Consumer trends and analyses

Introduction

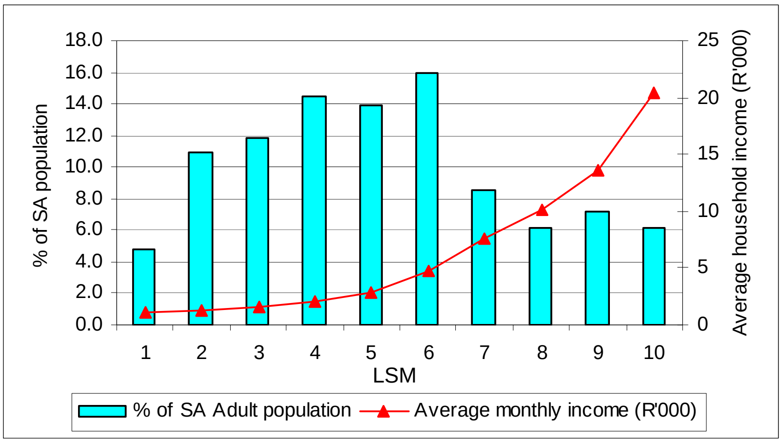
In order to develop a more comprehensive understanding of the models and projections presented in this BFAP Baseline document, it is critical to understand the food consumption trends affecting food demand in the South African context. This section provides a view of food consumption trends in terms of the following aspects:

* The profile of the South African consumer market
* Dynamics in the South African consumer market
* Current consumer food trends in the global agro-food sector
* Current consumer food trends in South Africa: General & new product development perspectives
* The recession diet

A profile of the South African consumer market

South Africa is a diverse nation with a wide variety of wealth groups and cultural denominations spread over urban and rural areas. The South African Advertising Research Foundation (SAARF) has developed a market segmentation tool - the Universal Living Standard Measures (SU-LSM) - based on the socio-economic status of adult consumers in South Africa (SAARF, 2009).

Consumers of lowest socio-economic status form the segment SU-LSM 1 and those of the highest socio-economic status SU-LSM 10.The majority of South African consumers fall within the middle class namely SU-LSM 4 to SU-LSM 7 (about 53% of the total South African adult population in 2007) (SAARF, 2008)



The SU-LSM segments: Proportion of SA adult population & average monthly household income in 2007
(SAARF, 2008)

A summary profile of the South African consumer market is presented in the following table, based on a classification system[1] distinguishing between marginalised consumers (LSM 1 to 3), modern emerging consumers (LSM 4 to 6) and modern established consumers (LSM 7 to 10).

[1] Proposed by AC Nielsen (Source: ACNielsen, 2005)

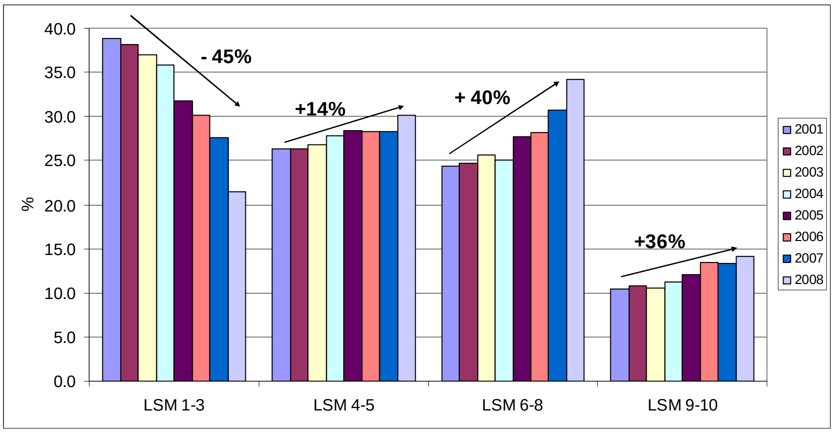
A summary profile of the South African consumer market

