

SOUTH AFRICA'S NOT SO TRADITIONAL, TRADITIONAL TRADE



nielsen
.....

AN UNCOMMON SENSE
OF THE CONSUMER™

TRADITIONAL TRADE AT A GLANCE:

- **A Multi-billion rand industry** - Sales through Traditional Trade (TT) outlets account for R46-billion, which equates to one of every five rand spent and one third of all consumer goods packages sold in South Africa.
- **More prolific** - There are 134 000 TT stores across South Africa and growing. This has increased by 100 000 outlets in the last 20 years and now represents 95% of retail outlets in the country.
- **A spectrum of shoppers** - More than 9-million or 77% of South African households shop in TT stores, shoppers are drawn from LSM 1-4 (40% of the spend), LSM 5-6 (34%) and LSM 7-10 who constitute 26% of TT retail spend.
- **Continued growth in spend** - This is being driven by increased shopping frequency of 36.4 times a year on average, and more households shopping in TT (292 000 more than last year) and increased spend per trip, driving overall loyalty.
- **Best of both worlds** - 80% of TT shoppers also shop in Shoprite, while 53% of these households also shop in Pick n Pay and Spar. It's not an either/or scenario when it comes to choosing between shopping at Traditional and Modern Trade outlets - both fulfil an equally important role in meeting shoppers' needs.
- **Brandtopia** - The number of active brands in TT has more than doubled during the last 10 years as both retailers and manufacturers realize the importance of reaching consumers where they choose to shop.

A WEALTH OF OPPORTUNITY

Many marketers view South Africa's Traditional Trade sector as a massive missed opportunity. Their desire to tap into this market is justified given that traditional trade accounts for R46-billion or 33% of all consumer goods package sales in South Africa. With 95% of all retail outlets in the country being TT outlets, the sheer quantity and far reaching presence of this sector, makes it all the more challenging to grapple with in a meaningful manner.

Its sizeable growth in the last 20 years, has taken place against the backdrop of the South African population growing in size from 38-million to 53-million and an increase from 7.4-million to 15-million households. Additional factors driving growth include the rapid progression of the middle class (LSM 5-7) in terms of improvement in their socio-economic standing, as well as innovation in products, packaging and pricing available to consumers.

South Africa's marketplace is also more retail dense than ever before, with the number of Modern Trade outlets - branded Hypers and Supers - having increased from 790 to 2 875 and branded convenience stores having increased to more than 4 500 outlets. TT has, however, more than kept up with its more formal counterparts, with the number of outlets having grown from 31 000 to 134 000 in the last 20 years - a massive 100 000 new outlets. Interestingly, these stores are equally prevalent in both urban and rural areas and there are now more urban traditional trade than rural traditional trade outlets in South Africa, at 81 587 and 52 472 respectively.



“

COMPETITION IS INCREASING AND I NEED TO PROTECT MY BRAND'S STRENGTH IN THE TRADITIONAL TRADE SECTOR.

- MARKETER

”



“

I NEED TO LEVERAGE MY BRAND'S SUCCESS IN THE MODERN TRADE ENVIRONMENT BY INCREASING ITS AVAILABILITY TO MORE MIDDLE & LOWER INCOME SHOPPERS.

- MARKETER

”

As a result, the sector has seen a continued increase in sales, driven by increased shopping frequency and steadfast shopper loyalty despite modern branded formats opening up in less urbanised areas. This means that whereas Modern Trade stores have seen a 9% annual increase in spend; TT stores have achieved a 10% increase showing that they're holding their own in the retail sector. They've also seen a healthier 7% increase in the number of goods sold, compared with the Modern Trade sector that achieved 4%.

Nielsen South Africa MD **Craig Henry** comments; "What's clear, is that far from being a 'has been' the traditional trade sector is about real consumers who have real money to spend. It's still big, it's still important and it cannot be overlooked or discounted when considering your brand and shopper strategies!"

“

TRADITIONAL TRADE IS A BIG OPPORTUNITY IN THE SOUTH AFRICAN MARKET. BUILDING KNOWLEDGE AND IDENTIFYING OPPORTUNITIES IS VERY IMPORTANT IN GENERATING INCREMENTAL SALES.

