

# The new South African consumer

The South African retail sector is the largest on the African continent and has been a key driver of the South African economy since the global financial crisis in 2008...



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Rising income levels and a growing middle class have helped position the retail sector as one of the strongest contributors to the African economy.

However, there have been a string of recent economic events that have had a negative impact on the performance of the sector.

We spoke to Mohsin Begg - Consumer Markets Analyst at KPMG about the new type of consumer.

## Do you predict consumers will up their spend this festive season?

Definitely! With the petrol price having decreased quite a sizeable amount, consumers will have access to slightly more disposable income - which they will no doubt use to enjoy this festive period.

South African retailers have even begun to adopt the concept of [Black Friday](#), the world's biggest retail sales promotion commencing the day after Thanksgiving, which saw consumers rushing to take advantage of the welcomed savings in trying economic times.

South African consumers are willing to capitalise on these significant price reductions in stores as well as through online stores as more consumers become comfortable with online shopping.

## This being a fact, would you say The National Credit Act helped in reducing consumer debt levels? Or are consumers still being given credit haphazardly?

Since the NCA was passed into law in 2007, the total outstanding debt has reached R1.47 trillion. Even though the law was introduced to address reckless lending and curb consumer debt, it seems that there are many cases where consumer debt levels are still a major problem. In fact, in some quarters it is felt that consumers can still access financing too easily. As a result, the National Credit Amendment Bill (NCAB) has been introduced, to tighten a few areas within the NCA therefore providing greater protection for borrowers.

Fragile consumer confidence levels, high debt levels, new sources of competition and, in general, a subdued sales environment now plague the sector. Constantly rising fuel prices, coupled with high unemployment, labour unrest and a rise in interest rates, are contributing to lower disposable income levels and the depressed state of the market, which is expected to remain subdued for the next two or three years.

"Amidst the relentless pressure of world events, it is easy to feel inundated by the complexity of challenges facing every consumer-centric company, whether they are a retailer, manufacturer or supplier," says Begg.

Whilst the above factors linger, South Africa manages to attract foreign investment, such as Walmart's 51% stake in Massmart.

Popular retail brands such as the Spanish clothing and accessories retailer, Zara; UK-based Topshop; and Swedish retailer - and second biggest clothing retailer in Europe- H&M, have all managed to secure a presence in the country, not forgetting mid-market fashion retailers including Superdry, Steve Madden and G-Star, who have also rushed into the country seeking to create a base for expansion across Africa.

"With consumer confidence at its lowest level in decades, many South African consumer markets businesses will understandably remain cautious about departing from the formula which has served them well since 2008 - stay lean, build a strong balance sheet and survive."

"Investors will expect consumer companies to seize opportunities, particularly in the new worlds of "mobile" consumers and social media, whilst maintaining margins and achieving growth through innovation, organic expansion and strategic acquisitions," says Begg.

In this dynamic environment, KPMG's Consumer Markets practice combines global perspectives and experience with in-depth industry knowledge to help today's retail and food and drink firms adapt to rapidly changing markets. A number of themes have been identified as drivers in the consumer markets industry and will shape the way South African consumer market businesses operate.

## **What is your view on bad customer service in South Africa?**

Delivering quality customer service has become an expectation with the voice of the consumer becoming all the more publicised. However, retailers should understand the true impact of bad service and realise that there are many substitute products available on the market and that it is fairly easy (and cheap) to switch to another service provider.

The selection criteria of employees that represent a brand need to be more thorough and adequate training of these individuals should be a priority. At the end of the day, the product may be exceptional, but present as well as future customers can be lost due to receiving an inferior level of customer service.

Mohsin Begg is an analyst in the Consumer Markets industry for over six years. He is attracted to this industry because of the way consumers interact with household products on a daily basis, many of which are manufactured by KPMG's clients.

This makes his experiences very real. His role covers research and analysis in the various sectors of consumer markets being food and drink, retail and consumer goods. For more information on Begg, click [here](#).

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