Descriptor:	Marginalised consumers:	Modern consumers:	
		Emerging:	Established
Share of SA population[2]	21.5%	48.0%	30.5%
SU-LSM classification[2]	LSM segments 1 – 3	LSM segments 4 - 6	LSM segments 7 - 10
Average monthly household income[2]	LSM 1: R1071 LSM 2: R1414 LSM 3: R1783	LSM 4: R2540 LSM 5: R3085 LSM 6: R5396	LSM 7: R8719 LSM 8: R12291 LSM 9: R16328 LSM 10: R23102
Gender[2]: % Male / % Female	LSM 1: 42.1% / 57.9% LSM 2: 43.1% / 56.9% LSM 3: 50.4% / 49.6%	LSM 4: 52.3% / 47.7% LSM 5: 51.0% / 49.0% LSM 6: 49.3% / 50.7%	LSM 7: 49.6% / 50.4% LSM 8: 51.1% / 48.9% LSM 9: 51.4% / 48.6% LSM 10: 52.4% / 47.6%
Formal unemployment[3]	LSM 1: 49% LSM 2: 40% LSM 3: 38%	LSM 4: 38% LSM 5: 37% LSM 6: 26%	LSM 7: 16% LSM 8: 14% LSM 9: 7% LSM 10: 4%
Rural share of group[2]	LSM 1: 100.0% LSM 2: 91.7% LSM 3: 80.9%	LSM 4: 64.4% LSM 5: 40.5% LSM 6: 16.3%	LSM 7: 7.4% LSM 8: 6.9% LSM 9: 4.8% LSM 10: 7.5%
Highest education level[2]	**LSM segment 1:** 16% 46% 33% 5% 0%	--→ No formal education Primary schooling Some high schooling Matric Post-matric	**LSM segment 10:** 0% 0.4% 17% 35% 48%
Main provincial location[2]	KZN, E Cape, Limpopo	Gauteng, W Cape, KZN	Gauteng, W Cape
Refrigerator in home[2]	LSM 1: 0% LSM 2: 7.2% LSM 3: 34.4%	LSM 4: 64.2% LSM 5: 88.4% LSM 6: 95.8%	LSM 7: 97.7% LSM 8: 98.2% LSM 9: 98.7% LSM 10: 99.8%
Microwave oven in home[2]	LSM 1: 0% LSM 2: 0% LSM 3: 3.2%	LSM 4: 11.0% LSM 5: 30.5% LSM 6: 72.7%	LSM 7: 93.0% LSM 8: 96.4% LSM 9: 97.0% LSM 10: 99.2%
Retail shopping frequency: % of consumers in group engaging in monthly bulk shopping[4]	LSM 1: 68% LSM 2: 58% LSM 3: 57%	LSM 4: 52% LSM 5: 52% LSM 6: 53%	LSM 7: 48% LSM 8: 50% LSM 9: 48% LSM 10: 40%
Estimated share of total SA household income[4]	<10%	>20%	>60%
Food expenditure patterns: : estimated expenditure on dominant food groups as share of total food expenditure within wealth category[5]	Bread & cereals: 29% Meat: 23% Vegetables: 11% Dairy, eggs: 8%	Bread & cereals: 22% Meat: 28% Vegetables: 9% Dairy, eggs:10%	Bread & cereals: 13% Meat: 25% Vegetables: 9% Dairy, eggs: 11%

[2] SAARF, 2009
[3] SAARF, 2008
[4] Calculations based on the data from SAARF, 2009
[5] Calculations based on data from STATSSA, 2008

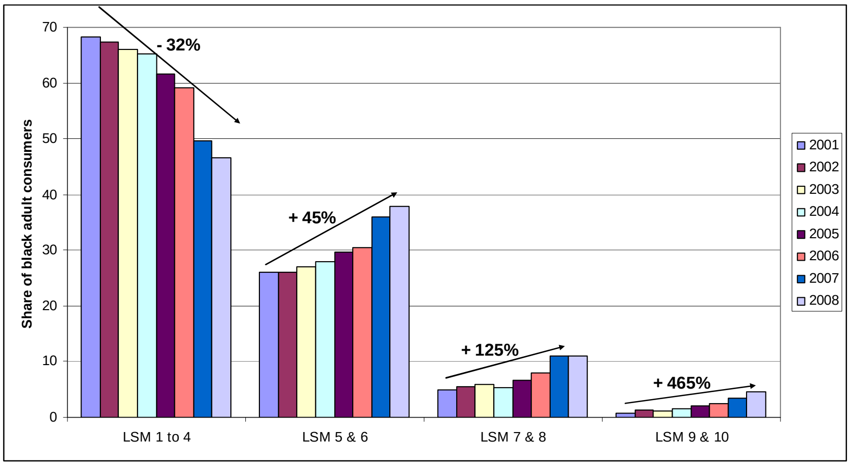
Dynamics in the South African consumer market