- CLIENT MARKETING DIRECTOR

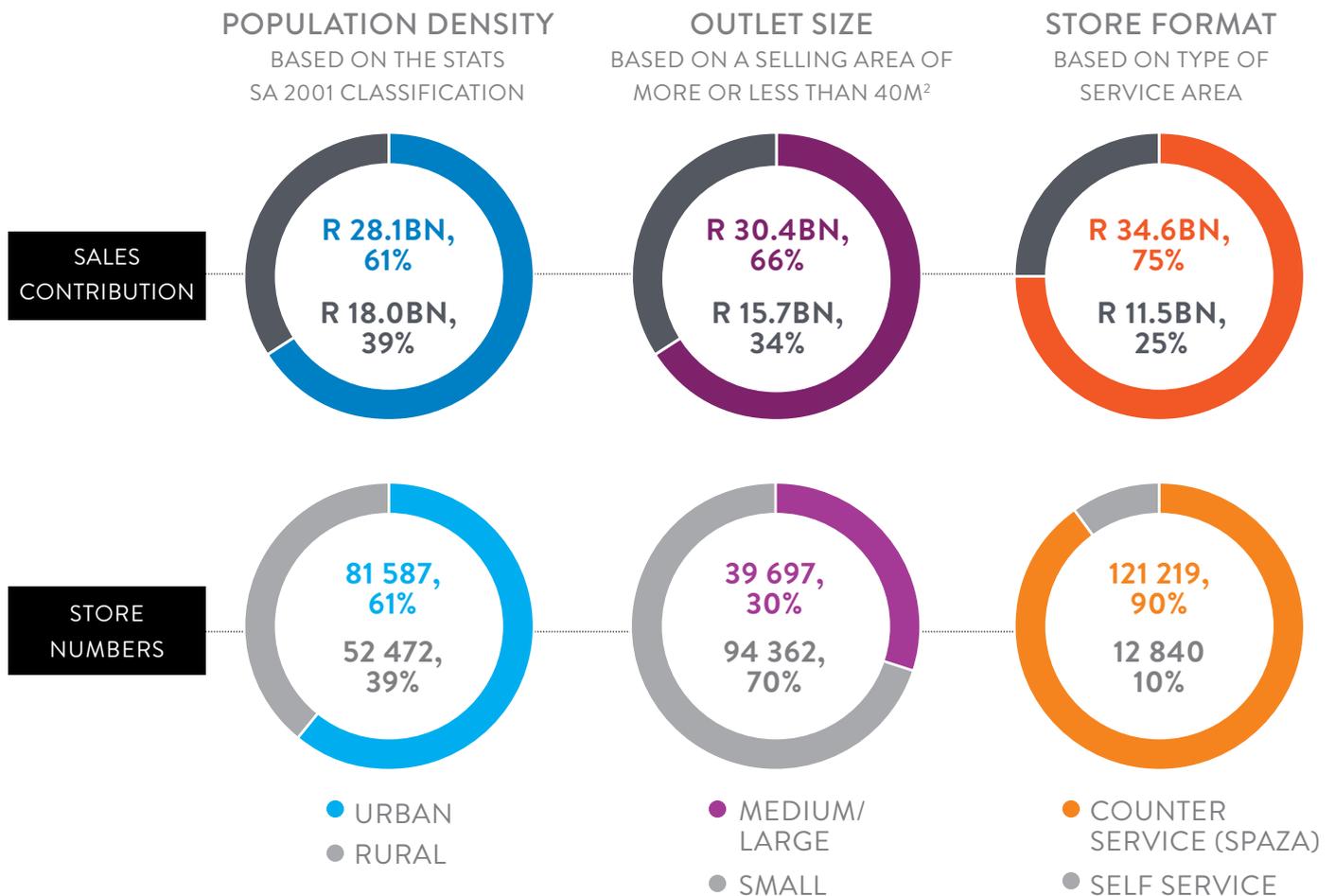
”



WHAT IS CONSIDERED TRADITIONAL TRADE?

- Physical bricks and mortar outlets with a fixed location (excludes hawkers and tabletops)
- Informal, independently owned
- Outlets which stock at least one consumer goods product, selling directly to consumers

Within the traditional trade sector outlets can be further categorized and measured via a number of key indicators such as population density, trading characteristics, and size, service and format parameters.





