Market segmentation of the consumer market in South Africa

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ABSTRACT

The consumer market can be segmented in various ways. This article concentrates on the calculation of the size of the South African consumer market, segmented by geographical area and demographic characteristics of households. Geographical segmentation is shown by province while the size of the South African consumer market is shown by population group, income group, life stage and life plane. The determining factors in segmentation of households by life plane and life stage are the level of education and age of the head of the household. Six life planes and five life stages are distinguished. In the absence of national expenditure data by Living Standards Measure (LSM®)* group, segmentation by LSM group is explained by means of expenditure data of households in Gauteng. Ten different LSM groups can be distinguished, depending on the amenities owned by the household, services used by them and where they live. Segmentation by type of outlet where consumers spend their money is explained in the article according to two major types of outlets namely, formal and informal outlets, each further subdivided into four groups.

* LSM®, SAARF® and AMPS® are all registered trademarks. For covenience, these are indicated as such only on their first occurrence in the text. Later occurrences are deemed to refer to the registered trademarks.

INTRODUCTION

Business people often use the term *market* to cover various customer groupings. They talk about need markets (e.g. the diet-seeking market), product markets (e.g. the shoe market), demographic markets (e.g. the youth market) and geographic markets (e.g. the Botswana market); or they extend the concept to cover other markets, such as voter markets, labour markets and donor markets. Kotler (2003:10) distinguishes five basic markets as shown in Figure 1.

Figure 1: Structure of flows in a modern exchange economy

Source: Kotler (2003:10)
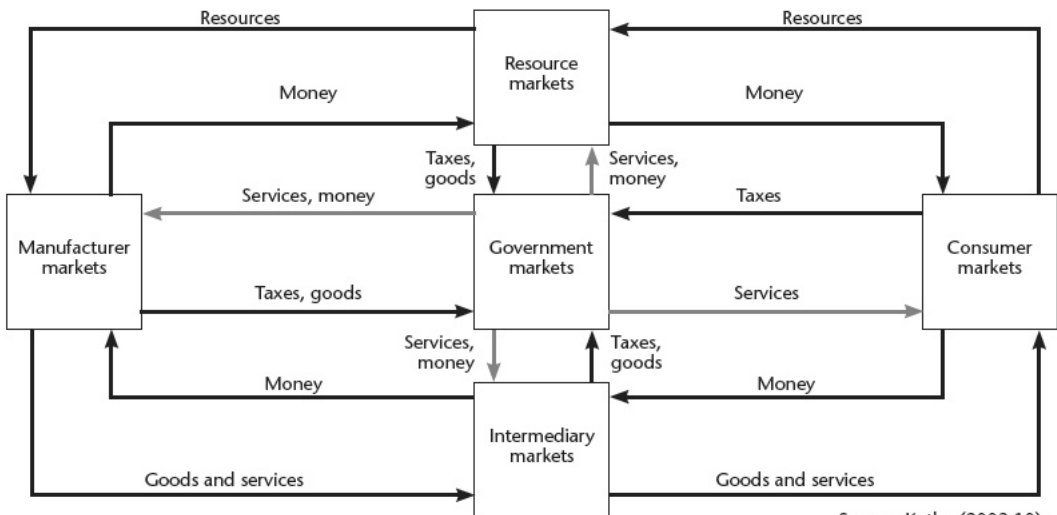
Manufacturers go to resource markets (raw-material markets, labour markets, money markets), buy resources and turn them into goods and services, and then sell finished products to intermediaries, who sell them to consumers. Consumers sell their labour and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resource markets, manufacturer markets and intermediary markets, and uses these goods and services to provide public services. Each nation's economy and the global economy consist of complex interacting sets of markets linked through exchange processes. The structure of the South African consumer and business market is shown in Figure 2.

OBJECTIVES OF PAPER

The purpose of this paper is to look at the size and structure of and means of segmenting the South African consumer market. This kind of information is vital for, inter alia, retail companies to take decisions on the location of their outlets. The consumer market represents expenditure on products and services by private households and nonprofit institutions. However, nonprofit institutions will be excluded in the rest of the paper. Private households can be segmented according to a wide variety of characteristics, which will be discussed in the next section.

There are also various ways of segmenting the business market, the most common being segmentation according to the Standard Industrial Classification (SIC), segmentation according to geographical location and segmentation according to size group. The latter can be measured by employment, turnover and/or electricity consumption. However, segmentation of the business market falls outside the scope of this article.

SEGMENTATION OF THE CONSUMER MARKET

Churchill and Peter (1998:201) describe market segmentation as a process of dividing a market into groups of potential buyers who have similar needs and wants, value perceptions or purchasing behaviour. The particular market segment that a marketer selects to serve is called a target market.

Kotler (2000:263–71) distinguishes five types of consumer market segmentation, namely behavioural, demographic, geographic, multi-attribute and psychographic segmentation. Churchill and Peter (1998:205–17) distinguish the following

Figure 2: Structure of the potential consumer and business market in South Africa, 2000

Types of market

| Consumer market 33.3 % |
| Business market 66.7 % |

Composition of total market demand

| Private consumption expenditure 33.3 % |
| Intermediate demand 48.4 % |
| Gross domestic fixed investment 7.9 % |
| Consumption expenditure by general government 10.0 % |
| Change in inventories 0.4 % |

Composition of business market

| Intermediate demand 72.7 % |
| Gross domestic fixed investment 11.8 % |
| Consumption expenditure by general government 14.9 % |
| Change in inventories 0.6 % |

Source: Calculated from Stats SA (2000).

types of segmentation: demographic and psychographic segmentation, segmentation based on thoughts and feelings, segmentation based on purchase behaviour and multiple bases for segmentation (geodemography). Strydom, Cant and Jooste (2000:106–18) distinguish four types of segmentation, namely geographic, demographic, psychographic and behavioural segmentation.