South African consumers are characterized by class mobility, where consumers migrate to higher LSM groups driven by economic growth, socio-economic empowerment and consequent increased wealth levels. The graph illustrates the dramatic decrease in the share of the South African adult population classified within LSM segments 1 to 3 from 2001 to 2008, accompanied with an increase in the share of the adult population classified within the other segments, especially within LSM segments 6 to 8 (the upper middle class) followed by LSM segments 9 to 10.



LSM class mobility: All adults during the period 2001 to 2008
(calculated from AMPS data for the period 2001 to 2008)

A prominent sub-segment within the growing middle class is known as the 'new black middle class', also referred to as the 'Black Diamonds' (by the UCT Unilever Institute of Strategic Marketing), representing about 12% of black adults and just over 20% of the purchasing power in South Africa.



LSM class mobility: A focus on black consumers during the period 2001-2008
(calculated from AMPS data for the period 2001 to 2008)

The movement of black consumers to higher wealth levels is evident from the graph, indicating that from 2001 to 2008 the share of black adults in LSM segments 1 to 4 decreased by 32%, accompanied with an increase in the share of black adults in LSM segments 5 and 6 (45% increase), as well as LSM segments 7 and 8 (125% increase). The share of black adults in LSM segments 9 and 10 increased dramatically from 2001 to 2008, but from a minimal base (0.8% to 4.6% of all black adult consumers in South Africa).

An extended LSM model:
Due to this mobility within the South African consumer market, especially among middle- and upper class consumers, the 10 LSM segments are no longer regarded as sensitive enough to differentiate between the increasingly complex behaviour of these groups. A statistical re-iteration of the existing LSM criteria (AMPS 2008) has resulted in an effective 14 LSM model, with increasing differentiation among middle- and upper class consumers (Muller, 2009).

Consumer trends and analyses: Global consumer food trends (1)

Globalization and the prominence of the information era are key realities linking South African consumers to the global agro-food environment. Due to the spillover of international consumer food trends into the local consumer market, it is critical to understand the trends shaping the global agro-food environment, before taking a closer look at South Africa.

This section provides an overview of the main global food trends (*as interpreted from Shaw, 2008a & 2008b; SIAL, 2008; Mintel Global New Products Database, 2008; Lukovitz, 2009; Mellintin, 2008; Sloan, 2009*), encompassing consumers' increasing focus on:

- Health
- Indulgence (pleasure)
- Convenience
- Ethical / environmental issues

It is critical to note that successful food products usually rely on '***double-positioning strategies'***, where food products are designed to address at least two (or more) consumer food trends.

<u>Health</u>

Consumers are (still) increasingly focused on improved vitality through their food choices.

Popular dimensions of the health trend include:

- Naturality (e.g. 'all natural', absence of additives/preservatives, organic, whole grain
- Functional promises associated with the medical trend
  - Naturally functional foods and whole food nutrition
  - 'Plus-claims', e.g. added vitamins or calcium
  - Heart health (e.g. salt reduction)
  - Body fat reduction (e.g. CLA to increase lean muscle mass)
  - Gut health (e.g. pre- and probiotics in fermented dairy foods)
- 'Feel the benefit' – functional foods/beverages with benefits that consumers can actually feel (i.e. less intangible functional benefits)
- Fruit as functional ingredients
- Dieting often associated with 'minus-claims' (e.g. low-fat, fat-free, reduced sugar, no calorie products with improved satiety qualities)
- Other 'minus-claims' (e.g. low/no/reduced trans fat, allergy related claims)
- Digestive health
- Vegetarianism
- Renewed food safety concerns in terms of pathogens, chemicals, food additives/preservatives and food allergies

Supporting evidence…

- Health-related claims accounted for at least 33% of product claims at the SIAL 2008 Trends and Innovations Observatory, specifically focused on 'medical' trends (12%), naturality (11%) and dieting (10%). Among the top 15 products naturality was relevant to 20% of products.
- According to the Mintel Global New Products Database:
  - Naturality claims dominated within new product releases during 2008 (23% of total new product claims versus 20% in 2007), specific claim examples include 'all natural' (15%), 'no additives'/'no preservatives' (14%) and 'organic' (12%).
  - 'Plus' claims (i.e. fortification) applied to 5% of total new product claims in 2008 (versus 6% in 2007).
  - 'Minus' claims were relevant to 18% of total new product claims in 2008 (versus 17% in 2007). Specific claim examples include low/no calorie (7%), no/reduced trans-fat (9%).

