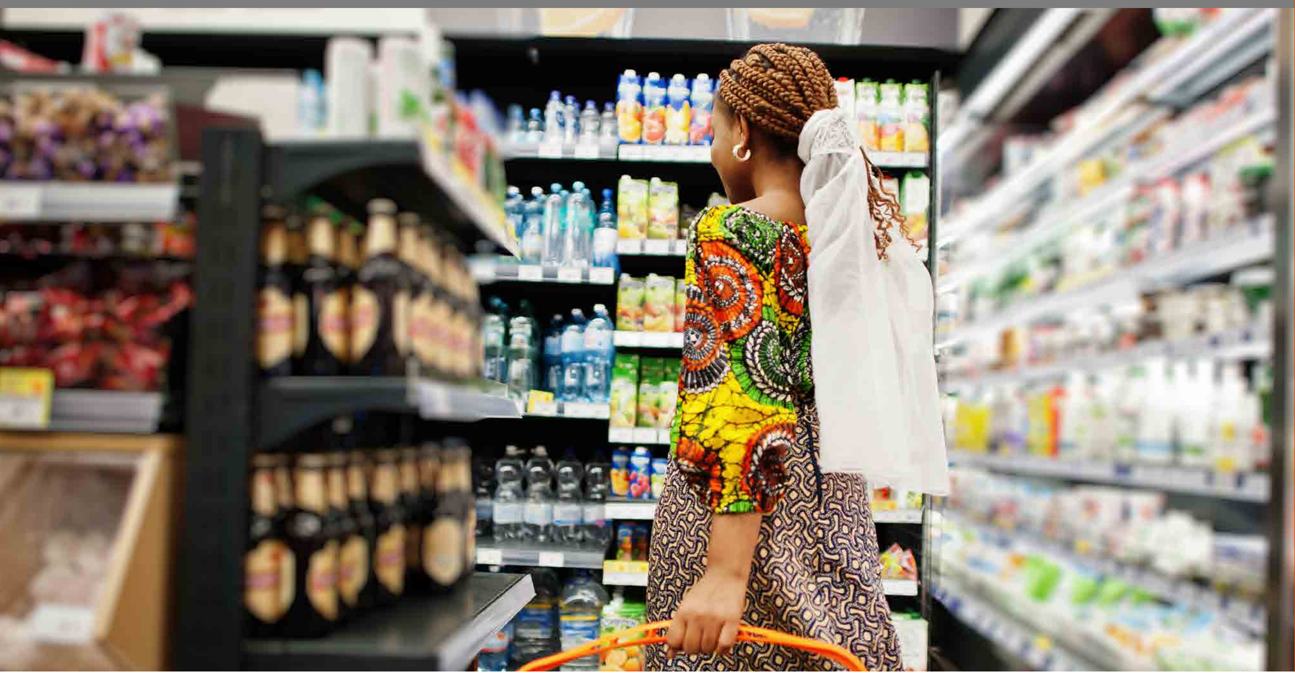
Load-shedding has presented a multitude of challenges for retailers, necessitating adaptations to cope with shifting customer behaviours while grappling with the financial burden of supplementing failing infrastructure.

The economic impact of load-shedding in South Africa extends beyond GDP alone. Various channels of negative impact have emerged, including weakened consumer confidence leading to reduced retail spending, diminished business confidence affecting investment decisions, and negative international perceptions restricting foreign investment.

Anton Hugo, PwC Africa Retail Industry Leader, has noted that retailers' spending to support infrastructure is impacting in some cases their ability to service debt and in many cases their ability to seek out growth opportunities. Additionally the added costs of diesel and load-shedding-related losses, such as spoilt goods, are not easily passed on to consumers who are already financially constrained.

According to PwC's *South African Retail Sentiment Index*, the primary factors driving consumer negative sentiment were food quality, stock availability, and expired produce. These concerns regarding quality and freshness were particularly pronounced as the incidence of load-shedding was on the rise. Many retailers reported massive monthly operational costs due to the energy crisis. This signifies a committed investment into measures, such as diesel-powered generators, to prevent food from spoiling.

