

### 3.4

## SHIFTS IN CONSUMER BEHAVIOUR

The lockdown forced a change in consumer behaviour and habits. The approach to work and how people interacted with retail businesses has fundamentally changed. Businesses have had to adapt to a significant drop in consumption patterns whilst ensuring adequate realignment of working capital and workforce utilisation. Businesses had to re-invent their business models to ensure that they could compete in these shifting circumstances and, in some cases, ensure that they take advantage of unprecedented demand for some products.



“Consumer confidence in South Africa rose to -23 in the third quarter of 2020 after hitting a 35-year low of -33 in the prior period, amid the gradual lifting of lockdown restrictions and the resumption of economic activity, which allowed most of the businesses to reopen. Main improvements were seen in the financial outlook of households and the purchase of durable goods.” SOURCE: Bureau of Economic Research, SA Consumer Confidence, 7 September 2020.

TOP 5 CHALLENGES TO ACHIEVING TARGETS	TOP 5 RISK TREATMENT OPTIONS AND OPPORTUNITIES
<ol style="list-style-type: none"> <li>1. Regulations: Uncertainty in regulations has made it difficult for consumers to buy (hoarding) or retailers to predict demand (stock-outs).</li> <li>2. Shift in habits: Shifts in consumer shopping habits – larger basket/fewer trips to shop</li> <li>3. Mobility: Restriction of movement caused a surge in the move to online shopping. Supply chain processes, delivery logistics and technology.</li> <li>4. Extremes: Demand for some goods/services have declined (record lows in hospitality) whilst others have soared (record highs in online entertainment). Impact of public sector consumers</li> <li>5. Temporary or permanent: Difficult to predict which behaviour changes are temporary or which are permanent.</li> </ol>	<ol style="list-style-type: none"> <li>1. Government will need to strike a balance between economy and addressing the pandemic. Early communication to allow businesses to plan and manage risks, e.g. liquor regulations, food purchasing vs clothing.</li> <li>2. Businesses need to be agile in scaling operations up or down based on changes in buying patterns.</li> <li>3. Businesses need to reconfigure production, supply chains, operations and marketing to adapt/respond to shifts in consumer needs.</li> <li>4. Re-evaluate traditional business models and use a “blank page” strategic approach. May need to change the vision and business to a completely new direction, e.g. use 3D capability to produce ventilators.</li> <li>5. Build capability to monitor shifts in behaviour on a more regular basis. Understand your own business risk indicators and impacts, e.g. remote working and e-commerce may be more enduring compared to air travel.</li> </ol>

### FACTS AND FIGURES

#### FIVE FUNDAMENTAL SHIFTS IN CONSUMER BEHAVIOUR – SOUTH AFRICA

- Up to 45% shift to value and essentials.
- Up to 90% to digital and omnichannel.
- 79% changed stores, brand or the way they shop.
- 460% are not yet resuming “normal” out of home activities.
- 88% intend to maintain or reduce holiday shopping spend.

#### ONLINE

- Online purchases have grown between 6 to 10 percentage points across most product categories.
- 56% of individuals in SA use the internet, yet only 8% shop online – reflects structural inequality.

#### ENERGY

- 20 April 2020, the global petroleum industry witnessed a historic plummeting of benchmark US oil below \$0 a barrel.
- Sasol fuel sales target for 2020 cut to 50-51 million barrels compared to 57-58 million barrels previously.

Source: UNCTAD, 8 October 2020, Covid-19 and E-Commerce Survey, McKinsey and Company, South Africa Consumer Sentiment during the Coronavirus Crisis, 5 November 2020, Norton Rose Fulbright, Liezl Oberholzer, May 2020, Reuters, 8 April 2020.

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## EXPERT OPINION

Never in recent history has an event created such uncertainty in global markets and behaviours. Whilst the 2008 Financial crisis led to a recession due to the impact on the demand side of economies, it didn't have as severe an impact as what Covid-19 has had on the global supply of products and changes in consumer behaviour.

Lockdown regulations around the world have changed the way in which people live, work and socialise. Some of these changes may be temporary – for example: spending less and reducing social interaction. However, many may be more permanent in nature – for example: the use of omnichannel or online retail, blended learning and online meetings.

These trends cannot be predicted with any form of certainty and have created new challenges for businesses when adapting to this new market and their client expectations.

Given structural inequality in South Africa, consumers reacted differently depending on their socio-economic circumstances. The consequences of how Covid-19 impacted individuals and their financial circumstances also led to high segmentation of the market depending on:

- Disposable income
- Down-buying, even on essential goods and services
- Access to markets and channels to retailers

In South Africa, the initial lockdown regulations were particularly strict, with the banning of sales of cigarettes and alcohol, as well as limited online and physical retail. Consumers, depending on their socio-economic status or living conditions, responded differently. For example: while many people stopped smoking or drinking, the black-market sales of cigarettes and alcohol soared.

It is unclear whether consumer behaviour in these two products has changed permanently or temporarily. What has changed is that all consumers, given concerns around disposable income and debt, are more conscious of budgets and the amounts that they are spending on luxury or non-essential items. Based on a recent McKinsey study, they plan to continue doing so in future.

The shift is not just due to concerns regarding income. An increase in remote working has led to lower fuel sales and a significant increase in e-commerce and online entertainment. Consumers are also more aware of what impacts on their health, and therefore more circumspect regarding the brands they consider when shopping online. The average size of online baskets has increased, as more consumers choose to make fewer trips to their local retailers. There is a rise in – and awareness of – the value of local or community-based small business production. Many countries are urging people to buy local to boost their flagging economies.

Travel, particularly tourism, has been severely impacted. While the recent lockdown regulations allow travel to certain countries, consumers are choosing to holiday locally, mainly due to concerns around the return of restrictions and uncertainty around the regulations of other countries.

South Africa and its businesses have responded in various and inventive ways. We are currently at our lowest interest-rate cycle ever. Businesses have changed their interactions with customers, using online and more traditional methods of enticing consumers. Brands have increased investment in online-purchasing experiences and increased transparency around how they leverage their supply chain to ensure that consumers are getting value and remain safe. Consumer reactions to lowered interest rates and the increased supply of goods at discounted prices may yet create another shift in expectations that businesses will need to monitor.

Since it is very difficult to predict consumer behaviour, it is important for businesses to build capabilities within their companies to ensure quicker and more confident reactions when faced with changes. Businesses must find new ways to engage with their customers so that they can be at the forefront of change. As consumers deal with the "New Normal" or the "Next Normal", it is imperative that businesses not only keep track of changing customers' needs but pre-emptively strike to influence their behaviour.