Consumer trends and analyses: Global consumer food trends (2)

Indulgence

Indulgence could be described as consumers' need for exciting, diverse and more sophisticated food experiences to ensure more pleasure, intensity and sensation.

Popular dimensions of the indulgence trend include:

- Refined product presentation (including product format, packaging and labeling)
- Proliferation of new tastes and flavours through new food varieties with rare or noble ingredients (e.g. cheese products at SIAL 2008) and new and interesting taste combinations to boost a variety of senses (e.g. meat/deli/poultry products at SIAL 2008 where meat products are combined with new tastes (e.g. fruit or cheese). Stander (2009) provides a particularly good description of the indulgence movement - "…*a fusion of flavours, colours and texture to give the palate a rich experience*…"
- Experiencing foods from other cultures

Supporting evidence…

- Indulgence-related claims accounted for at least 42% of product claims at the SIAL 2008 Trends and Innovations Observatory, specifically focused on sophistication (18%), variety of senses (12%), exotism (6%) and fusion (6%). Indulgence was relevant to 92% of the top 15 products.

Convenience

Consumers are increasingly challenged with insufficient time in their daily schedules, impacting significantly on their food preparation and consumption behaviour.

Popular dimensions of the convenience trend include:

- Ready-to-eat meals – with or without reheating (i.e. outsourcing meal preparation)
- Fragmented eating occasions (i.e. a stronger focus on snacking and eating on-the-go)
- Speed shopping and increased shopping frequency
- Children nutrition – making parents' role easier
- Healthy snacks
- Packaging innovation to improve convenience

Supporting evidence…

- Convenience attributes accounted for at least 10% of product trends at the SIAL 2008 Trends and Innovations Observatory. Among the top 15 products convenience was relevant to 69% of products. However, it is important to note that in all relevant products convenience was double-positioned with other attributes – e.g. the combination of convenience and indulgence was evident in 62% of the top 15 products.
- According to the Mintel Global New Products Database convenience claims were associated with 12% of total new product claims (versus 10% in 2007), e.g. 'microwaveable' (10%)

Ethical / environmental issues (Going 'green')

Consumers are increasingly concerned with environmental and social sustainability.

Popular dimensions of the indulgence trend include:

- Certified organic, free range and fair trade products

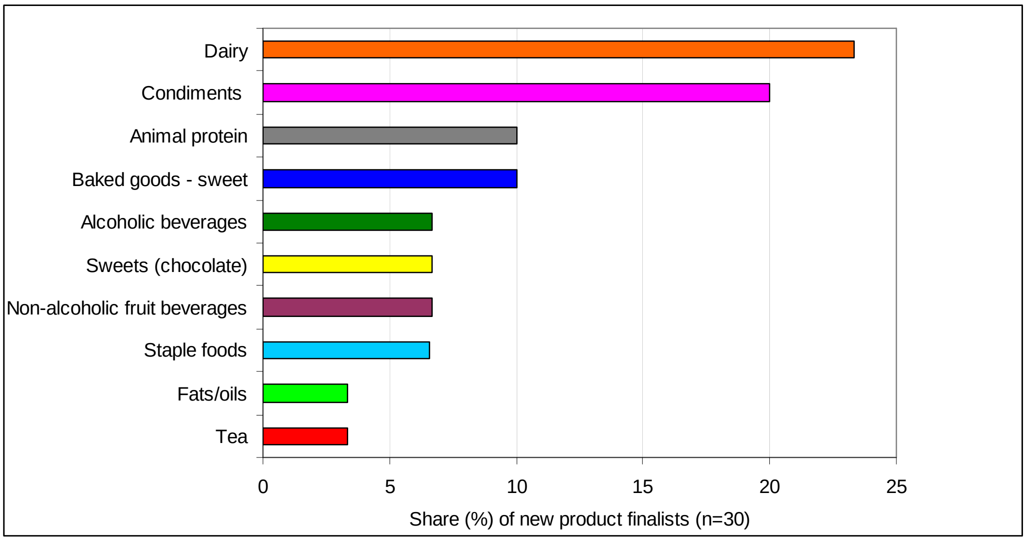
Supporting evidence…

- Ethical or environmental attributes accounted for 15% of product trends at the SIAL 2008 Trends and Innovations Observatory among the top 15 products.
- According to the Mintel Global New Products Database, ethical or environmental claims were associated with 5% of total new product claims (2% in 2007).