Load-shedding has impacted consumer behaviours in several ways. Firstly, there has been a notable shift in consumer product preferences, with more than 50% of consumers opting for non-perishable products and items that are less reliant on electricity. Secondly, the demand for takeouts and convenience foods has seen a significant increase, as indicated by 40% of respondents. This trend suggests a growing preference for ready-to-eat options during periods of power outages. Additionally, online purchases have experienced a surge, with 31% of respondents, predominantly younger generations, lacking access to alternative energy sources, choosing to buy more items online due to load-shedding. This underscores the importance for retailers to enhance their online presence and cater to the needs of this expanding consumer segment.



2. Shopping behaviours

2.1. Connecting with consumers

In today's challenging marketplace, it is vital for companies to connect with consumers higher up the purchasing process and address the point of decision.

Search engine optimisation remains key to target and influence pre-purchasing behaviour. The use of search engines and retailer websites is pivotal for consumers in making informed purchasing decisions, with Gen Z relying significantly more on social media for this purpose. Retailers should carefully consider how to leverage these platforms effectively to maximise their appeal to consumers.

Smartphones play a crucial role in facilitating smart shopping and enhancing the phygital (physical plus digital) shopping experience, which involves a seamless blend of digital and physical shopping experiences. While mobile devices, particularly smartphones, are commonly used for pre-purchase research and reviews, nearly two in five consumers also use them in-store for comparison purposes.

Over the past year, the influence of ads directly linking consumers to promotional offers and sponsored social media ads has grown. However, traditional TV advertising continues to dominate in terms of influencing pre-purchase choices in South Africa.

2.2. Channel trends

Channel trends reveal that the frequency of daily/weekly shopping across all channels has remained largely unchanged compared to our Pulse 5. However, looking ahead, half of the surveyed consumers plan to increase their online shopping activity in the next six months.

According to PwC's *South African Retail Sentiment Index*, retailers that have successfully shifted their focus to the digital space have received overall positive feedback regarding their digital facilities. This indicates that these services, along with campaigns promoting digital retail offerings, have resonated well with customers. This sentiment trend is likely an indication of a broader shift in shopper behaviour towards digital retail experiences. That said, consumer sentiment towards digital facilities is still net negative, showing that the overall experience being created by online and delivery services has room for improvement.

While technological enhancements are key to providing a frictionless retail experience, consumers still value in-store staff support, even among those embracing technology.

Anton Hugo, PwC Africa Retail Industry Leader, has highlighted that retailers are continuously developing their service operating model to empower frontline staff with the necessary skills, visibility, and access to integrated technology. This response is driven by consumers' desire for phygital experiences. Another notable trend is the growth of on-demand delivery channels, including the expansion of grocery delivery. This aligns with the expectations of 42% of consumers who anticipate increased purchases from retailers offering efficient delivery and click-and-collect services.

2.3. Chatbots

While the use of chatbots for pre-purchase information searches is currently low, five out of ten consumers express interest in using them in the future for such purposes, as well as for customer service support and to receive personalised alerts and updates about products.

2.4. Metaverse

Awareness of and interaction with the Metaverse has increased, with one in three global consumers having used it in the last six months. The usage of the Metaverse for entertainment, virtual world access, customer service agents, and purchasing activity remains fairly consistent with the previous pulse.

2.5. Direct to consumer purchasing

The appetite for direct purchase is evident. Half of consumers have purchased directly from a brand's website, with an additional 40% open to considering buying directly. Clothing, accessories, and electronics are the most popular categories for purchase or consideration. The primary reasons consumers have purchased directly or would opt to do so include knowing products are authentic, perception of greater product choice and availability.

3. Spending trends

3.1. Reduced spending

Consistent with our previous pulse, a significant proportion of consumers are planning to reduce their spending across all retail categories with the exception of groceries where 56% of consumers have forecasted an increase in their spending. A primary driver to this is the additional financial strain in the form of more expensive credit resulting in less disposable income.

3.2. ESG

In our Pulse 5, we observed that consumers displayed a strong preference for products that align with specific values associated with ESG factors. In Pulse 6, we delved deeper into this trend and found that consumers are willing to pay up to 10% above the average price for products that have a lower carbon footprint (49%), are locally produced (48%), and are biodegradable, allowing for home disposal (48%).

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