

Corporate and Investment Banking

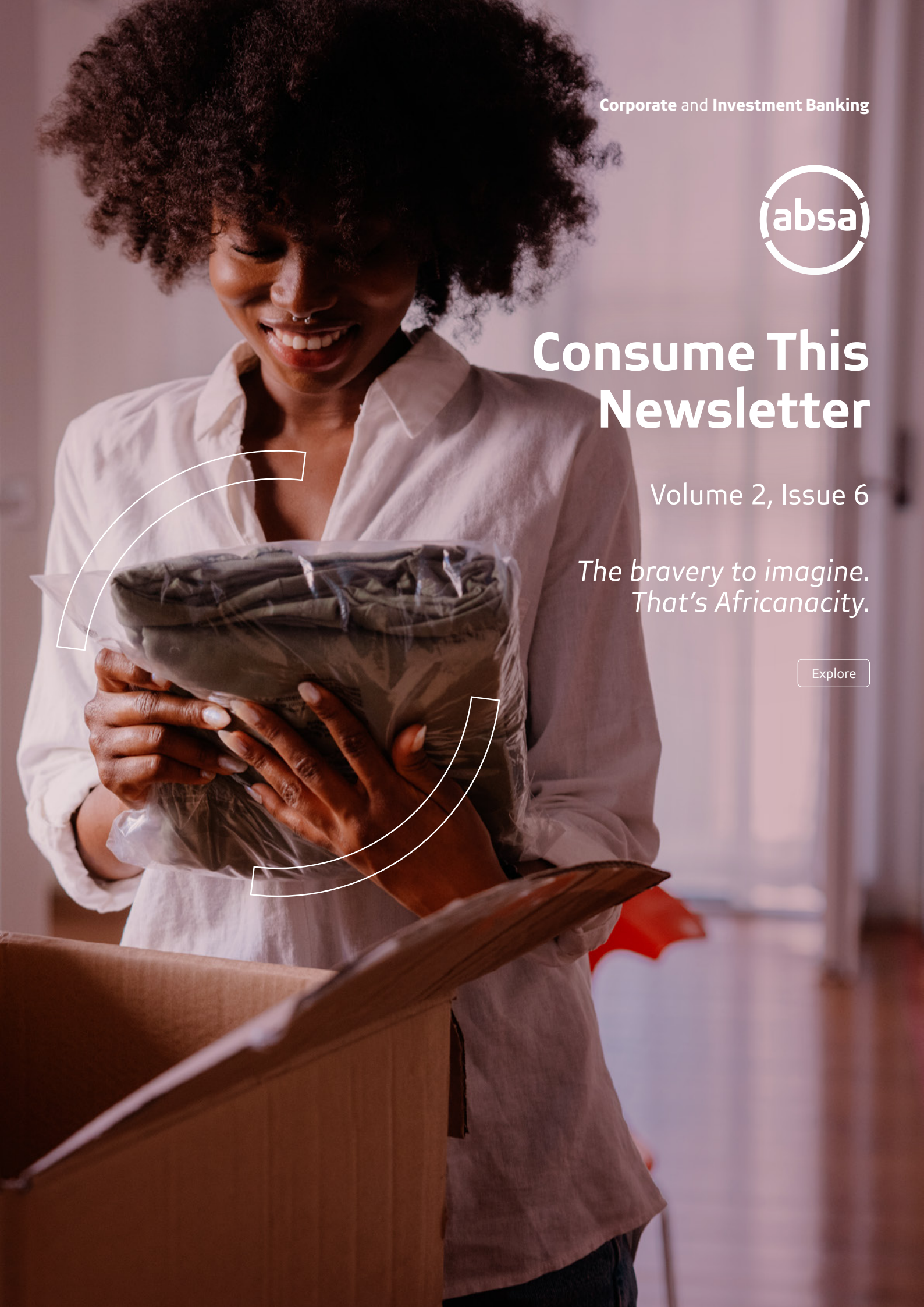


# Consume This Newsletter

Volume 2, Issue 6

*The bravery to imagine.  
That's Africanacity.*

Explore



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# Welcome to the Consume This Newsletter

This publication aims to give you the latest news in the consumer goods and services sector and shares some of our key insights and findings. The coronavirus has upended the world and the people who live in it, and this can especially be seen in consumer spending behaviour. We consistently try to highlight consumer priorities, constraints and new patterns that emerge and are likely here to stay long after we recover from this pandemic. Our hope with the Consume This content is to share our views on how retail and related sectors are being shaped by the current and other events in this fast-changing world.



# Woolworths's electric fleet

## Rocking down to electric avenue

Woolworths has rolled out 75 electric vehicles as part of its food delivery fleet to service Cape Town, Durban and Johannesburg. Even though this move will reduce their dependence on the ever-rising fuel prices, the main aim of this project is in line with their publicly articulated sustainability goals – to achieve nett-zero carbon emissions by 2040.<sup>1</sup>

They have partnered with DSV, a global logistics provider, and Everlectric, a vehicle charging station provider, for this rollout.

These vans will be used to service their online scheduled orders, which allow customers to do more shopping than is available through their Dash app. A 10-month trial of two vans showed that they can travel up to 240 km on one charge.<sup>2</sup>

The rollout will result in up to 70% of the retailer's fleet being powered by electricity, which according to the figures from the trial, will have the potential to save 700 000 kg of tailpipe carbon emissions annually.

"We are investing in this new innovation as it's fundamental to our values as a business. However, what we save in petrol will be invested into the new technology and rollout."

"Woolworths may add some charging stations at certain stores," they said.

This certainly is another great initiative from our retailers in corporate South Africa, using a challenging economic and environment concern as a strategic lever to increase their brand value, create jobs, and stay at the forefront of being impactful as an organisation.