Consumer trends and analyses: Are South African consumers part of the global village? (1)

In order to investigate the reflection of global food trends in South Africa a new product development perspective was taken to identify the most prominent food trends in the South African food sector, based on an attribute analysis of the 30 best new food products on South African retail shelves during 2007/2008, as identified within the 16th annual Symrise/Food Review New Product Competition (Shaw 2008c, 2009a, 2009b). This section presents a qualitative and statistical analysis of the relevant food trends addressed by these products, divided into trend groups and specific trends.

Innovative product categories:



Frequency analysis of innovative product categories

Dairy products (e.g. milk and yoghurt) as well as condiments (e.g. bread spreads, sauces, seasonings, dips) dominated the new product selection, followed by animal protein foods (fish and chicken) and baked goods (cookies). It is interesting to note that innovation was also observed within a very unlikely product category – staple foods (specifically in terms of an instant maize porridge and a canned samp and beans product). The canned samp and beans also won the best product of the year award.

Trend analysis: A focus on the main trend categories

Double-positioning strategies (relying on at least two or more trends) were applicable to 80% of the new products evaluated.

The main trends among these products were indulgence, convenience and health:

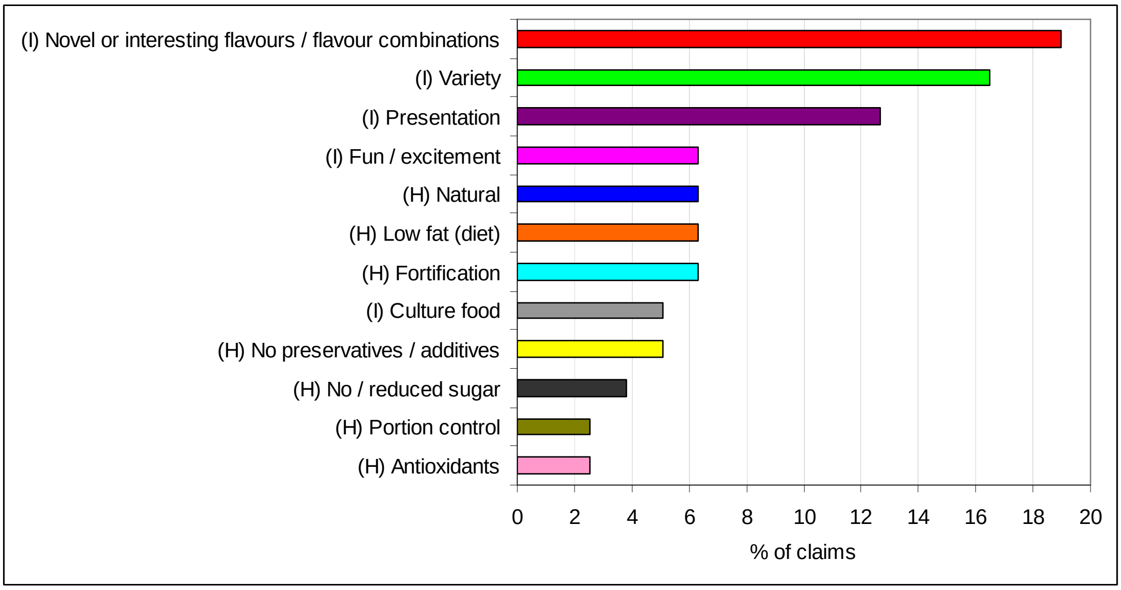
Trend:	New products South Africa		SIAL 2008
	Share of new products	Share of (main) claims	Share of claims
Indulgence	73%	33%	42%
Convenience	67%	30%	10%
Health	63%	28%	33%
Children focus	17%	8%	*Not reported*
Ethics	3%	2%	15%

When comparing the new product trends in South Africa with the SIAL 2008 data reported earlier, it is evident that:

- Indulgence and health are important in the global and South African contexts, even though the incidence of these claims for new local products is slightly lower.
- Convenience is still an important trend in South Africa, being applicable to 30% of new products compared to only 10% at SIAL 2008.
- Ethical issues are significantly more important globally than in South Africa.

