

Deloitte.

Year-end Holiday Survey 2014

Savvy spenders on the rise





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Foreword



Welcome to the 17th edition of the Deloitte Year-end Holiday Survey

Dear Reader

We are pleased to welcome you to the annual Deloitte Year-end Holiday Survey report – now in its 17th edition! Indeed the holiday season is upon us, and promises to once again, be a period of importance for retailers across South Africa.

Although the festive season often sees an increase in consumer spending compared to the rest of the year, to what extent will that increase be experienced in 2014? In the midst of rising inflation, increased energy costs and the overall extent of household debt, amongst other things, it is likely that these less favourable economic conditions may sway traditional consumer spend. How will the Christmas budget be allocated amongst all that demands the attention of consumer pockets?

In an effort to assist retailers to reasonably predict and potentially influence holiday spend, Deloitte has posed a number of questions directly to South African consumers, to understand their holiday spending plans, and the influencers, thereof. We have looked at what consumers intend spending their money on this Christmas, what the top gifts to give and receive are this year, what is likely to influence their purchasing decisions (including the impact of loyalty programmes), as well as where and how people intend on doing their Christmas shopping in the midst of growing eCommerce activity. We've also looked at the consumer's use of social media in gathering and sharing product information. In some cases, Deloitte has compared results from this year, to those of 2013, to extract patterns and trends. Our results were also compared with those of a number of European countries, to identify any convergence or divergence of spending habits.

We trust that the findings in this report will be of use and provide some important points to ponder on, and on behalf of the Deloitte firm, we wish you a successful trading season.

Rodger George
East Africa Advisory leader

André Dennis
Consumer Business Industry &
Assurance Leader

Key highlights of the 2014 survey



South African consumers believe that retailers should provide the best prices, great customer relationship management, improve home delivery services...

Economic Outlook

Global economic growth remains resilient since the lows of 2008 / 2009 recession, but faces strong headwinds as global economic prospects have diminished over the past six months. Furthermore, the deceleration in growth across Asia and Europe will have a significant impact on the economic prospects across emerging markets, especially for resource exporters like South Africa.

This would add further downward pressures on the South African economy, which is already under pressure from widespread industrial action in the mining and manufacturing sectors, which has reduced South Africa's appeal for international investors. This has directly contributed to lower economic output and a weaker exchange rate, which has caused a rise in domestic inflation and further constrains consumer spending power. As a result, the National Treasury has downwardly revised its 2014 economic projection for South Africa from 2.7% to 1.4%.

The low economic growth environment and rising inflation have also kept a damper on consumer confidence, with the FNB / BER Consumer Confidence Index remaining at low levels. Furthermore, the slowing disposable income growth and persistently high household debt levels have added further weight on consumer spending in the economy. This is evident as the number of consumers who reported being concerned about the future of the South African economy rose between 2013 and 2014. The mounting pressure on the domestic economy has also led to consumers being more concerned about their personal financial status.

Holiday Spending

Given the tough economic conditions, consumers must be very pragmatic about where they will spend their money. For 2014, food will dominate the share of consumer spending, whilst travel and socialising expenditure is expected to be sacrificed. This is also in line with the European consumers, which highlights the negative impact of low economic growth.

The conservative South African consumer is expected to spend more of their budget on essential household items such as groceries, energy, rent and mortgages, as well as financial services. Spending on holidays and entertainment has also declined, in line with the tough consumer environment. Overall consumers expect to spend less during this festive season as personal disposable income remains under severe pressure. The uncertainty with regards to the economic environment will lead to very cautious spending from consumers.

What's in the Stocking?

South Africans have ditched the sweet taste of chocolate for hard cash as the number one desired gift, followed by chocolates and books in second and third place respectively. Gift expectations are starkly different based on the demographic profile, with 18-34 year olds ranking cash as the most preferred gift, whilst the 35-64 year age cohort prefers books for this festive season.