<sup>1</sup> <https://www.businesslive.co.za/bd/companies/retail-and-consumer/2022-06-06-woolworths-to-use-electric-delivery-vehicles-to-cut-emissions/>

<sup>2</sup> <https://www.businesslive.co.za/bd/companies/retail-and-consumer/2022-06-06-woolworths-to-use-electric-delivery-vehicles-to-cut-emissions/>

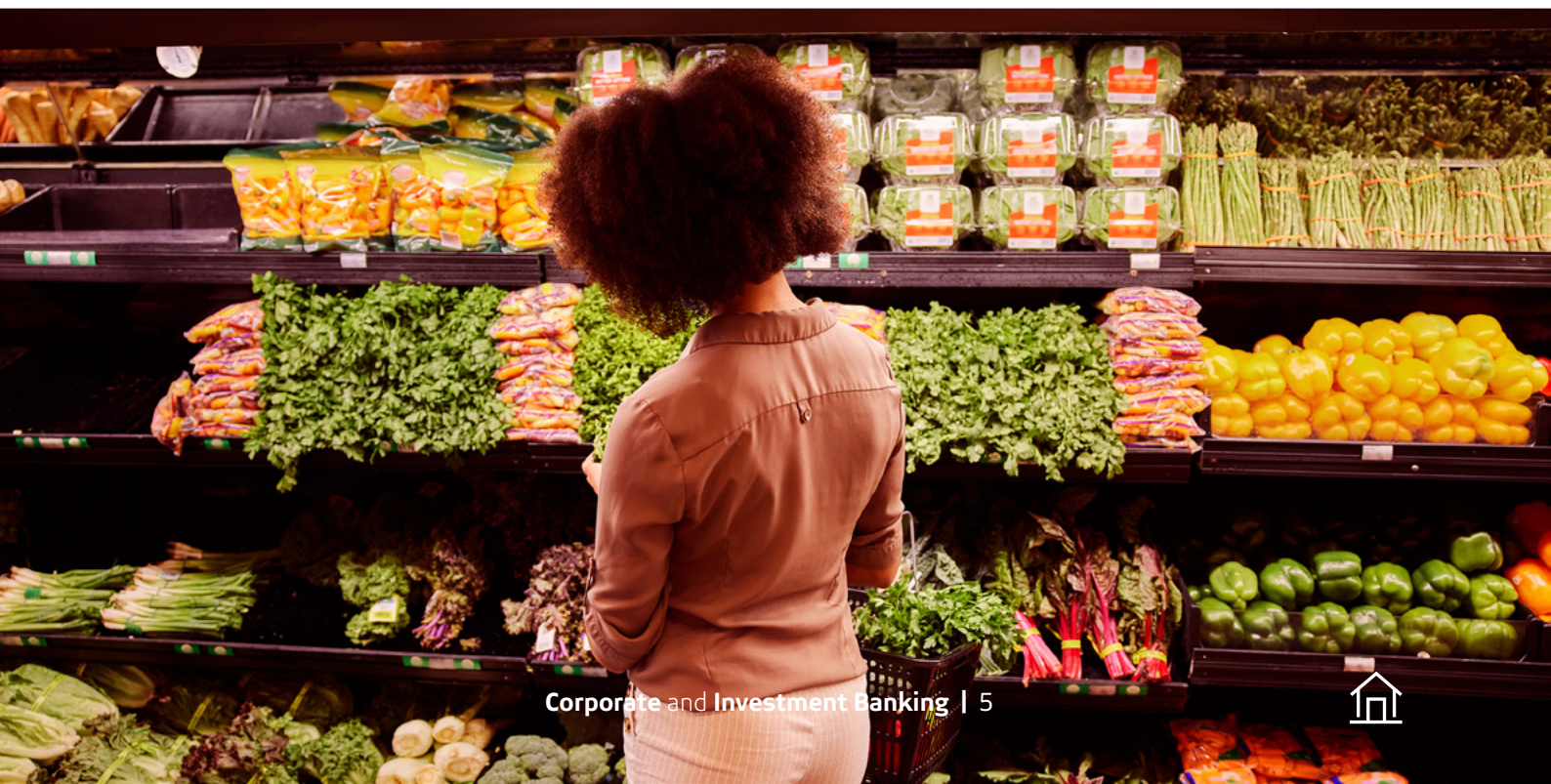


# June merchant spend analysis

## Shifting down a gear

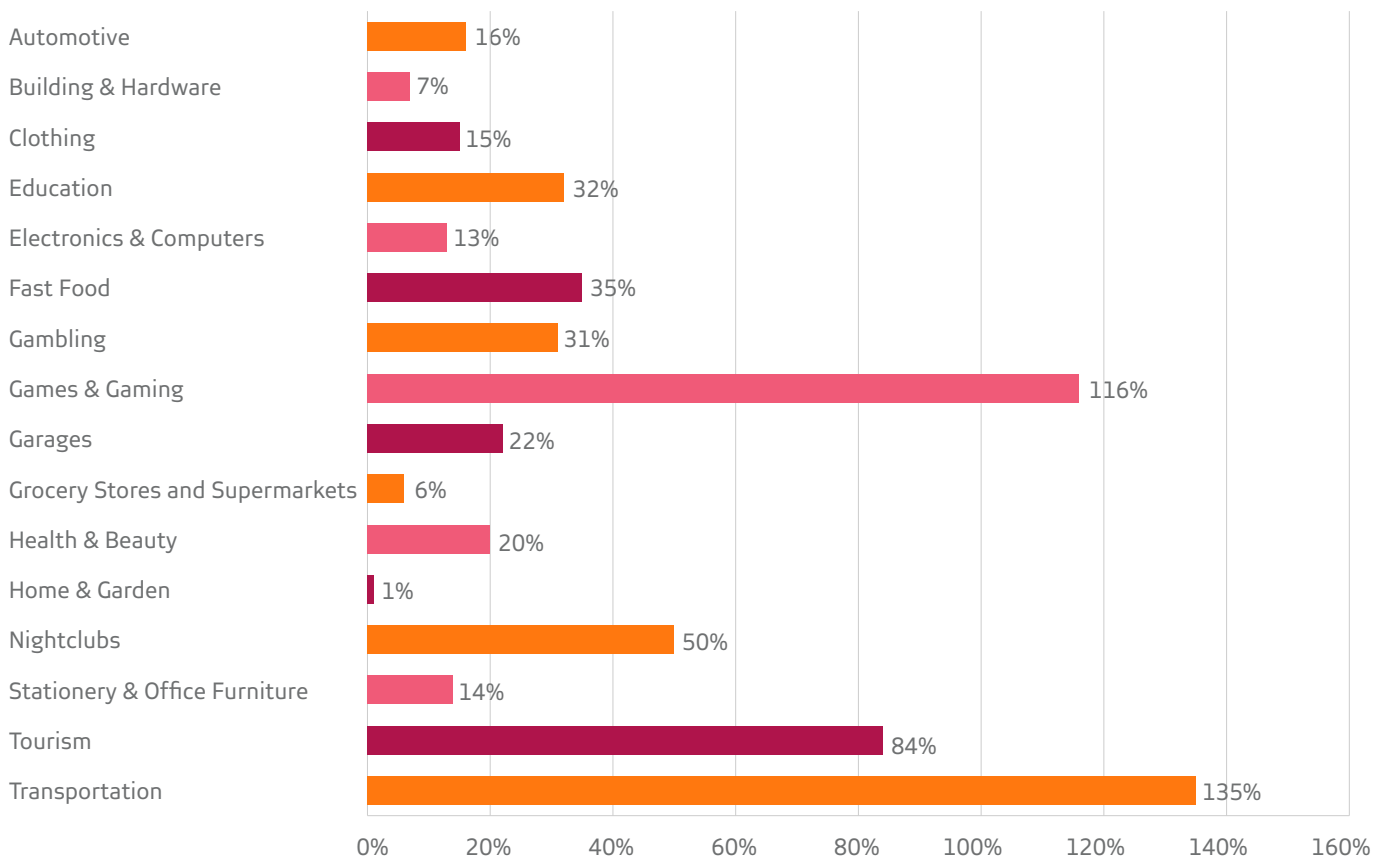
For the month of June, merchant spend growth has remained stable across categories. Home and Garden and Building and Hardware continue on their deceleration without any signs of turning around. Education, Tourism and Transportation are the isolated categories achieving accelerating growth, while the other spend categories are experiencing a deceleration.

| YTD May                         | 2020-2021 | 2021-2022 | CAGR | Full year (2020-2021) |
|---------------------------------|-----------|-----------|------|-----------------------|
| Automotive                      | 42%       | 16%       | 28%  | 23%                   |
| Building and Hardware           | 48%       | 7%        | 26%  | 20%                   |
| Clothing                        | 37%       | 15%       | 26%  | 20%                   |
| Education                       | -6%       | 32%       | 11%  | 5%                    |
| Electronic and Computers        | 51%       | 13%       | 31%  | 23%                   |
| Fast Food                       | 79%       | 35%       | 55%  | 46%                   |
| Gambling                        | 48%       | 31%       | 39%  | 39%                   |
| Games and Gaming                | 741%      | 116%      | 326% | 432%                  |
| Garages                         | 26%       | 22%       | 24%  | 26%                   |
| Grocery Stores and Supermarkets | 5%        | 6%        | 5%   | 4%                    |
| Health and Beauty               | 10%       | 20%       | 15%  | 12%                   |
| Home and Garden                 | 60%       | 1%        | 27%  | 21%                   |
| Nightclubs                      | 113%      | 50%       | 79%  | 71%                   |
| Stationery and Office Furniture | 40%       | 14%       | 26%  | 25%                   |
| Tourism                         | 0%        | 84%       | 36%  | 39%                   |
| Transportation                  | -18%      | 135%      | 39%  | -4%                   |





