

Big money in little spazas; accessing informal sector spend

There is big money in the little spaza; some informal sector traders earn six or seven digit annual figures, but this economic activity in South Africa is underreported, in some cases by as much as 1000%.

It is vitally important for brand owners targeting the mass market to understand how this sector operates and to appeal not only to consumers, but also to the informal traders.



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Estimating informal market spend

According to the UCT Unilever Institute report 'Connecting with Survivors', there are a number of different estimates of annual spend in the informal sector in South Africa. StatsSA puts it at R120bn, Haroon Borat (UCT) at R280bn and Loane Sharp (Adcorp) at R680bn – the UCT Unilever Institute estimates the annual informal market spend to be about R285bn.

Whichever figure is correct, this is significant, as marketers targeting the mass market who focus all their attention on the formal sector supply and demand chain, are missing out on huge opportunities.

The UCT Unilever Institute has estimated that there are 2,500 'chain stores' in South Africa, 18,500 independent traders and 80,000+ spazas. According to Trade Intelligence, the independent wholesalers are worth R100bn a year (3% of GDP). The informal sector is growing and changing rapidly.

The mass market is full of consummate entrepreneurs, who are always looking for ways to supplement their income. Informal traders are often foreigners with little loyalty to South African brands and to have any traction in this market, local brands have to work hard to gain exposure - 76% of spaza owners in Soweto are foreign (HSRC) and in other parts of South Africa, the percentage is even higher.

"It is clear that social transformation is taking many different forms in the mass market and that previous assumptions no longer hold true," states Lebo Motshegoa, MD of Foshizi, in an article in the Media Online.

Stokvels increase as young generation adopt the model

"One of the areas in which this transformation is most evident is in the financial services sector. While more people in the mass market now have banking and loan accounts, an altogether different trend is unfolding beyond the confines of traditional banking. A uniquely local institution, the Stokvel, is taking on an entirely new role, especially in the urban areas. Stokvels or savings clubs have been a feature of mass market money management for many years, but now a new generation of young black people are taking the concept into an expanded and even more empowering space," says Motshegoa.

"The traditional savings clubs are being used by a younger, more educated and business-savvy generation in a different way and their knowledge benefits stokvel members in a different way. Stokvels have transformed into investment rather than just savings vehicles. People are often part of multiple stokvels for different purposes, some for big-ticket items. A larger and younger segment of the mass market is taking this traditional savings vehicle into important new territory."

Old Mutual's latest Savings and Investment Monitor reveals the importance of stokvels in an article on Moneyweb. "Informal savings vehicles and funeral policies remain the most popular savings and investment vehicles used by South Africans. Some 76% of black households surveyed make use of informal savings vehicles, which Old Mutual defines as stokvels, burial societies, grocery schemes and unbanked cash savings. Funeral policies remain the largest single savings category, while 41% of respondents said they have no formal retirement savings whatsoever.

"More than 70% of individuals earning R40,000 a month and more put money into informal savings vehicles every month. Old Mutual finds that there has been increased usage across all informal savings types. Stokvels remain the most popular, with 59% of black households surveyed contributing to at least one stokvel and those in higher income categories sometimes contributing to more than one. This is followed by burial societies (34%), grocery schemes (18%) and unbanked cash (18%).

"Contributions made by high-income and low-income groups to stokvels posted a year-on-year increase, while middle-income groups contributed considerably less and dragged the overall average down. The uptick among lower income groups may be because stokvels are now acting both as savings vehicle and personal loan provider, based on Old Mutual's findings."

Multi-generational households

The next trend that Foshizi explored was multi-generational households. Motshegoa says, "Another way in which young black people are re-defining traditional ways of life is by revisiting the concept of the multi-generational household – with a twist. Many professionals and office workers, who have been able to buy houses in the suburbs, find they long for the social structures and way of life in the townships, which are affectionately known as eKasi, an urban term for 'home'.

"Many of the younger generation have moved back in with their parents or parents-in-law, but are expecting more equality. The net effect is that young working people are re-embracing their cultural and geographic roots, but at the same time redefining their roles within the extended family. From a consumer point of view, the additional income they are bringing in from renting out their suburban properties is raising the overall disposable income of township households in a significant way."

Township life is not being abandoned, but it is changing rapidly and brands need to keep in touch with the transforming consumer landscape.

“All of this indicates how rapidly and profoundly the nature and character of the mass market is changing, driven in many ways by access to smartphones and the internet. For marketers of both products and services, this presents a wide array of opportunities, but it does mean that they need to keep their fingers on the pulse of changing trends and to understand that a new world is dawning in the mass market,” concludes Motshegoa.

One way of doing this is for brands to associate themselves with successful newspaper titles in the mass market that have reach across print, online and social media. In order to stay relevant to their readers, these newspapers have to keep up with the mass market. Ads24’s mass market titles, *Daily Sun*, *Son*, *Soccer Laduma* and *Ilanga*, are read by both traders and consumers in the informal sector and, with their digital properties, they have an unduplicated reach of 9.5 million.

According to Brad Aigner, MD of Freshly Ground Insights (FGI), “Advertisers can engage most effectively with the informal sector through these newspapers and their digital properties by being honest, consistent and committed. Do not try to pull the wool over this market’s eyes, because they will catch you. Commit to the mass market for the long term and they will commit to you.”

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