The most common means of segmenting consumer markets is to use *demographic segmentation*, which involves dividing the market on the basis of population characteristics. This may be because of the relative ease with which the approach can be applied. Information about variables such as gender, age, race or ethnicity, income level, occupation, education level, and household size and composition is readily available from population censuses and other official statistics.

With *geographic segmentation*, the market is divided into different geographical units such as provinces, regions that may extend across provincial borders, countries or a group of countries such as the SADC countries, metropolitan areas, cities or neigbourhoods, suburbs or townships. Population density or type of township (formal vs informal) and climate may also be important in segmentation.

While demographic and geographic segmentation are relatively simple and straightforward, *psychographic segmentation* is not. People are divided into different groups on the basis of lifestyle, personality, social class and/or values. Kotler (2000: 266–7) distinguishes six categories, namely strivers, devouts, altruists, intimates, fun seekers and creatives. Churchill and Peter (1998:211) refer to the following five psychographic categories as identified by Global Scan: strivers, achievers, pressured, adapters and traditional. Strydom et. al. (2000:114) refer to the following five value groups as identified by AC Nielsen MRA's Sociomonitor Value Groups' Survey: conformists, traditionals, progressives, nonconformists and todayers.

Parker (1998) suggests market *segmentation by life stage and life plane*, which can be seen as a combination of some elements of demographic and psychographic segmentation. A matrix approach may be used to combine both measures in order to develop a single easy-to-use tool that retains all the qualities of the measures individually, and adds a substantial depth of perspective.

Segmentation of markets by life stage or age group shows how a person's lifespan can be divided into five-year periods as shown in Table 1.

In each of these periods, peoples' circumstances, interests, activities, buying behaviour and levels of consumer expenditure change. Let us take one specific socioeconomic group and look more closely at peoples' activities during three of these life stages. In life stage 6 (age group: 16 – 20) people are generally finishing high school or busy with tertiary education. A few work full time; many have part-time jobs. They mainly live with their parents. Their income consists mainly of allowances and they spend most of this on petrol and entertainment. Life stage 7 (age group: 21 – 25, the 'freedom years') encompasses wonderful years with newly qualified people just starting out in their careers. They live in flats or possibly communes. These are courting years, and fun and entertainment feature strongly. Expenditure is self-indulgent – they spend their money on fashionable clothing, steakhouse meals, travelling, audio and video equipment, and a second-hand car on installment purchase. Sport and outdoor activities are a great attraction and a considerable quantity of beer is consumed. People in life stage 8 (age group: 26 – 30) are the 'newlyweds and baby blues'; they are people with new responsibilities. Many are newlywed, live in flats and both partners commute to work. The first baby arrives and these young parents need to change their lifestyles drastically as they learn to cope with nappies, disturbed

Table 1: Life stage model

Life stage	Age	Age	Age	Age	Age	Age
First generation	**1 to 5**	**6 to 10**	**11 to 15**	**16 to 20**	**21 to 25**	**26 to 30**
1. Infants, toddlers & preschoolers	▓					
2. Primary schoolers		▓				
3. Senior schoolers			▓			
4. Preparation years				▓	▓	
5. Freedom years					▓	▓
6. Newlyweds & baby blues						▓
Second generation	**31 to 35**	**36 to 40**	**41 to 45**	**46 to 50**	**51 to 55**	**56 to 60**
7. Homemakers	▓	▓				
8. Career builders		▓	▓			
9. Middle madness			▓	▓		
10. Family focusers				▓	▓	
11. Empty nesters					▓	
12. Easing offers					▓	▓
Third generation	**61 to 65**	**66 to 70**	**71 to 75**	**76 to 80**	**81 to 85**	**86 to 90**
13. Retirementees	▓					
14. Down scalers		▓	▓			
15. Granny flatters			▓	▓		
16. Institutioners				▓		▓

Source: Parker (1998).

sleep, doctors' bills, toys, baby-sitters and playgroups. They spend most of their income on meeting practical needs – they buy washing machines and nursery equipment, and entertainment is more than a little curtailed.

Education is the key element of segmentation by life plane or sociopolitical group. Buying behaviour, store choice and consumer expenditure levels are a function of life plane. While education influences attitudes and perceptions and plays a major role in shaping expectations and aspirations, it is also the key to a person's choice of career, and there is little doubt that education influences performance.

To reflect the socioeconomic strata in the South African market adequately, Parker (1998) distinguishes between six life planes based on education levels. People at these different planes can be described as follows:

- *Life plane A*
  People in the top life plane are doctors, lawyers, accountants, architects and engineers. They are usually graduate professionals.
- *Life plane B*
  Plane B people are generally found in business. They do not have university degrees, but have studied beyond school and have been awarded a diploma. Many reach senior positions in business.
- *Life plane C*
  Plane C people have completed their schooling, but have not studied further. They tend to be found in sales or clerical positions in business.
- *Life plane D*
  Plane D people generally have completed three or four years of senior school education and tend to follow technical careers. Many become artisans (plumbers, electricians, mechanics, etc.).