Gift preferences also differ between men and women, where men show a strong preference for tangible products (books, cash and CD's), whilst women rank pampering, beauty treatments, cash and chocolates as top of their wish list. Looking at the younger generation, teenagers prefer games, CD's and books as gifts during this festive season, with the rest of the top ranked products consisting of digital and high tech gadgets. Children under the age of twelve have had fairly consistent preferences, with games, action figures and dolls dominating the festive shopping list.



Purchasing Behaviour

Consumers are increasingly engaging more with the online channels, but remain rooted in wanting the personal touch through physical store visits when comparing product specifications and prices. South African consumers favour the omni-channel approach through a combination of both website and in-store research to make their final purchase decisions. During 2014, books, music, movies, video games and high tech items are the categories mostly researched either online or in a combination of online and in-store.

As a result of the tougher economic climate and pressure on consumer incomes, the majority of survey respondents reported that they are more inclined to purchase goods on sale in 2014, meaning that consumers will be out bargain hunting during this festive season. Furthermore, with rising interest rates, conservative consumers will be deterred from increasing their credit exposure, increasing the chances of consumers seeking out sales only.

As opposed to credit, more and more consumers are using loyalty points and prefer being rewarded for shopping. During 2014, half of the survey respondents indicated that they will be using loyalty points more, preferring immediate cash discounts and vouchers the most. The growing preference for loyalty programs opens a new channel for competition amongst retailers in order to win over new consumers.

Where will South Africans do their shopping this year?

South African consumers still prefer interacting with physical stores, but more and more consumers are using the internet to conduct purchases for specific products. The predominant use of the internet by South Africans is to conduct product research, mainly through search engines and the brand / supplier websites. The relatively new social media buzz has also gripped the South African consumer market, evidenced by the strong growth seen in social media usage to conduct product research, as well as giving advice and opinions or for searching for information.

Furthermore, South Africans see social media as a key channel to engage with retailers and provide feedback and advice. Mobile purchases have also increased during 2014, with half of all respondents suggesting that they have made mobile purchases in the past. The interaction of mobile and social media may provide an opportunity for retailers to strengthen their consumer engagement.

South African retailers will continue experiencing high volume foot traffic in stores, especially in traditional Department Stores, Specialty Chains as well as Hypermarkets and Supermarkets, which are ranked first, second and third respectively as the preferred shopping destination. This is driven by the South African consumers' product preferences, which predominantly are found across the three store formats. Majority of South African consumers expect to purchase mainly food, fashion, as well as health and beauty products which, combined, will dominate the share of wallet.

With the pressure on consumer expenditure mounting, price will play an important role in driving consumer choices. With inflationary pressures still lingering in the economy, consumers will choose shopping destinations that offer good value and low prices.

Convenience is also beginning to play a role across South Africa, with an increase in the number of consumers who prefer home delivery of purchased goods as opposed to taking away goods themselves. This could be attributed to the flexibility and convenience home deliveries provide, allowing customers to make efficient use of their time. The strong preference for home delivery is witnessed across the younger demographic (18 – 34 years); whilst the older group (35 – 64 years) still prefer the traditional option of taking their goods home.

As a result of the growing preference for home delivery, more and more consumers are experimenting with online purchases and home deliveries. However, despite the growing number of purchases, customers who have bad experiences mainly revert back to the traditional shopping methods of in-store purchases. This raises the importance of retailers ensuring excellent customer service across all channels and customer touch points because currently, the majority of the survey respondents believe that physical stores cater best for their needs.

Overall, the survey highlighted that South African consumers believe that retailers should provide the best prices, great customer relationship management, improve home delivery services, as well as strengthen the integration between the online and physical store in order to improve customer shopping experiences. As the online market grows, stores must also increase their Wi-Fi capabilities in order to better attract and retain customers.

Economic outlook



Although global demand has been weak over the past six months, we can still expect the global economy to continue its recovery in 2014. The global growth forecast has been revised to 3.3% for this year, 0.1 percentage points lower than in the July 2014 World Economic Outlook (WEO) owing to underwhelming global activity in the first half of the year. In addition, the global growth projection for 2015 was lowered to 3.8%, from 4%.