## Total spend % change per category



3

<sup>3</sup> Merchant spend data as at 13 July 2022



# Consumer finance and e-commerce

## Addressing consumer cashflow to increase online sales

In the advent of a growing e-commerce landscape, “buy now, pay later” has provided strong momentum in keeping the adoption rates high, despite consumers feeling the crunch.

Covid-19 pandemic-enabled eCommerce sales grew more than twofold. Despite this aggressive growth, online sales still represent a small fraction of retail sales. Buy now pay later credit schemes are allowing for increased adoption of the online channel.

This payment mechanism is offered by companies such as Payflex and PayJustNow. They guarantee full payment to the merchant, while enabling customers to buy goods and pay small amounts upfront and the balances over time.<sup>4</sup>

This model has been in use globally for almost a decade in developed nations, with some of the leading service providers being Klarna and Afterpay.

Paul Behrmann, CEO of Payflex, can testify to the growth that this payment mechanism has enabled within the e-commerce space. ‘Buy now, pay later’ in South Africa is starting to become a better understood product. We see more customers taking it up every day, and as a product I think it will sit forever in customers’ wallets as an option that allows them to avoid getting into debt. Since launching in 2019, we’ve now had 300 000 customers use the service. We’re available across about 1 600 online merchants; the growth has been phenomenal.

These payment options usually avail themselves within the fashion and small goods space of e-commerce. However, within a South African context, this model has also been beneficial in the prepaid airtime environment with options such as airtime advance, which allow subscribers to obtain airtime on credit, and this debt is paid off the next time the user recharges.

Blue Label Telecoms, that already sells airtime and electricity as a business model, is also looking to extend small loans for these products to consumers, focusing primarily on low-income customers.

This provides an excellent option for buying bigger items, discretionary and aspirational items, which increases market share for these retailers beyond the normal reach, while allowing the consumer to remain debt-free with no interest burdens to bare.