Consumer trends and analyses:
Are South African consumers part of the global village? (2)

Trend analysis: A focus on the specific trends



Dominant specific trends associated with new products in South Africa, related to health (H) and indulgence (I)

When considering more specific trends, the dominant trends reflected the specific dimension of the indulgence trend (Novel or interesting flavours or flavour combinations; Variety; and product presentation) followed by a selection of trends with a stronger health focus.

Other specific trends occurring in a very limited number of new products were food safety, absence of trans-fats, lower saturated fats, environmentally friendly, free range (animal welfare) and Low GI.

Examples of new product attributes reflecting the various main trends:

Trend:	Examples:
Indulgence	▪ Novel flavours and combinations, e.g. rooibos and ginger spread ▪ Indulging in the African culture with canned samp and beans ▪ Product presentation, e.g. a non-alcoholic premium grape and rooibos-based drink packaged in an extremely stylish bottle with a minimalistic labeling style ▪ Variety of flavours offered within certain product ranges ▪ Ice cream fun – jelly textured water ice with jelly ball inclusions
Convenience	▪ Instant maize porridge ▪ Serving size packaging formats ▪ Individually wrapped cookies ▪ Pre-mixed food preparation spices for fish ▪ Pre-pared cooked chicken
Health	▪ Fortification with specific vitamins, minerals and omega-3 fatty acids ▪ Fruit beverage with naturally occurring antioxidants ▪ Chocolate free of dairy ingredients and sugar (sucrose) ▪ Savoury snack with less fat and no trans fats ▪ Cookies free of artificial colourants, flavourants or trans fats ▪ Low fat hummus and tzatziki ▪ Chocolate enriched with antioxidants
Children focus	▪ Innovative ice cream snack ▪ Portion size healthier savoury snacks ▪ Individually wrapped healthier cookies
Ethics	▪ Free range milk encompassing environmental and animal welfare components

But what about the economic recession?

The previous two sections dealt with the food consumption mega-trends globally and in South Africa. However, given the current unfavourable economic climate it is critical to consider its potential impact of food consumption trends, even though it makes it extremely difficult to predict the future direction of agro-food market trends. This section will present an overview of potential consumption changes and examples of food demand implications associated with what some have termed the 'recession diet', based on an international literature review (Featherstone, 2009; Stander, 2009; Sloan, 2009; Hale, 2009).

THE RECESSION DIET: WHAT COULD BE ON THE CONSUMERS' PLATE (AND MIND)?

- Despite the recession, many experts predict that consumers will still demand high quality, indulgence, naturality and health/wellness/nutrition in their food offering (satisfied within an even more limited budget).
- The recession diet could even involve an increased focus on health and wellness, since consumers want to avoid illness during such uncertain times.
- ***Finding comfort in little luxuries:***

Increased sales of smaller indulgence items for personal emotional comfort, to remind the consumer of fun times and to serve as important social cues if necessary. Luxuries will vary between consumers e.g. chocolate or steak or a good bottle of wine. The indulgence dimension of 'little luxuries' could encompass both old favourites (e.g. chocolate) and the new indulgence trends such as foods with novel flavour combinations.

- ***Increased incidence of at-home meal consumption (less restaurant eating):***

This potential trend could have at least three manifestations: Increased at-home consumption of fast foods, ready-to-eat meals or home cooked foods. Some consumers might purchase take-away fast food or pre-packaged convenience foods (with no or limited at-home preparation) to be consumed at home. However, experts predict a major return to home cooking in the traditional sense, but also with a sophisticated twist (e.g. at-home preparation of restaurant quality food, experimenting with new recipes involving a diversity of flavours and experiences, as well as ethnic food (e.g. adding pesto to dishes for the Mediterranean feel). Increased home cooking could lead to an increased demand for the ingredients of home cooked meals such as meat (more affordable cuts?), raw vegetables, starches (e.g. rice and pasta), breakfast meats, spices/seasonings and sauces. Consumers could also use selected convenience alternatives within their home-cooking, e.g. an instant sauce and meal kits making home cooking or baking easy and failure proof (e.g. instant muffin mixes). Home cooking could also involve a return to one-pot-meals utilizing less expensive meat cuts.