This doubtful economic outlook on the global economy has been driven by softer investment in developed economies and a slowdown in economic activity in developing Asia, which will affect growth in other emerging economies, notably commodity exporters like South Africa. Furthermore economic momentum in Europe has remained weak and the European Commission's 2014 growth forecasts for the EU and the Euro Area are low at 1.3% and 0.8% respectively. Confidence in the third quarter is lower than in the second, reflecting increasing geopolitical risks and less favourable world economic prospects for the European region.

Looking closer to home, the South African economy has had a disappointing performance in 2014. The 2014 Medium Term Budget Policy Statement indicated that South Africa's economic growth forecast will likely be 1.4% for 2014, not 2.7% as envisioned in February's Budget Speech. The downward revision is a result of the economy's poor performance in the first half of the year.

South Africans are, however, significantly less negative about current economic conditions than they were during the recession in 2008 and 2009

This sluggish growth can be attributed to widespread strike action domestically and subdued demand stemming from the EU crisis. South Africa's mining and manufacturing sectors in particular have suffered significantly from protracted strike action over the last few years. This industrial action has not only affected us through lower domestic output but also through foreign capital flight and a worsening of the exchange rate. This has had further implications for inflation, forcing the South African Reserve Bank into difficult interest rate decisions. The cost to the economy of the significant disruptions to mining and industrial production is likely to be revealed in the third quarter GDP figures to be released later this month.

As South African consumers prepare for this year-end holiday season, the reality is that the economy remains under pressure and risks remain to the downside. Consumer confidence, as measured by FNB/BER has improved slightly in 2014 since reaching a decade quarterly low of -8 in quarter 3 of 2013. It currently sits at a level of -1. Despite these marginal improvements, the South African consumer still remains downbeat about the South African economy and the prospects for the future. Coupled with slowing disposable income growth and persistently high household debt levels, consumer spending in the economy is also under pressure with annualised quarter-on-quarter real household consumption expenditure growth now at its lowest point since 2011 at 1.5%. Average year on year retail sales growth for 2014 thus far has also slowed to 2.1% from 3% in 2013. Ultimately, we cannot expect the South African consumer to buy the economy into any heady rates of growth in the short to medium term.

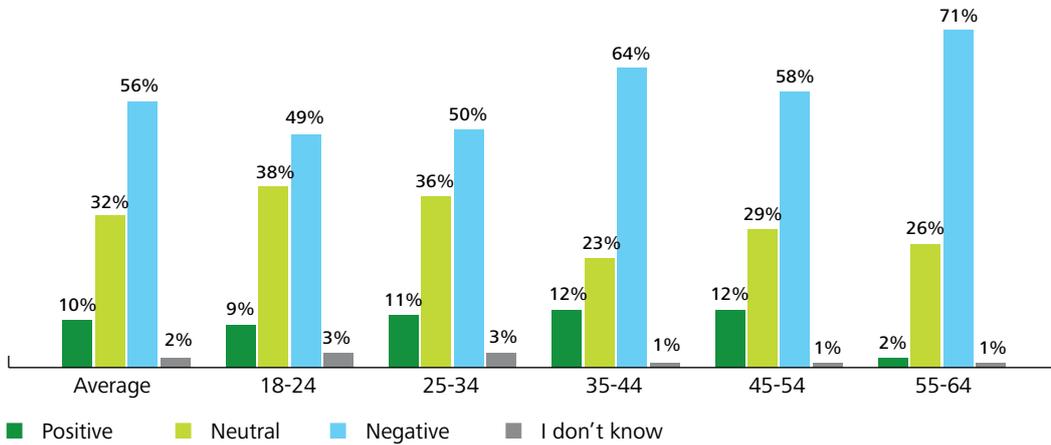


Figure 1: Description of the current state of the economy (South Africa) by age group

Consumer concerns have heightened

The results of this year's survey indicates that South African consumers are more concerned about the strength of the South African economy, with 56% of respondents holding a negative view of the current economic environment (compared to 53% last year). A small minority (10%) were positive about current economic conditions, while the remainder were either neutral or unsure. Although these results are similar to last year's, it is clear that economic conditions have deteriorated slightly from a consumer perspective since the final quarter of 2013. South Africans are, however, significantly less negative about current economic conditions than they were during the recession in 2008 and 2009.