<sup>4</sup> <https://www.businesslive.co.za/bd/companies/retail-and-consumer/2022-06-13-news-analysis-online-retail-is-luring-customers-with-buy-now-pay-later/>



# Shoprite assisting SMMEs

## Backing the underdog

Shoprite Group has launched a new company called Shoprite Next Capital. The goal of this entity is to “operate as a one-stop shop for SMME partners by providing marketing opportunities, working capital assistance, packaging and labelling support, data sharing, product range and geographic expansion, as well as possible private label partnerships”.<sup>5</sup>

Maude Modise, general manager for enterprise and supplier development, acknowledges that SMMEs are drivers of growth, innovation and job creation; and as such will play an important role in the recovery of the economy.

“This new division will provide SMMEs with easier entry into the group’s retail market with direct access to buyers who understand their needs, combined with personalised growth plans that will assist suppliers to scale up gradually.”

Modise added that in addition to the key priorities highlighted, this move will increase the localisation of goods.

Localisation of goods and supply chains is a trend within the retail industry that we have discussed in previous issues. The pandemic highlighted vulnerabilities within supply chains, one of them being the fact that goods are produced outside of the country and as a result, retailers highly depend on the reliability of transport and accurate lead times.

In clothing retail, we’ve seen this manifest through retailers ordering multiple seasons in advance, to ensure timely delivery, which, without question, has put strain on their working capital. Within food retail, however, certain goods such as staples are consistently demanded throughout the year, making their timely delivery that much more important, which could have even larger cost ramifications.

Shoprite’s venture can be seen as an act of pseudo vertical integration and this will be key, and hopefully an emerging trend within the sector, considering the current economic climate, and to be frank, South Africa’s economic climate since 2010.

The fact remains that consumers do not go to Shoprite solely to purchase their plastic bag. They go there for the gherkins supplied by a small business, Libstar’s Lancewood cream cheese, Sasko’s brown bread, and the list goes on. Shoprite makes sure to create an environment where the consumer can consistently access these items by supporting the growth of their suppliers – they ensure their ability to meet the needs of their customers.

<sup>5</sup> <https://businesstech.co.za/news/business/599042/shoprite-launches-new-division-aimed-at-small-businesses-in-south-africa/>



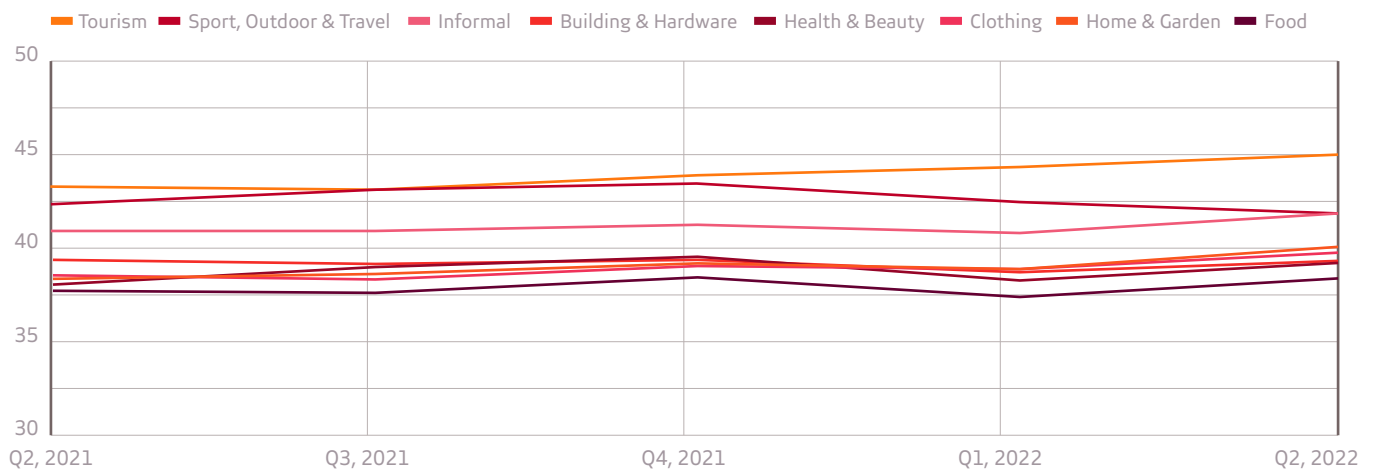




# Retail visitation trends

## Are consumers shopping for longer?

This graph shows the average dwell time in minutes per category for a 12-month period. Informal groceries has been included as a new category.



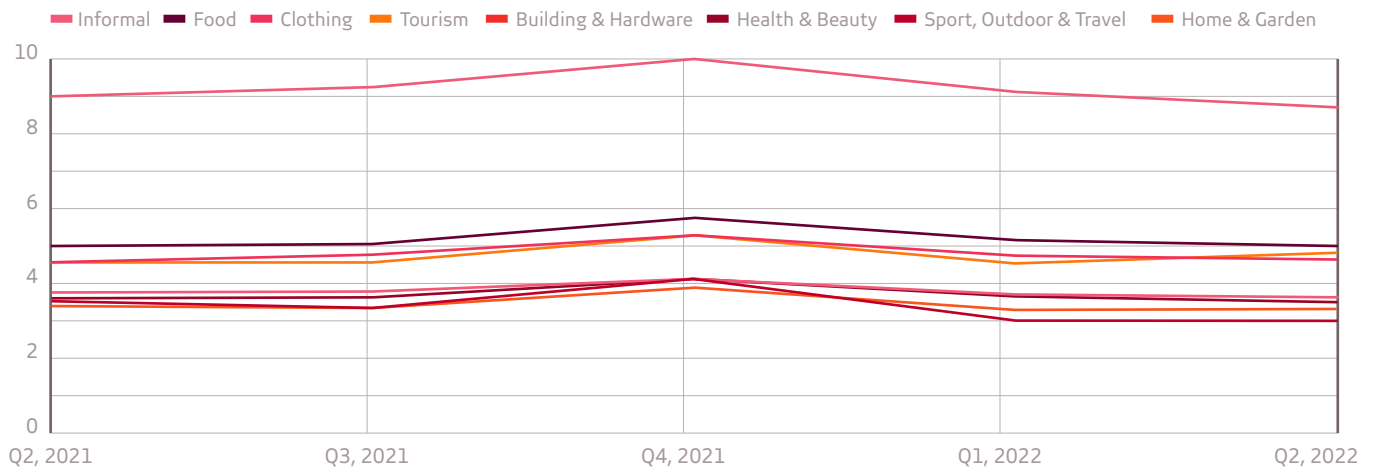
Sport and Outdoor and Tourism consistently lead the dwell times. Sport, however, is on a downward trend since Q4 2021. Tourism is on a positive trend since Q3 2021. Dwell in the Informal groceries category is stable at approximately 40 minutes – April 2022 saw a slight bump to 42 minutes. The average food shop lasts approximately 36 minutes. All other categories maintain similar dwell times throughout the year. Apart from Sport, all other categories are showing positive dwell trends. This needs to be investigated. Retail dwell habits have largely been stable in the past 12 months. At a quarterly aggregation, dwell times are only marginally affected by retail seasonality, if at all.