- *Life plane E*
  Plane E people have completed only one or two years of senior school education, and many find jobs as factory workers and artisans' assistants.
- *Life plane F*
  Plane F people have no secondary schooling and many are barely literate. Most people in this category find employment as domestic servants, gardeners and labourers.

The importance of education is reconfirmed when household income is analysed by social class across the life stages. The better educated a person is, the more he or she is likely to earn.

An analysis of expenditure by life plane shows that the magnitude of expenditure is not in line with income across the life stages, and the patterns shown between the planes are very similar, with peaks and valleys at the same points as shown in Figure 3.

This finding is extremely important. Simply because a household earns a certain income does not mean that they will spend that income in the same way and on the same things that other people with the same

income would. Expenditure is very clearly a function both of life stage and life plane. Particulars of the head of the household (age and qualification) determine the cell into which a household falls.

As mentioned earlier, market segmentation denotes the division of a market into identifiable parts. The *ESOMAR Social Grade* (ESOMAR 1997) has attempted to lay down guidelines for such identifiable parts for households living in the European Union (EU). The development of the ESOMAR Social Grade is based on the philosophy of comparability of segments of people across nations in the EU. The ESOMAR Social Grade is a composite variable constructed from:

- the occupation of the main income earner in the household (the MIE)
- the terminal education age (TEA) of the MIE following a period of employment and,
- in the case of nonactive MIEs, the economic status of the household, based on the household ownership level of ten selected consumer durables

During 1988/89 the South African Advertising Research Foundation (SAARF®) developed a measure called the SAARF All

Figure 3: Household expenditure on clothing, footwear, accessories by life stage and life plane, 1995
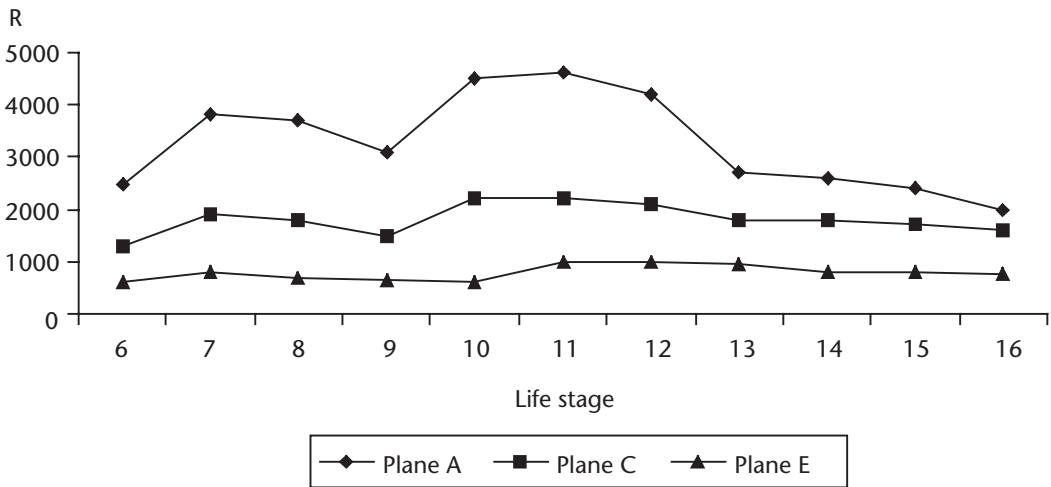
Source: Parker (1998).

Media and Products Survey (AMPS®) Living Standards Measure (LSM®), which was better able to distinguish living standards than any single demographic variable (SAARF 2001). The LSM is a scale used for indicating the wealth status of a group. The eight levels initially distinguished were later extended to ten.

During 2001 SAARF decided to create an improved Living Standards Measure and launched a new SAARF Universal LSM structure (SAARF 2001). The new SAARF Universal LSM is based on universally applicable variables only. This means that all respondents can answer all the LSM questions, leading to a new universal index applicable to all adults of age 16+ years, without introducing a bias such as the one created by the "supermarket shopper" in the past, which sometimes led to a husband and wife not being in the same LSM category. The new SAARF Universal LSM is similar to the old version, but starts out with ten groups. What was previously referred to as LSM 7 low, 7 high, 8 low and 8 high are now known as groups 7, 8, 9 and 10 respectively. As South Africa's society develops, the SAARF Universal LSM has the ability to be extended beyond ten, and groups 11, 12 and so forth will be added as time goes by.

Of the original list of 20 variables used to determine a person's LSM category in the previous LSM system, 15 household variables have been carried through to the SAARF Universal LSM. In addition, the total number of variables has been extended to 29 to give finer definition to the scale.

The 29 variables are as follows: Hot running water, fridge/freezer, microwave oven, flush toilet in/outside house, no domestic in household, VCR, vacuum cleaner/floor polisher, no cellphone in household, traditional hut, washing machine, PC in home, electric stove, TV set, tumble-drier, home telephone, less than two radio sets in household, hi-fi/music centre, rural outside Gauteng/W Cape, built-in kitchen sink, home security service, deep freezer, water in home/on plot, M-Net/DStv subscription, dishwasher, electricity, sewing machine, living in Gauteng, living in the Western Cape and motor vehicle in household. For more details the reader should refer to the AMPS technical report that is available from SAARF or on the Internet (SAARF 2001).