South Africans of all ages are concerned about the current state of the economy

Contrary to the last three years, fewer young South Africans (between the ages of 18 and 34) on average have a positive view of current economic conditions compared to their older counterparts. Approximately 9% of consumers aged 18 to 24 said they felt current conditions were positive, which is lower than every other age group besides that of consumers aged 55 to 64.

South Africans, particularly South African males are relatively upbeat about the economic environment in comparison to Europeans

About 26% of South Africans believe the economic environment will be positive next year. South African males are significantly more positive than South African females with 33% of male respondents holding a positive view compared to 19% of female respondents. Although only one in every four South Africans surveyed believe that the economic environment will be positive next year, they are on average more optimistic than most of their European counterparts. Only 19% of Europeans surveyed are upbeat about economic conditions in 2015. The UK and Denmark appear to be coping far better than most with more than one in three respondents in the UK and in Denmark who believe economic conditions will be positive next year.

The economy isn't great, but I'll be fine...

Over the past six years, an overwhelming majority of South African consumers surveyed have been consistently more optimistic about their personal finances than the state of the economy at large. However, this year's results indicate that South African consumers are more concerned about their personal finances than they were in the past. When asked whether their spending power was likely to improve or deteriorate, 49% said they were confident that it would improve and 23% said it was likely to deteriorate compared to results of 54% and 15% respectively from last year's survey. Across the 17 countries surveyed, South Africans are by far the most optimistic about their future spending power.

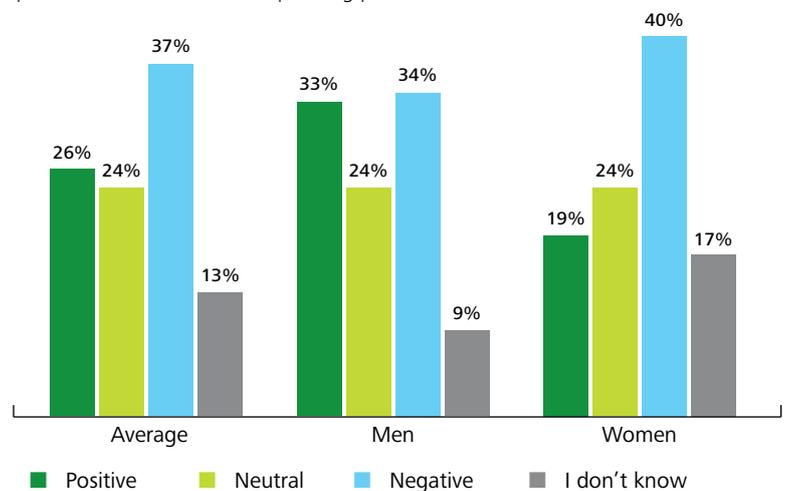


Figure 2: Description of the state of the economy in FY15 (South Africa) by gender