## Category definition for Informal groceries includes:

Cafés, spazas, superettes, local shops, cash and carry outlets, general dealers, general grocers, local supermarkets, fresh food grocers and container shops.

This graph shows the average frequency of visits per category for a 12-month period. Informal groceries has been included as a new category.



Visits are almost twice as frequent to the Informal category (average of nine visits per month) than Food, which offers the second highest frequency of visit (average of five visits per month) over the past 12 months. Q4 2021 saw the highest frequency of visits in the series across all categories. Frequency was on a positive trend until Q4 2021, after which we see a Q1 2022 decline before stabilising in Q2 2022. Building and Hardware, Health and Beauty, Sport and Outdoor, and Garden categories average a single visit per week or four per month. Food, Clothing and Tourism are the only categories trending higher in Q2 2022 than Q2 2021. Increased frequency spikes in Q4 2021 could be driven by the holiday season, but this would need to be investigated. The Informal category frequency could be an indicator that personal budgets necessitate regular visits. (Please note: The probability of visit across categories is higher based on quantity.) Food traditionally drives footfall and apart from Informal groceries, leads frequency of visit. Such high-frequency visits to Informal groceries do not necessarily mean more turnover, but more likely a hand-to-mouth economy.

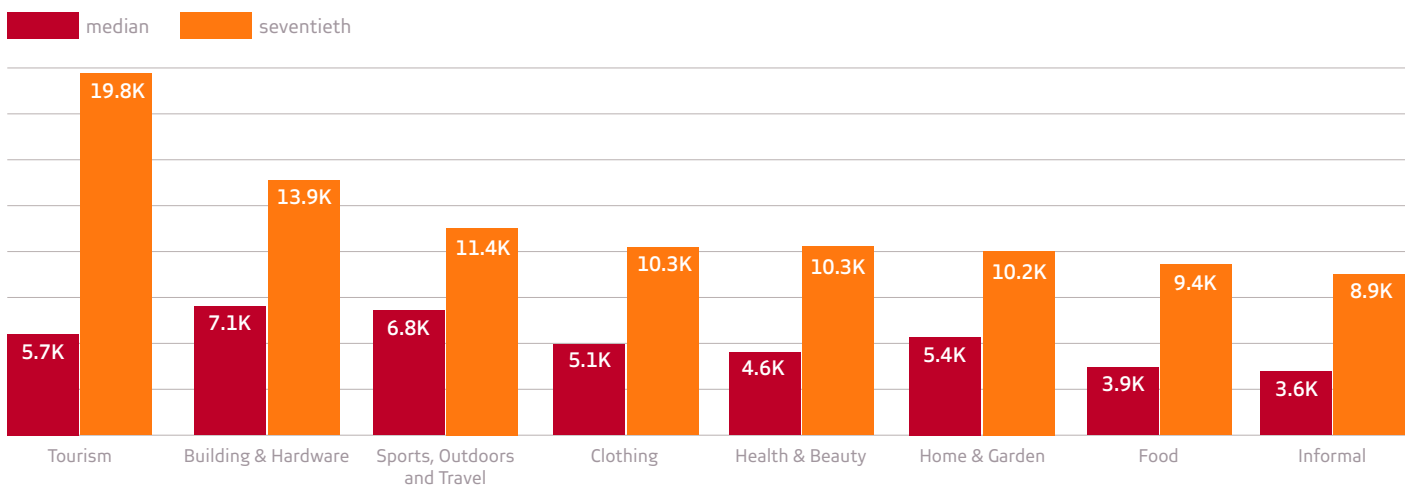




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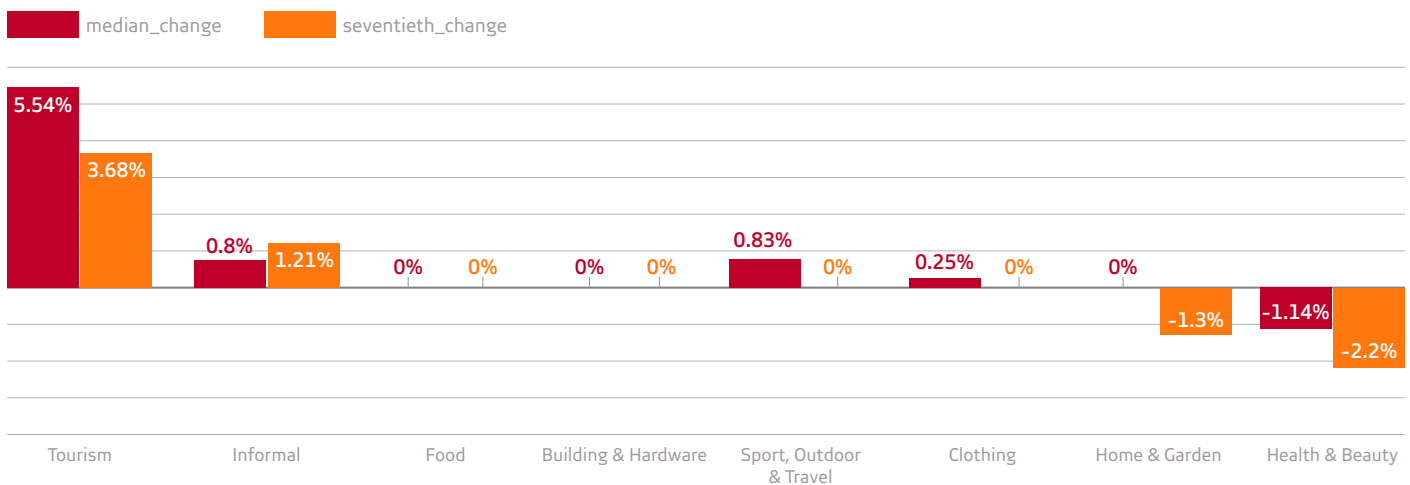
This graph shows the average distance to stores in kilometres per category for a 12-month period. Informal groceries has been included as a new category.