Market segmentation by type of outlet can also play an important role in distribution decisions by suppliers of goods and services. Lucas, Bush and Gresham (1994) state that increased competition, new technology, and changing demographics challenge retailers to develop new strategies for success. The effect of these forces is apparent in the changing structure of retailing. In the 1980s, as growing numbers of retailers vied for a share of the consumer's dollar, many firms were forced to merge or were bought out by stronger firms. New technology enabled retailers to devise new ways to meet customers' needs, which were also changing. In the 1990s, as retailers struggled to survive the turmoil of mergers, acquisitions, and liquidations, their future lay in their ability to meet customers' needs and desires creatively. As always, customers gravitate to those retailers with which they feel most comfortable. As customers' needs and wants change, retailers will have to change with them or cease to exist.

Whereas retailers in first world countries have to adapt to customers' sophisticated needs, traditional retailers and informal retailers in third world or developing countries are increasingly having to adapt to different needs. Informal retailers play an important role in South Africa. Ligthelm and Masuku (2003) state that 58.3% of total consumption expenditure (ie expenditure of households on goods and services) was spent on goods and 41.7% on services in 2002. Potential retail sales (ie expenditure on goods minus expenditure on personal transport equipment such as cars, tyres, petrol, paraffin and household fuel and power such as electricity) amounted to R316 581 million. Of this R206.7 billion

or 65.3% was channelled through formal retail outlets such as Pick 'n Pay, Checkers, Spar and other retail outlets. Just more than a third (34.7% or R109.9 billion) was channelled through the following outlets:

• informal retail outlets such as spazas, hawkers and township general dealers
• non-store retailers such as mail order services and vending machines
• non-retail establishments such as wholesalers and agricultural and manufacturing outlets
• e-commerce/e-tailing services

It is estimated that approximately 10% of potential retail trade, amounting to approximately R32 billion, was channelled through informal outlets in 2002. A substantial portion of these sales can be attributed to spazas, hawkers and township general dealers.

TOTAL HOUSEHOLD EXPENDITURE

Total household expenditure or consumer market potentials can be calculated by using household expenditure data obtained through consumer surveys (direct method) and/or by using statistical series (indirect method) (Martins, Loubser & Van Wyk 1996:496–500).

• *Consumer surveys*
In consumer surveys the expenditure patterns of households are usually determined from a random sample of households, and then the total consumer market for a specific product in a particular region or regions is calculated by raising the sample results to the universe. Ordinary consumer surveys reveal the size of the current market for a particular product; future market potentials are determined over the short term by including questions about future buying intentions in the questionnaire. Unlike most of the other methods, consumer surveys reveal the demographic characteristics of consumers. Consumer surveys may be single-call surveys,

consumer panels, or buying intention and purchasing probability surveys.

• *The index method*
The index method of calculating market potentials involves the application of statistical series that reflect the relative potential demand for a specific consumer product or service, or a group of products or services, or consumer products and services in general. The relative demand for a specific product in various geographical regions can be reflected by a single index, such as population, or by several series of data combined into a single statistical index. The series are usually expressed in percentages by area for the total market and therefore indicate the share of each geographical region in the potential consumption of a specific consumer product or service, or group of products or services, or products and services in general.

Total household expenditure in South Africa, calculated by household income and expenditure surveys, will be discussed according to geographical segmentation, population segmentation, income group, life stage and life plane, LSM group and type of outlet in the paper.

METHOD OF THE STUDY

The study provides a summary of research done by the author on income and expenditure of households and published in four research reports (Martins 2003; Martins 2004a; Martins 2004b; Martins 2004c). The major source for the calculations in the 2003 and 2004a reports was the Statistics South Africa (Stats SA) database of the household and income survey conducted in 2000 (Stats SA 2002), while the other two reports were based on information from the Bureau of Market Research (BMR) household income and expenditure surveys conducted in Gauteng in 2003. In the Stats SA and BMR surveys, face-to-face interviews were conducted with respondents representing randomly selected households. Prestructured

questionnaires, requesting information on approximately 50 income sources and 500 expenditure items and some demographic and housing information, were used for the interviewing. Questions relating to LSM segmentation and the type of outlet where purchases were made were not included in the Stats SA questionnaire. Consequently, information from the BMR survey in Gauteng was used to illustrate segmentation by LSM group and type of outlet.

Total household expenditure in the reports mentioned in this section was calculated by multiplying the average household expenditure on each expenditure item by the number of households. The population and number of households will be discussed in the next section.

POPULATION AND HOUSEHOLDS IN SOUTH AFRICA

Consumers can be viewed as individuals (members of the total population) or as households (one or more persons living together and whose food and other household expenses are usually managed as one unit). Table 2 shows the estimated population and households of South Africa for 2003 by province and population group. KwaZulu-Natal tops the list with a population of 9.7 million (20.9% of the total of 46.3 million). However, Gauteng has more households (2.6 million) than KwaZulu-Natal (2.7 million) because the average household size for Gauteng was 3.28 members as against the 4.27 members in KwaZulu-Natal.