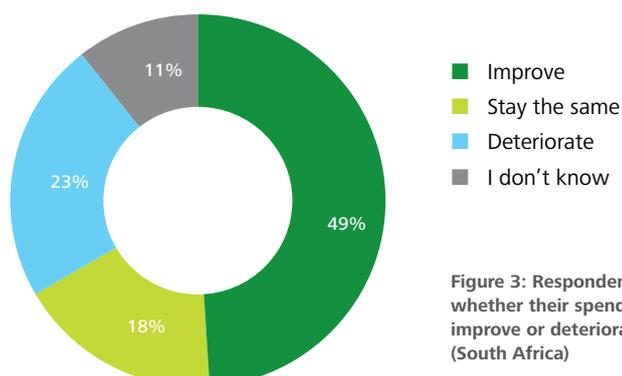


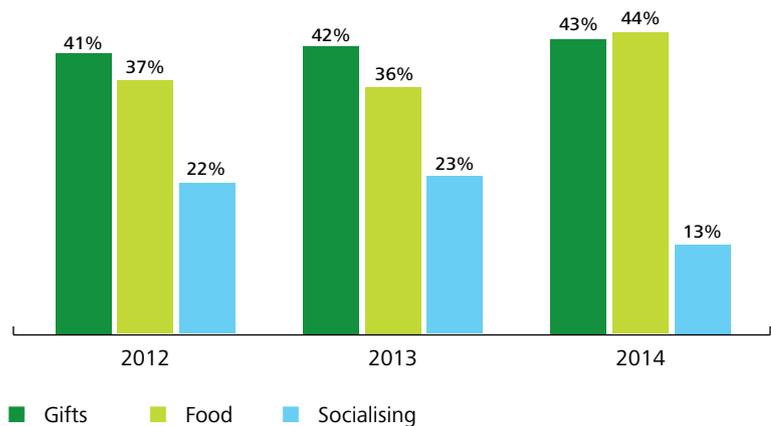
Figure 3: Respondents opinion on whether their spending power will improve or deteriorate next year (South Africa)

Holiday spending

Food dominates the spend of wallet this year

In comparison to the consumer share of spend in 2013, the average proportion of the consumer budget that will be allocated to food in 2014 has jumped significantly from 36% (2013) to 44% (2014). We will see consumers spending less of their budget on travel (20%) and even less on socialising (13%) while the proportion of spend on gifts also sees a slight increase in budget allocation from 42% (2013) to 43% (2014). Much in line with the trend following European consumers, food (40%) and gifts (39%) are on par for the largest share of the wallet while travelling (12%) and socialising (9%) will take the back seat for many this festive season.

South Africa



We will see consumers spending less of their budget on travel (20%) and even less on socialising (13%)