“

SHARING IS IMPORTANT FOR ME AND MY COMMUNITY, WE BUY IN BULK AND IF ONE PERSON RUNS OUT, WE KNOW THAT WE WILL LOOK AFTER EACH OTHER.

- TT SHOPPER

”

BIGGER IS BETTER!

Nielsen has measured the evolving South African retail landscape for more than four decades, with the latest TT findings the result of an updated retail universe. Universe representation is determined from regular retail census operations and ongoing category measurement.

This greater breadth of traditional trade measurement allows for:

- Richer insights as a result of broader coverage.
- Deeper reporting of the most current TT retail universe.
- An ability to prioritise actions based trading environments and locations.
- New regional reporting of North West, Limpopo and Mpumalanga and store types within regions.

Nielsen South Africa MD **Craig Henry** explains that the reason for the latest universe enhancement stems from the fact that; “The retail environment in developing countries around the world is highly dynamic. It constantly changes in response to evolving macro and micro economic realities, new technologies and changes in the supply and demand of fast-moving goods. Our retail universe is now an excellent reflection of the dynamic market place, and provides the most comprehensive coverage of both the modern and traditional trade retail environment in South Africa.”



“

I SOURCE THE MAJORITY OF MY PRODUCTS FROM WHOLESALERS. I AM NOT LOYAL AND WILL BUY WHERE THE PRICES ARE RIGHT.

- TT STORE OWNER

”

SPAZA STYLE

One of the key areas of growth within the TT sector, emanates from the evolution of spaza shops (counter service TT stores) that have become more organized, increasing the range and variety of brands and categories they offer, while being conveniently located on commuter routes or close to shoppers' place of work or home.

This has seen spazas gaining popularity amongst modern trade shoppers. A massive 48% of shoppers have visited a Spaza outlet in the last seven days, versus 38% in 2012, representing a 10% increase in shoppers visiting the channel.

In addition, shoppers visit spazas, on average, more than four times a week (18 times per month) compared to supermarkets which they visit just once a week. This provides four times as many opportunities for brands to connect with consumers and increased opportunities to expose them to new products.

The reality is, however, that the majority of new products are still first launched into modern trade stores. Manufacturers don't often use spaza shops and TT outlets in general as launch platforms for new products, yet these shopping environments often present the perfect opportunity for certain brands.

Another advantage of spaza shops is that they are open seven days a week, well into the evening, which is highly useful for consumers. They've also upped their convenience quotient by offering customers Mastercard facilities and credit/payment plans.

This along with increased commuter costs makes them an attractive option for top up and short-term purchases. Local residents also support TT stores in closest proximity to their homes, as long as the pricing is competitive and they're well-stocked.

“

I DON'T REALLY HAVE A PRICING STRUCTURE, I CHANGE PRICE BASED ON DEMAND AND SUPPLY.