HOUSEHOLD EXPENDITURE BY PROVINCE

Figure 4 depicts estimated total household expenditure in South Africa by province in 2003. Households living in Gauteng were responsible for an estimated 36.2% of the total expenditure of R681,1 billion, followed by KwaZulu-Natal (15.7%) and the Western Cape (15.5%). It is estimated that these three provinces, where 48.6% of the total population of South Africa

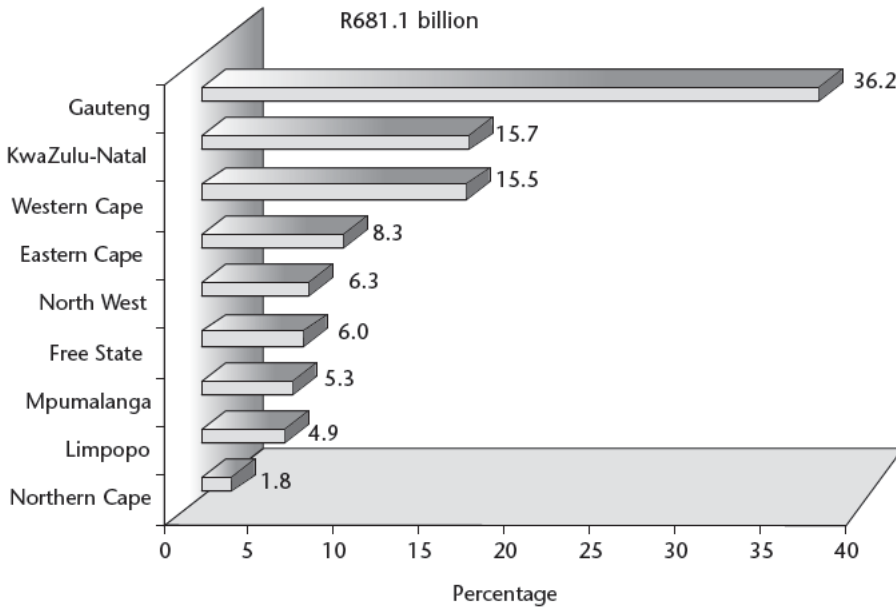**Table 2:** Population and households of South Africa, 2003

Province	Africans		Asians		Coloureds		Whites		Total	
	Population	Households	Population	Households	Population	Households	Population	Households	Population	Households
Eastern Cape	6 307 557	1 426 798	21 378	6 342	491 096	111 197	387 374	137 430	7 207 405	1 681 769
Free State	2 520 133	716 312	3 326	831	83 604	22 241	367 816	123 461	2 974 879	862 846
Gauteng	5 965 074	1 750 785	186 584	52 892	318 280	76 241	2 029 966	710 909	8 499 904	2 590 828
KwaZulu-Natal	8 045 878	1 763 573	838 605	207 644	128 040	39 802	651 588	253 624	9 664 111	2 264 645
Limpopo	5 539 624	1 226 599	6 534	1 536	8 784	1 665	141 807	44 478	5 696 749	1 274 279
Mpumalanga	2 896 321	707 448	15 073	3 615	23 305	7 137	300 822	82 896	3 235 521	801 098
Northern Cape	311 000	90 957	2 527	665	454 078	117 988	129 130	48 240	896 735	257 851
North West	3 477 408	934 178	11 029	4 375	50 444	12 222	262 707	86 891	3 801 588	1 037 668
Western Cape	972 108	266 930	48 573	15 381	2 345 219	552 800	370 800	344 899	4 344 899	1 205 912
Total RSA	36 035 103	8 883 583	1 133 629	293 286	3 902 850	941 296	5 250 209	1 858 733	46 321 791	11 976 900

Source: Steenkamp (2003).

resides, were responsible for 67.4% of the total household expenditure in South Africa in 2003. Figure 4 sets out the market shares of provinces in estimated household expenditure on food in South Africa for 2003.
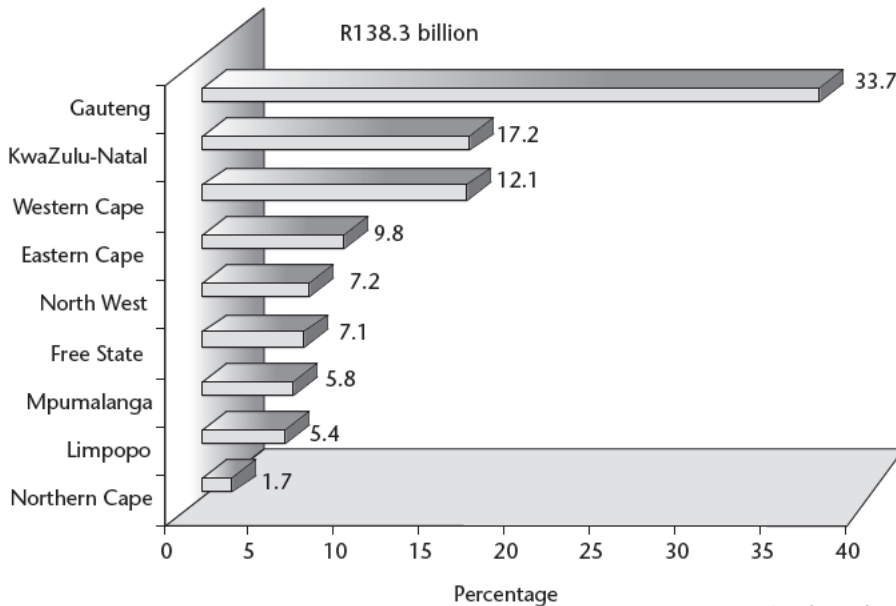
A comparison of percentages reflected in Figures 4 and 5 shows that the market share of households in Gauteng in estimated household expenditure on food (33.7% – Figure 5) is smaller than their share in total estimated household expenditure

Figure 4: Household expenditure in South Africa by province, 2003

R681.1 billion

Province	Percentage
Gauteng	36.2
KwaZulu-Natal	15.7
Western Cape	15.5
Eastern Cape	8.3
North West	6.3
Free State	6.0
Mpumalanga	5.3
Limpopo	4.9
Northern Cape	1.8

Percentage

Source: Martins (2003) (Adjusted figures).