Tourism is understandably the furthest average distance to POI. People are prepared to travel further for Building and Hardware and Sport and Outdoor POI. Clothing, Health and Beauty, and Home and Garden categories pull audiences from similar distances. On average, food shopping is done close to home at 3.9 km from home. The Informal category distances are the shortest distances travelled. This indicates a very well-established Informal groceries market. More specialised stores tend to attract customers from greater distances. Informal groceries distance to store shows that there is a well-established informal market and/or that other factors (i.e. cost of travel) dictate the ability to travel. Food shopping is done close to home. Building and Hardware, and Sport and Outdoor are seen as destination shopping and people are prepared to travel further.



This graph shows the change in average distance to stores in kilometres per category for a 12-month period. Informal groceries has been included as a new category.

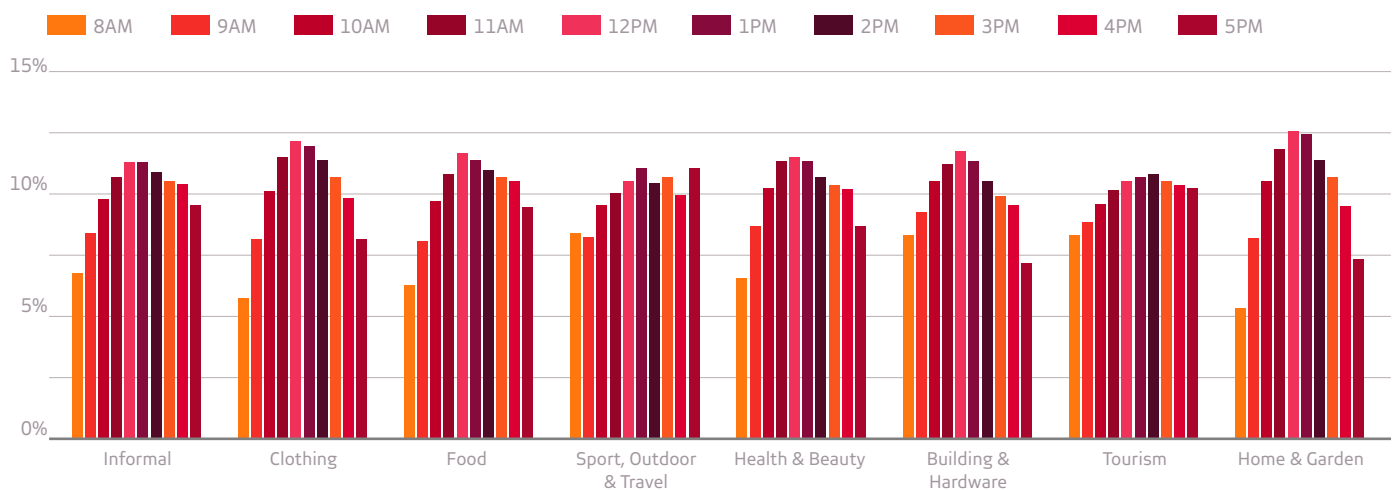


As expected, Tourism shows a positive change in distance travelled. People are travelling marginally further for Informal groceries and Sport, Outdoor and Travel. Both Home and Garden and Health and Beauty show negative trends, i.e. people are travelling closer to home to fulfil this criterion. With restrictions lifted, people are travelling to tourist destinations more. This is despite the increase in fuel and interest rates. The shift in Home and Garden and Health and Beauty show that people are becoming less inclined to travel for these categories. The new normal retail habits are established in most categories.