- ***More entertaining at home:***

Consumers' increased participation in at-home entertainment could stimulate demand for a number of products, such as savoury appetizers, social snack foods and dips, food ingredients (e.g. vegetables, meat for braai – but which types and cuts will be viewed as affordable?, and beverages). Entertainment with one-pot-meals could also become popular.

- ***Other dimensions of food purchasing behaviour:***

o Shopping at more affordable retail outlets
o Reduced purchase frequencies (could stimulate demand for products with a longer shelf life)
o Reduced impulsive shopping behaviour
o More meal and grocery shopping planning
o Downscaling from premium to mid-tier or value brands
o Increased sales of housebrands, economy size packs or perhaps larger size containers with 'free' product / bulk buying
o Increased coupon redemption
o Selection of products with reusable food packaging

- ***Further potential outcomes:***

o Reduced consumption of functional foods if the consumer cannot feel the benefit
o Reduced consumption of processed foods
o Reduced bottled water consumption (replaced with tap water consumption?)
o Reduced meat intake, substituted with staples or vegetables
o A focus on less expensive meat types and meat cuts
o Reduced consumption of alcoholic beverages
o Reduced growth in certain sustainable categories e.g. green products and organics

References:

AC Nielsen. 2005. A country divided – Consumer spending trends in the dual economy. AC Nielsen Market Intelligence Report. 15 April 2005. Available on the World Wide Web at www.foodreview.co.za

Featherstone S. 2009. Natural & free: food packaging trends 2009. Food Review. 24 February 2009. Available on the World Wide Web at www.foodreview.co.za

Hale T & Russo J. 2008. How to cope during difficult economic times. The Nielsen Company. Consumer insights. Issue 14. Available on the World Wide Web at http://en-us.nielsen.com

Lukovitz K. 2009. 'Natural' claims most common on new F & B products. MediaPost News. 19 January 2009. Available on the World Wide Web at www.mediapost.com

MARTINS, J.H. (2006). Total household cash expenditure in South Africa by Living Standard Measure (LSM) group and product, 2005. Research report no. 347, Pretoria: Bureau of Market Research.

Mellentin J. 2008. 10 Key trends in food, nutrition and health 2009. New Nutrition Business.

MINTEL. 2008. The Global New Products Database. Available on the World Wide Web at www.gndp.com

Muller G. 2009. The new 14 LSM model. Pushprint. 26 February 2009. Available on the World Wide Web at www.pushprint.co.za

SAARF. 2008. *SAARF Segmentation Handbook* - Based on AMPS 2007B and AMPS 2008a. Johannesburg: South African Advertising Research Foundation.

SAARF. 2009. *SAARF Trends 2004 - 2008*. Johannesburg: South African Advertising Research Foundation, January 2009

SIAL. 2008. Trends and innovations award. Available on the World Wide Web at http://en.sial.fr

Shaw L. 2008a. SIAL 2008 – Health and sophistication axes show strongest progress. Food Review. Novermber / December 2008. pp.6&9

Shaw L. 2008b. Food Ingredients, What's Hot. Food Review. March 2008. Available on the World Wide Web at www.foodreview.co.za

Shaw L. 2008c. New product competition 2008 gets off to good start. Food Review. 1 January 2008. Available on the World Wide Web at www.foodreview.co.za

Shaw L. 2009a. Innovation high in round two. Food Review. 22 January 2009. Available on the World Wide Web at www.foodreview.co.za

Shaw L. 2009b. Top marks for simplicity. Food Review. 22 January 2009. Available on the World Wide Web at www.foodreview.co.za

Sloan AE. 2009. Top 10 food trends. Food technology. April 2009. Available on the World Wide Web at www.ift.org

Stander A. 2009. Food and beverage trends 2009. Food Review. 16 March 2009. Available on the World Wide Web at www.foodreview.co.za

Statistics South Africa (2008). Income and expenditure of households, 2005/2006. Statistical release P0100. Pretoria: Statistics South Africa, 4 March 2008.

NOTES