Figure 5: Household expenditure on food in South Africa by province, 2003

R138.3 billion

Province	Percentage
Gauteng	33.7
KwaZulu-Natal	17.2
Western Cape	12.1
Eastern Cape	9.8
North West	7.2
Free State	7.1
Mpumalanga	5.8
Limpopo	5.4
Northern Cape	1.7

Percentage

Source: Martins (2003).

(36.2% – Figure 4). The opposite is true for Limpopo Province, where the market share of households in household expenditure on food (7.2% – Figure 5) is far larger than their share in total household expenditure (4.9% – Figure 4).

Some fundamental differences prevail in the expenditure patterns of households across provinces with regard to the major expenditure groups. A large percentage of the average household's budget in cash and in kind accrues to food in provinces such as Limpopo and the Eastern Cape, where a relatively large percentage of households live in rural areas and where household income is relatively low. The large share spent on food can be attributed to the fact that food is a basic need and therefore money is first spent on food. What is left goes to other products and services. This is not necessarily applicable to all foodstuffs, since some can be considered luxury items.

HOUSEHOLD EXPENDITURE BY POPULATION GROUP

In 2003, African households had the largest share in total estimated household expenditure in cash and in kind of the four population groups. According to Figure 6, Africans were responsible for 46.2% and Whites for 41.8% of the estimated household expenditure of R681.1 billion in 2003. The share of Coloureds was 7.5% and that of Asians 4.5%.

HOUSEHOLD EXPENDITURE BY INCOME GROUP

Table 3 shows the monetary value of total household expenditure for five income groups on main expenditure groups in 2003. All households in South Africa were arranged according to income and divided by five – into quintiles. The total expenditure of the 20% poorest households in South Africa amounted to R16.0 billion as against the R443.5 billion for the 20% richest households.

It can be calculated from table 3 that the share of the 20% poorest households was only 2.3% of total household expenditure, while the 20% richest households had a share of 65.1% in 2003. In addition, the share of the 20% poorest households was the highest for total household expenditure on fuel and light (14.5%), which includes paraffin, firewood and coal, and the lowest for holidays and weekend excursions (0.0%)

Figure 6: Household expenditure in cash and in kind in South Africa by population group, 2003
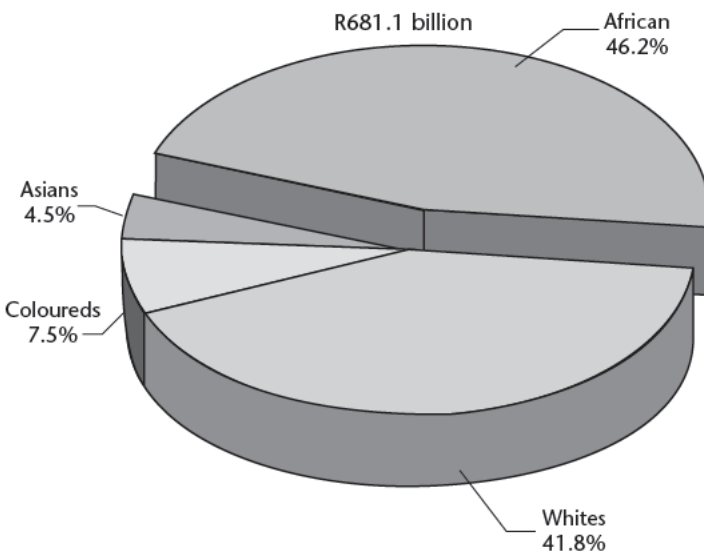
Source: Martins (2003) (Adjusted figures).

Table 3: Total household expenditure in South Africa by income and main expenditure group, 2003

Main expenditure group	< R10 472	R10 473 – R19 275	R19 276 – R37 536	R37 537 - R82 569	R82 570 +	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Total expenditure	15 996 410	33 387 326	61 490 000	126 657 962	443 537 016	681 068 714
Food	9 219 963	16 500 707	23 965 233	34 121 330	54 539 639	138 346 873
Clothing, footwear & accessories	886 110	2 179 928	3 956 285	6 890 252	11 893 356	25 805 932
Housing & electricity	1 046 708	3 138 478	7 563 092	19 700 941	80 970 545	112 419 764
Fuel & light	935 227	1 436 303	1 530 315	1 272 568	1 289 451	6 463 864
Transport	463 876	1 228 655	3 315 183	8 932 584	51 883 011	65 823 310
Medical & dental	147 050	323 288	842 921	3 335 320	19 634 713	24 283 292
Education	286 732	602 686	1 379 443	3 885 252	13 792 377	19 946 491
Insurance & funds	163 220	366 164	1 192 731	5 443 214	33 223 222	40 388 550
Recreation, entertainment & sport	24 473	94 333	274 236	706 032	5 242 931	6 342 005
Furniture & household equipment	176 851	657 752	1 701 897	3 890 961	13 536 230	19 963 690
Alcoholic beverages	200 937	782 599	2 110 958	4 985 345	11 184 098	19 263 936
Cigarettes & tobacco	276 803	649 079	1 379 737	2 845 911	4 660 228	9 811 757
Washing & cleaning materials, etc.	477 844	777 463	1 123 918	1 601 160	2 750 772	6 731 158
Personal care	925 748	1 875 930	3 146 005	5 207 587	10 143 969	21 299 240
Communication	108 586	425 424	1 073 954	2 930 118	10 591 624	15 129 705
Reading matter & stationery	20 836	81 223	303 865	958 229	3 223 514	4 587 667
Domestic workers	17 519	83 286	247 524	996 824	6 003 920	7 349 073
Support of relatives	192 138	631 139	1 812 933	4 084 741	5 039 662	11 760 612
Holidays/weekends (excl. transport)	888	4 000	40 224	248 300	3 557 705	3 851 117
Income tax	4 673	80 402	871 268	5 673 704	57 648 944	64 278 991
Miscellaneous	401 554	1 333 959	3 037 769	6 410 411	21 371 191	32 554 883
Savings	18 673	134 529	620 512	2 537 175	21 355 915	24 666 803