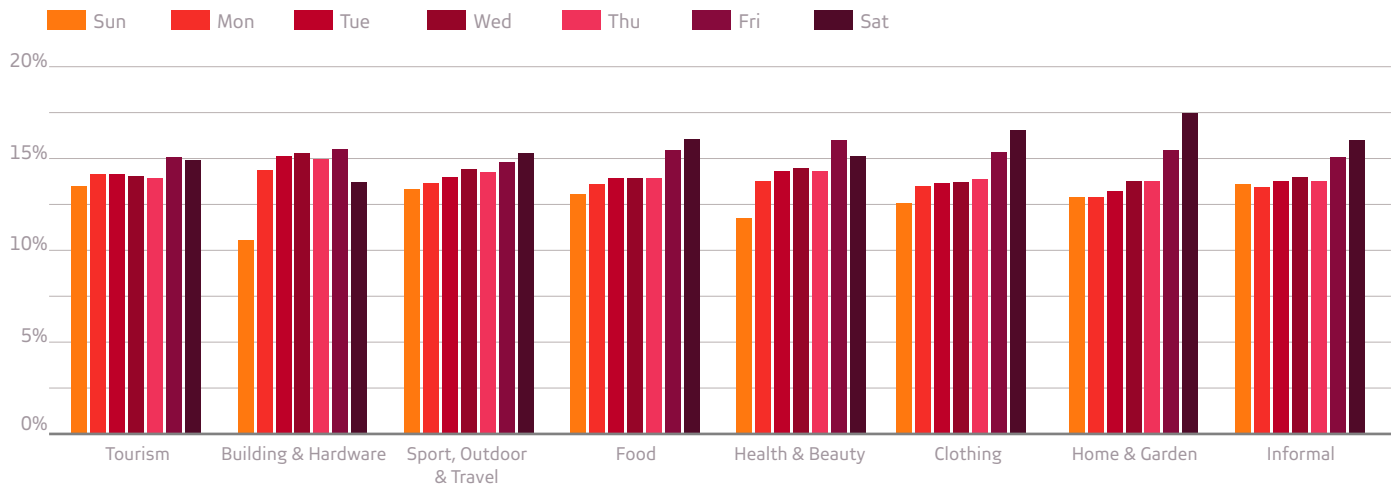
This graph shows the time of day per category for a 12-month period. Informal groceries has been included as a new category. This shows office hours from 08:00 to 17:00.



The most popular shopping times across the categories are from 12:00 to 13:00. Food and Informal groceries follow similar patterns, peaking at lunchtime and maintaining high volumes in the afternoon. Sport, Outdoor and Tourism are fairly spread by the time of day popularity. Health and Beauty popularity starts in mid-morning and maintains popularity into the early afternoon. The afternoon is more likely to see retail visitation than the morning, with peaks through midday.



This graph shows the day of week per category for a 12-month period. Informal groceries has been included as a new category.



Saturday is the most common day of week to visit Informal groceries, Clothing, Food, Sport and Outdoor, and Home and Garden. Friday is the second most popular day and most popular in Building and Hardware and Health and Beauty. Tourism, as expected, is most popular on Fridays and Saturdays, but does show a fairly even trend throughout the week. This weekend bias is most likely due to office breaks versus annual leave. Sunday is the least likely day to see retail visitation across the categories.

Fridays and Saturdays are key retail days for visitation. Retail visitation increases as the week progresses.

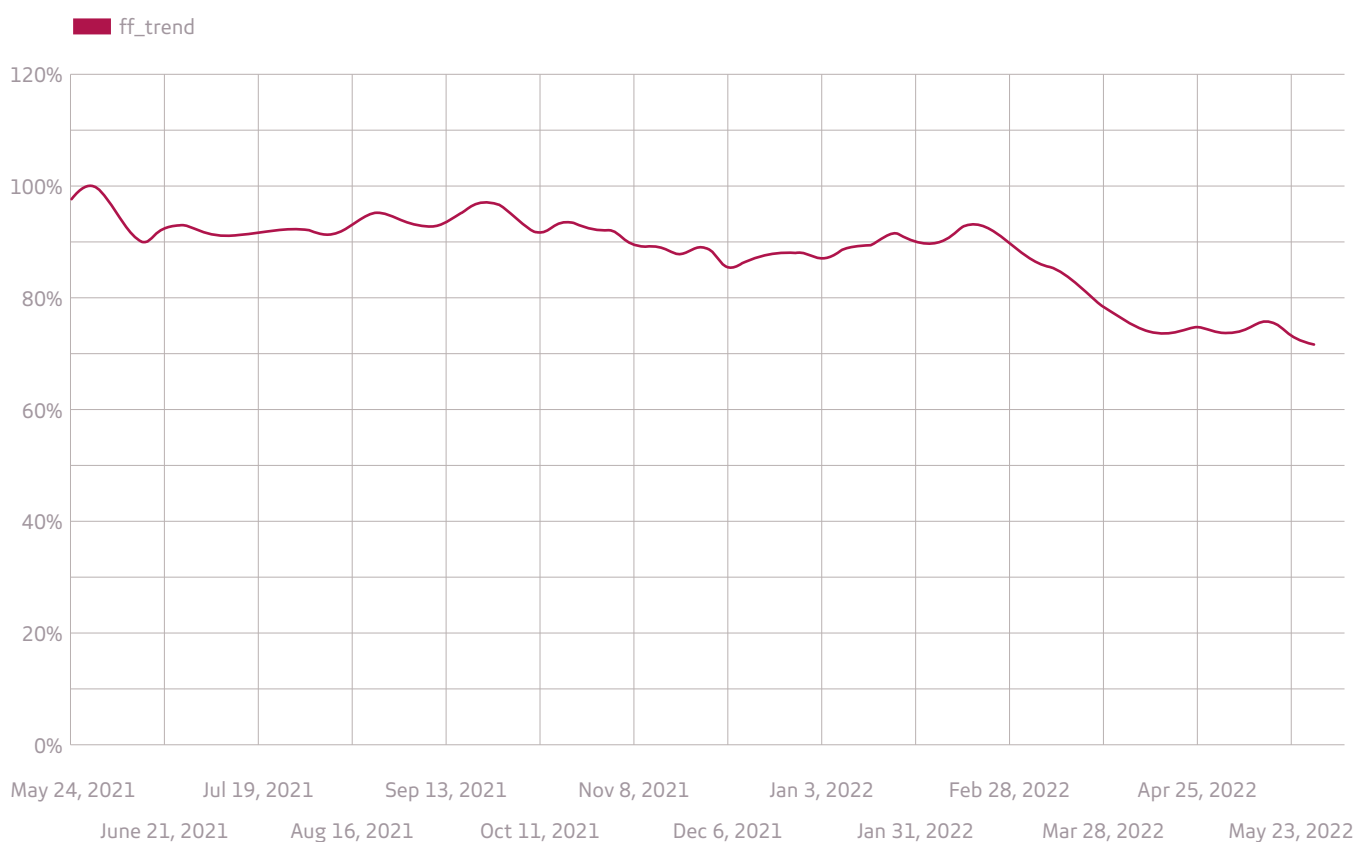


# Across the border

## Zambia and Botswana<sup>6</sup>

### Zambia

This graph shows the footfall trend for the Malls category in Zambia over the past year. Four malls mapped in Zambia:



Footfall to Zambian malls maintained in the 90% for most of 2021 before a dip in Q4 2021. There was a Q1 2022 recovery, followed by a significant 20-point slide into April 2022. May 2021 was offered the high point in the calendar year, but May 2022 is 30 points down. Interestingly, the decline in footfall from September to December is between Covid-19 waves. The Q1 2022 decline could be related to the January Covid-19 spike, as the Covid-19 trend appears to lag long after the spike. There is no sign of Q2 2022 footfall recovery.