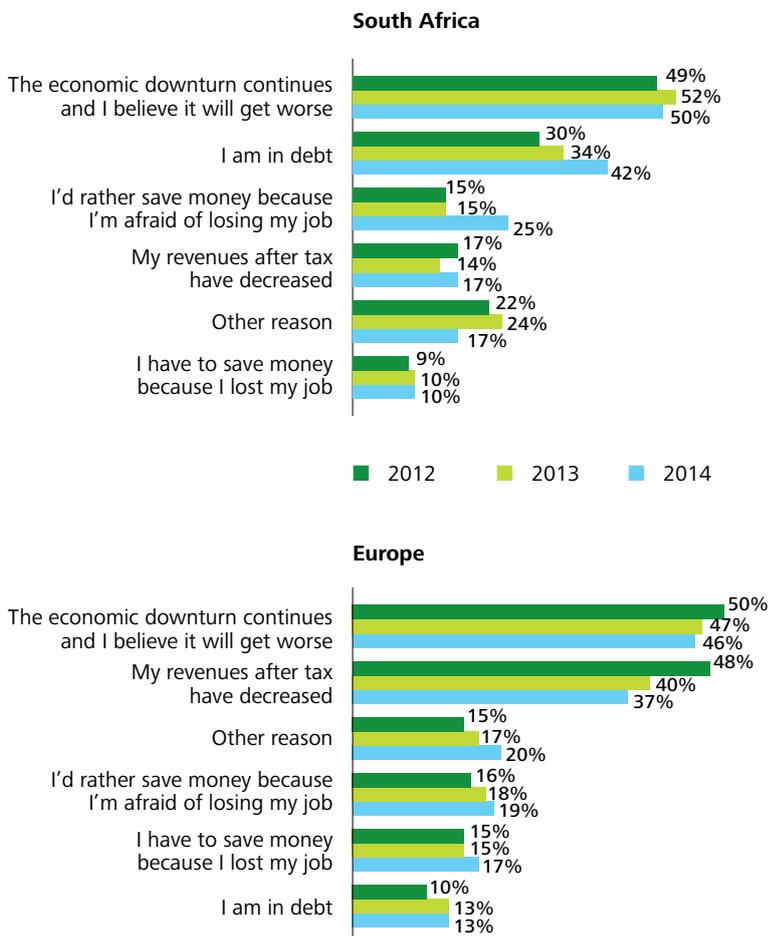
Budgets remain conservative

In line with the overall increase in the cost of living in South Africa over the past year, 66% of South African consumers surveyed have indicated that they are spending more on essential household expenses such as groceries and energy bills this year. Other essential items cited as commanding a larger share of spend are rent and mortgage expenses (51%) and financial services such as insurance and pension funds (42%). Consumers are showing signs of conservatism as general day-to-day living expenses continue to rise while consumers try to stretch their budgets as far as possible. We see the conservative trend following through as consumers cite spending less on non-essential items this year versus last year such as, holidays (41% spending less this year), entertainment and leisure (38% spending less this year) and irregular spending such a furniture and décor (38%).

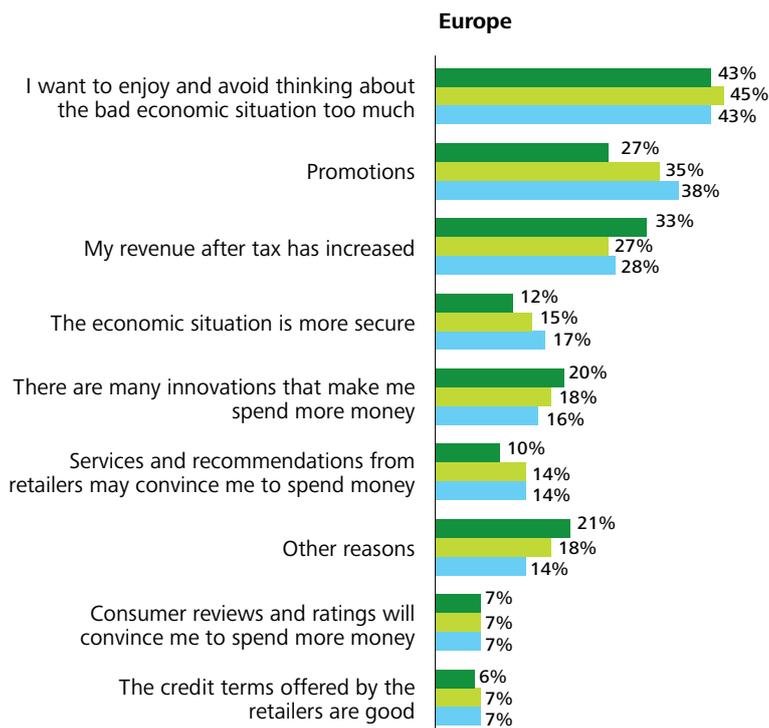
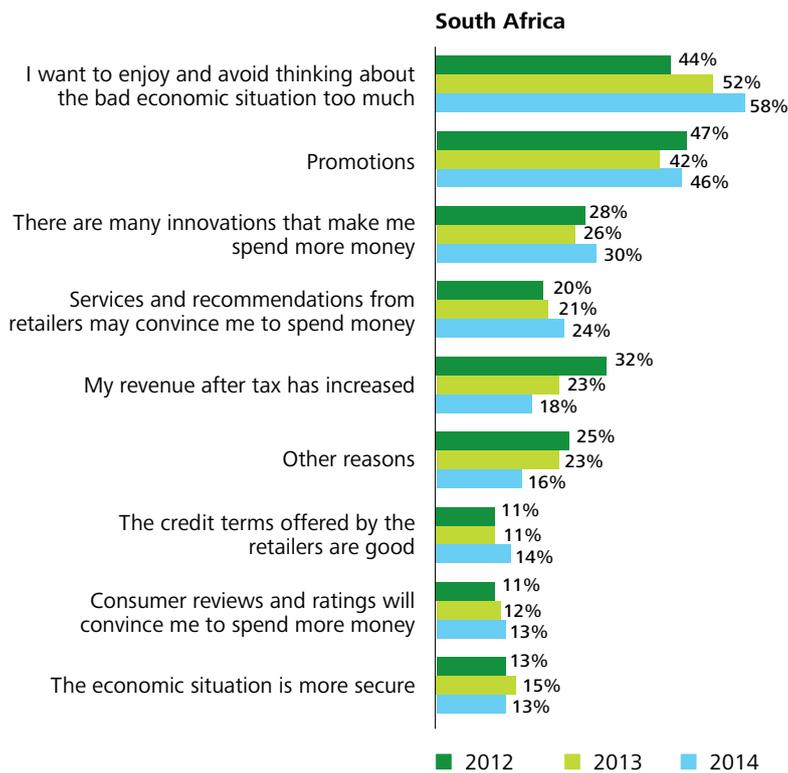
When asked what they would be prepared to cut back spending on this year if need be, 82% of South African consumers cited they would be prepared to cut back on day-to-day spending such as lunch, travel, newspapers, cigarettes etc. Further to this, items such as clothing/footwear (77%), digital/electronic items (70%), entertainment and leisure (78%) were also items that the majority of South African consumers are prepared to cut back spending on. On the flip side, we see South African consumers in the conservative mind set who are not prepared to cut back spending on financial services such as insurance and pension funds (50%), essential items such as groceries and energy bills (56%) and health services such as doctors and medical aid (60%).