Source: Calculated from database used for *Research Report* No. 322 (Martins 2003).

and income tax (0.0%). The opposite is true for the 20% richest households, which were responsible for 92.4% of the R3.9 billion spent on holidays and weekend excursions and 89.7% of the R64.3 billion paid as income tax.

HOUSEHOLD EXPENDITURE BY LIFE STAGE AND LIFE PLANE

Table 4 shows total household expenditure in South Africa by life stage and life plane for 2003. Table 7 shows the shares of the different life stage and life plane groups in total expenditure. Total household expenditure for households falling into the 36 to 45-age

group and in life plane A is calculated at R45.5 billion (Table 4), which represented 6.7% of the total household expenditure in South Africa in 2003 (Table 5). Table 4 shows that all households in life plane A were responsible for R145.7 billion household expenditure in 2003, which represented 21.4% (Table 5) of the total household expenditure of R681.1 billion in 2003.

Figure 7 compares the share in total household expenditure by life plane with the share in the number of households by life plane.

Figure 7 shows that the household expenditure of all households falling into

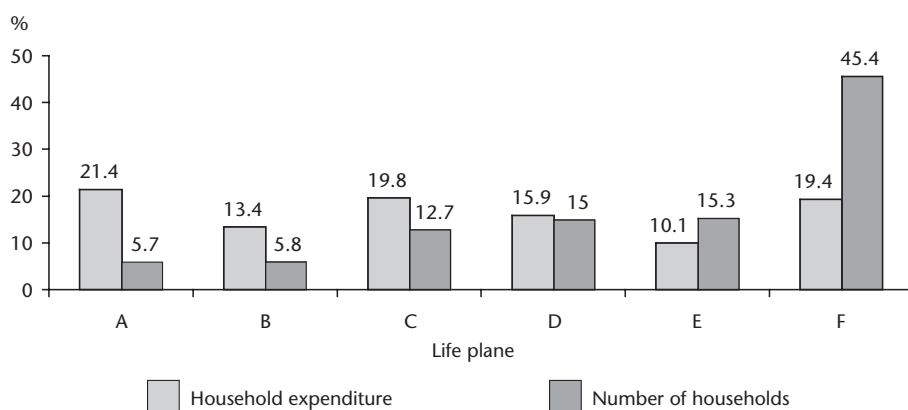**Table 4:** Total household expenditure in South Africa by life stage and life plane, 2003

Life plane	<25 R'000	26-35 R'000	36-45 R'000	46-55 R'000	56+ R'000	Total R'000
A	3 593 591	36 145 349	45 545 824	24 577 637	24 577 637	145 704 953
B	4 581 307	26 202 015	30 817 495	16 533 638	12 815 738	90 950 195
C	9 980 023	38 668 483	38 665 826	28 685 900	19 064 127	135 064 361
D	4 447 946	25 515 710	35 830 004	23 641 681	19 132 420	108 567 764
E	2 744 064	10 775 114	19 017 187	17 792 327	18 131 256	68 459 950
F	2 573 276	15 510 870	31 310 460	31 183 057	51 743 824	132 321 489
Total	27 920 210	152 817 543	201 186 799	153 679 155	145 465 004	681 068 713

Source: Calculated from the database used for *Research Report* No. 322 (Martins 2003).

Table 5: Share in total household expenditure in South Africa of life stage and life plane groups, 2003

Life plane	<25 %	26-35 %	36-45 %	46-55 %	56+ %	Total %
A	0.5	5.3	6.7	5.3	3.6	21.4
B	0.7	3.8	4.5	2.4	1.9	13.4
C	1.5	5.7	5.7	4.2	2.8	19.8
D	0.7	3.7	5.3	3.5	2.8	15.9
E	0.4	1.6	2.8	2.6	2.7	10.1
F	0.4	2.3	4.6	4.6	7.6	19.4
Total	4.1	22.4	29.5	22.6	21.4	100.0

Source: Calculated from Table 4.

Figure 7: Share in total household expenditure and total number of households in South Africa by life plane, 2003

Source: Share in expenditure taken from Table 5 and share in number of households calculated from the database used for *Research Report* No. 322 (Martins 2003).

life plane A amounted to 21.4% of total household expenditure in South Africa in 2003, while the number of households falling into life plane A constituted only 5.7% of the households of South Africa. The figure clearly shows that expenditure as a percentage of total expenditure exceeded the number of households as a percentage of total households as one moves from plane A to plane D while the reverse is evident for life planes E and F. The 45.4% of households who fall into life plane F were responsible for only 19.4% of total household expenditure in 2003.