<sup>6</sup> IRL Consulting – [www.irlconsult.com](http://www.irlconsult.com)

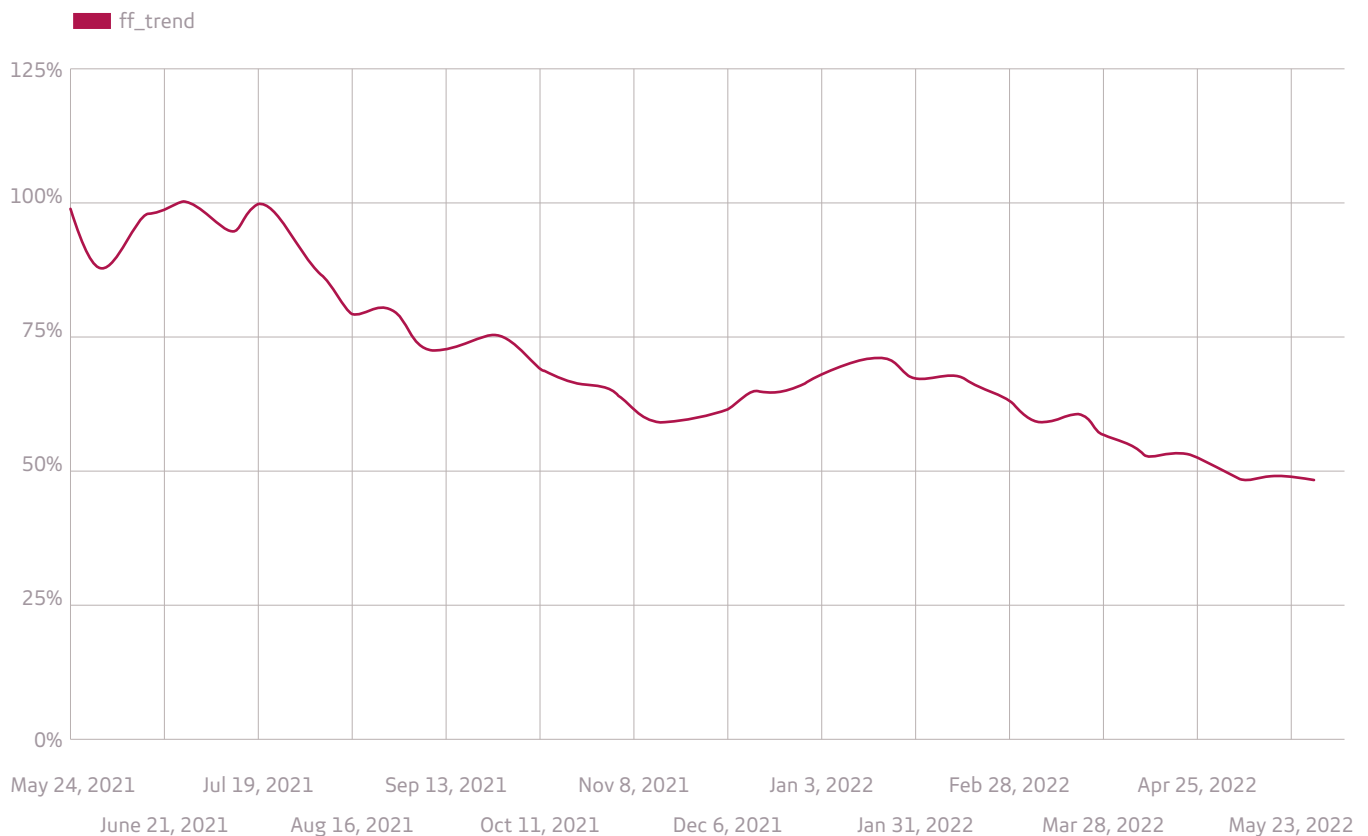


### Key dates to consider:

- December '20/January '21 – Covid-19 spike
- June '21 – Second Covid-19 spike
- June '21 – Kenneth Kaunda dies
- August '21 – Violence erupts because of elections
- August '21 – Opposition leader Hichilema wins elections
- September '21 – First female parliament speaker
- January '22 – Highest Covid-19 spike (repeat from December '21)
- March '22 – Malawi polio puts Zambia on alert
- May '22 – Flu breakout
- May '22 – China offers R17 billion bailout deal

## Botswana

This graph shows the footfall trend for the Malls category in Botswana over the past year. Fifteen malls mapped in Botswana:



Mall footfall in Botswana is on a steady decline. May 2022 highs are 50 points below July 2021 highs, with no sign of recovery. There was a brief Q4 2021 recovery, most likely for the Christmas holiday. But the Q1 2022 decline fell 15 points following the rally – this coincides with a sustained Covid-19 wave in Botswana.





### Key dates to consider:

- April '21 – Protests for the protection of Kavango Basin (oil-producing area)
- May '21 – Bridge opened between Botswana and Zambia
- August '21 – Covid-19 peak
- January '22 – Second Covid-19 peak
- February '22 – Botswana jails returning citizens who refuse the Covid-19 vaccine
- April '22 – Botswana census



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