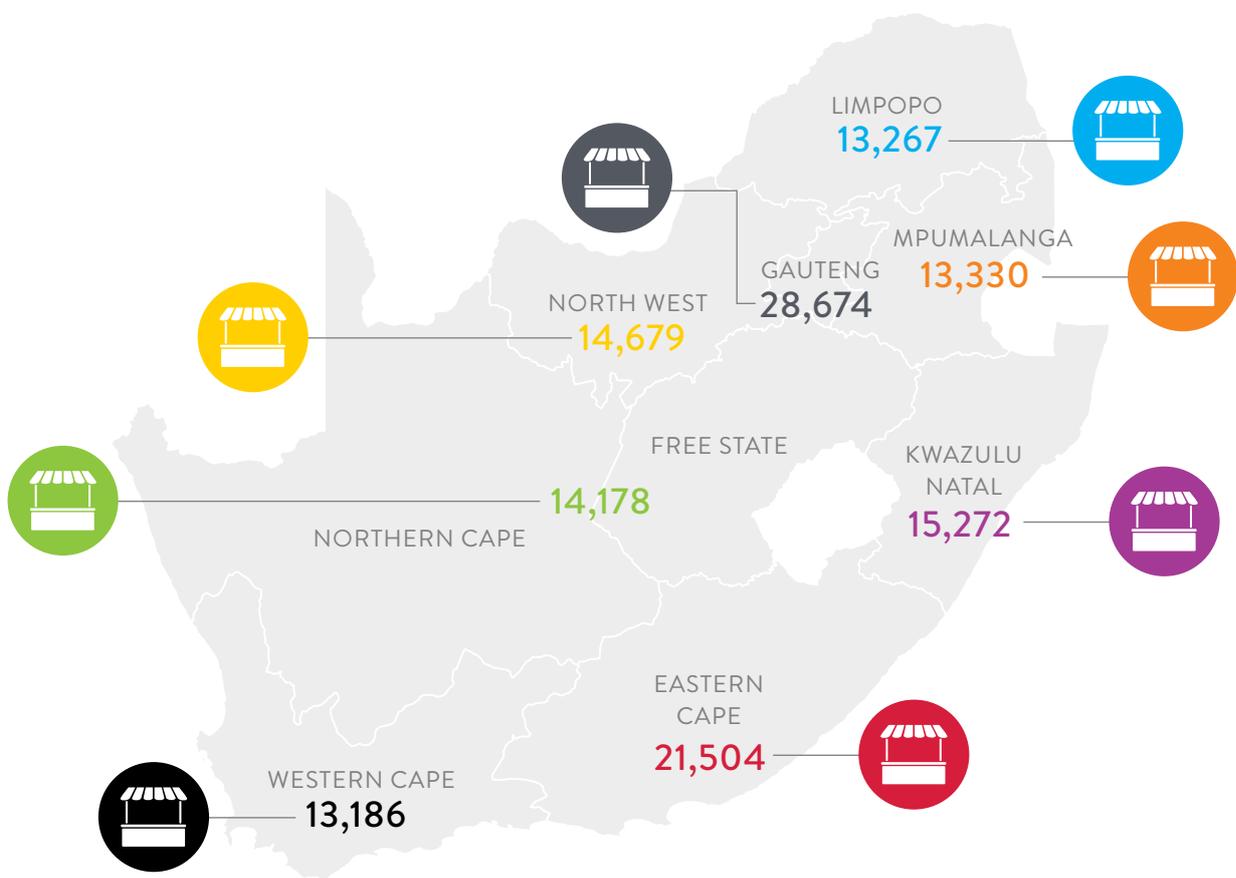
- TT STORE OWNER

”



REGIONAL REALITIES

The geographical presence of traditional trade stores has also shifted. Two decades ago the majority of TT outlets were found in the more rural areas within South Africa's nine provinces for example; KwaZulu-Natal (5 634) and Mpumalanga, Limpopo and North West provinces (4 355). But today the bulk of TT outlets are located in Gauteng and the Eastern Cape. Interestingly, the largely urban nature of Gauteng has not meant a decline in the number of TT stores in fact, quite the opposite with the province now having the largest number of TT outlets (28 674) followed by the Eastern Cape with 21 504.



A key trend spurring this change is 'Rurbanisation' - the phenomenon of the blurring of the lines between rural and urban settlements. TT stores have been established in these transition zones to serve consumers from both urban and rural areas, and are not yet on the radar for development by Modern Trade retailers. Deregulation, in the form of relaxed store ownership requirements, has also spurred the increase in the number of TT stores as this has made it far easier and less prohibitive to own an independent retail store.

The sales contribution from TT outlets is the highest in the Eastern Cape and North West provinces, where these outlets account for 42% of sales value. Despite the most TT stores being present in Gauteng, sales contribution is only 10%, with the balance coming from Modern Trade outlets.

This points to the importance of retailers drilling down to a regionalised and even a localised level, to understand the nuances of a particular TT market and thereby ensuring maximum reach and return on investment.

THE BEST OF BOTH WORLDS – WHO SAID YOU CAN'T HAVE IT ALL?

Traditional Trade shoppers are also modern trade shoppers. Looking at which specific retailers they frequent, 52% of TT shoppers also shop at Spar and 53% shop at Pick n Pay while 80% also frequent Shoprite.

Traditional Trade is also not just the domain of low income shoppers, having attracted a broadening spectrum of shoppers, across LSM groups during the last two to three years. South Africa's tightening economic conditions have led to consumers down trading to smaller pack sizes that are synonymous with TT outlets. Despite increased modern and traditional trade competition, TT has delivered proven results in tougher times when consumers scale back on the sizing of the products they purchase. This is coupled with greater access to a broader array of products that offer more price choice, thereby offsetting higher commuter costs.