HOUSEHOLD EXPENDITURE BY LSM GROUP

This section provides information on total household expenditure by LSM group for Gauteng in the absence of national information (Martins 2004c). Due to the small number of people in Gauteng who fall into LSM group 1 (SAARF 2003) and the relatively small sample size, no information was collected for households falling into LSM group 1, while the information for LSM groups 2 and 3 is grouped together.

Figure 8 shows the shares of the different LSM groups in total household cash expenditure in Gauteng in 2003. A comparison of total household expenditure

and the population shows the share of LSM group 10 in the total population to be 8.1%, while its share in total cash expenditure is estimated at 23.1%. The share in population of LSM group 9 is 16.6% as against a share of 28.1% in total cash expenditure.

HOUSEHOLD EXPENDITURE BY TYPE OF OUTLET

The information in this section is for Gauteng in the absence of national information. Martins (2004b) estimated total cash expenditure of all households living in Gauteng at R277 billion in 2003. A subtotal of R94.9 billion is for goods sold mainly by retailers. A further R86.4 billion, is for goods generally not sold by retailers but where the type of outlet can play an important role while the third portion, with a subtotal of R95.7 billion is household expenditure where the type of outlet is not applicable.

Of the R94.9 billion expended on products usually sold by retailers, 90.6% accrued to the formal sector and 9.4% to the informal sector. Main expenditure items in this group that were generally channelled through the informal sector were alcoholic beverages (31.1%), reading matter and stationery (27.4%), cigarettes and tobacco (17.1%), fuel and light (16.7%), personal care (12.0%)

Figure 8: Share of LSM groups in total household cash expenditure (Gauteng), 2003
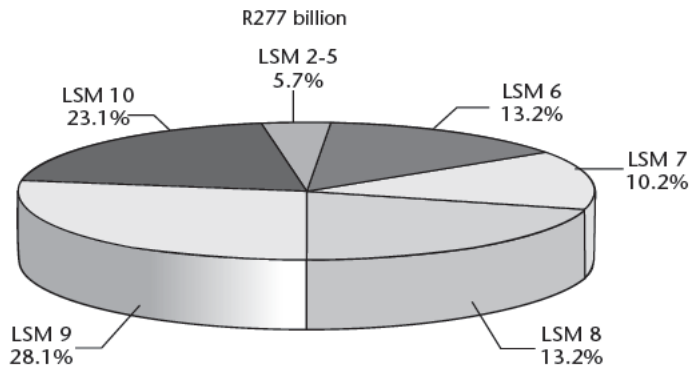
and food (9.2 %). Households in Gauteng spent approximately R48.7 billion at super- or hypermarkets, R5.0 billion at wholesalers and factories, R3.1 billion with hawkers or at street markets, R2.4 billion at spazas, R1.6 billion at shebeens and R276.2 million on mail orders.

Of the R44.2 billion spent on food, R40.1 billion or 90.8% was spent at formal and R4.1 billion or 9.2% at informal outlets. Of the R4.1 billion spent at informal outlets, approximately R1.8 billion was spent with hawkers or street markets, R1.6 billion at spazas and R707.4 million at other informal outlets. In the case of clothing and footwear, 4.4% or R495.3 million was spent at informal outlets, of which hawkers or street markets absorbed R258.9 million.

Considerable differences were observed between the buying behaviour of the different population groups with regard to the outlets used for their purchases. The following summarises these differences:

Items mostly sold by retailers	Formal outlets	Informal outlets
Africans	85.2%	14.8%
Asians	96.6%	3.4%
Coloureds	87.2%	12.8%
Whites	98.0%	2.0%
All households	90.6%	9.4%
Items mostly not sold by retailers	**Formal outlets**	**Informal outlets**
Africans	86.2%	13.8%
Asians	97.4%	2.6%
Coloureds	87.9%	12.1%
Whites	99.0%	1.0%
All households	93.4%	6.6%

SUMMARY

The main findings of the paper can be summarised as follows:
- More than one third (36.2%) of total household expenditure is spent by people who reside in Gauteng, one of the nine provinces in South Africa.
- Africans are responsible for 46.2% of total household expenditure in South Africa.
- The market share of the better-educated households (life planes A to C) clearly shows the material value of education.
- Households falling into LSM groups 9 and 10 were responsible for more than half (51%) of the total household expenditure in Gauteng in 2003.
- Just more than nine percent of products usually sold by retailers (9.2%) were bought at informal outlets.

APPLICATION OF THE INFORMATION BY RETAILERS

Companies are successful to the extent that they enter attractive markets and possess the required business skills to succeed in those markets. If one of these factors is missing, the business will not produce outstanding results. The purpose of this paper was to illustrate how the South African consumer market can be segmented. The information in the paper provides only aggregated totals. However, it is possible to use the information in the research reports mentioned to estimate the market potentials of smaller areas for individual products. This information can be used as a broad guideline by retailers to direct policy decisions on location, promotion and distribution. However, with an indication of the possible market size in an area, further research regarding the competition from other retailers is necessary before a decision to locate in the area can be taken.

Detailed information in the report estimating household expenditure by life plane and life stage (Martins 2004a), as summarised in this paper, can be used by retailers to construct a profile of potential and existing clients, if not already available. By studying the profile of the inhabitants of a residential area and/or the patrons of a shopping centre/mall and possible competition, an informed decision can be made on location.

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