Overall Shopper Benefits:

- Competitive Pricing and value alternatives
- Growing Product ranges of better quality
- Trading Convenience with efficient service
- Accessibility

Overall, the Traditional Trade sector has undergone a quiet revolution by evolving from being traditionally 'house shops' with higher prices and smaller ranges than branded retail to those with owners who understand shoppers, are flexible in their offerings and have secured favourable terms with wholesalers, resulting in a more competitive environment.

SAVVY SHOPPING

What's clear about traditional trade shoppers is that far from a simple sell, they have strong opinions about when, where and how they like to shop and require carefully directed messaging. Key insights to consider include the fact that a TT shopping is not a 'monthly' 'stock up' trip, nor is it always a 'top up' shop - it all depends on the size of the store, the purchase occasion and the range available.

Merchandising can also take on a life of its own in the traditional trade environment where interior and display space is limited, especially for fridges or free standing units. Shopkeepers often use cross merchandising so colour coding and labelling becomes key in order for products to stand out.

They also offer shoppers deals that speak to their daily shopping repertoire: Packaging is key for offerings such as everyday staples: maize meal, detergents, oils, and rice etc as are displays at the front of the store.

A key consideration is to consider re-usable or portable packaging when looking at a TT specific launch. This will help differentiate your products in a highly complex market as well as justify a slight premium.

TT shoppers are quick in, quick out type shoppers who are amenable to on-the-go products and offerings. Impulse categories such as beverages, chips and sweets are a big deal for passing trade.

MAKING SENSE OF IT ALL

- Operating in Traditional Trade doesn't mean a one pack size/ product offering that will meet the entire market's needs. Demand in the different channels and areas is diverse.
- TT Store Owners are willing to offer new brands. For brands launching in to the market, it may be more beneficial to gain traction in TT first.
- Leveraging the differentiating traditional vs modern store and product drivers which influence shopper attraction (familiarity, convenience, pack configuration, price, promotion, transportation and portability) is key.

- Retailers and marketers need to build awareness and consideration to generate consumer demand before the shopper enters the store. With limited trading areas, product visibility attributes are key to connecting with shoppers.
- Counter Service stores limit a shopper's ability to browse. Products and price which are adapted or optimised for counter store formats will ensure your product stands out.
- Price management in wholesalers is key to gaining traction in the TT sector. Leaflets and increasing digital and mobile interactions improve communication on price and promotion to store owners.



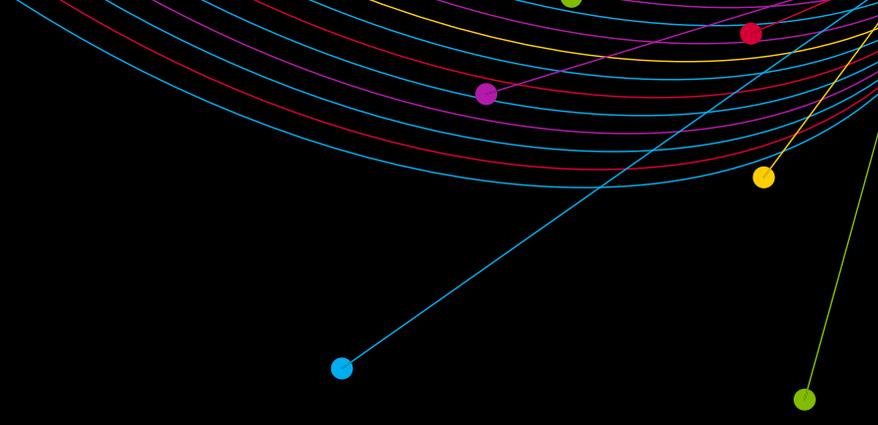
ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers watch and buy. Nielsen's Watch segment provides media and advertising clients with Total Audience measurement services for all devices on which content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen also provides its clients with analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries, covering more than 90% of the world's population.

For more information, visit www.nielsen.com.

Copyright © 2016 The Nielsen Company. All rights reserved. Nielsen and the Nielsen logo are trademarks or registered trademarks of CZT/ACN Trademarks, L.L.C. Other product and service names are trademarks or registered trademarks of their respective companies.16/9441

 **nielsen** AN UNCOMMON SENSE OF THE CONSUMER™



nielsen
.....

AN UNCOMMON SENSE
OF THE CONSUMER™