Debt and doubt drive the decision to spend less this year ...

In line with an unfavourable consumer confidence index of -1 for 2014, a significant portion of South African consumers surveyed have indicated that their personal debt (41%) and doubtful view of the continued economic downturn (50%) have encouraged them to spend less this festive season. While European consumers are also pessimistic about the continued economic downturn (46%) as their primary motive to spend less this year, after tax revenue (37%) is also a strong contributing factor to their cautious mind-set. It would appear that the looming uncertainty of economic conditions ahead continues to drive frugality among consumers.



What are the reasons driving your decision to spend less during year-end festivities?



...consumers who are opting to spend more this year will still be convinced by services and recommendations from retailers to spend more money (24%)

Ignorance may be bliss for retailers and manufacturers ...

Despite the somewhat conservative view of festive season spending held by many consumers, we see the younger demographic ages 18-24 (68%) and 25-34 (65%) opting to spend more this year and enjoy their holidays while avoiding giving too much thought to the bad economic situation. Retailers and manufacturers will be pleased to know that consumers who are opting to spend more this year will still be convinced by services and recommendations from retailers to spend more money (24%). As new products land on South African shores, a significant portion of male South African consumers surveyed (38%) have indicated that their decision to spend more in the festive season will be driven by new innovations. Marketing will continue to play a pivotal role in driving the holiday spend among consumers this year. Although consumers from the survey have shown conservative tendencies with their holiday spending this year, it would appear that appealing offers from retailers, as well as new and exciting product innovations could still sway the consumer mind-set to venture a bit deeper into their holiday budget for a few spoils here and there.



What are the reasons driving your decision to spend more during year-end festivities?

What's in the stocking?

Cash is king ...

Cash has surpassed chocolates as the most likely gift South African adults will receive in their Christmas stocking this year. Cash has seen resurgence in popularity since 2012 where it was the most popular gift. Chocolates and books remain firm favourites coming in 2nd and 3rd place respectively.

Table 1a: Types of gifts respondents believe they are most likely to receive – South African rankings

Top 10 (1-10) Average

2014		Placing	2013	
Money (cash)	39%		1st	39%
Chocolates	38%	2nd	36%	Money (cash)
Books	36%	3rd	36%	Clothes / shoes
Clothes / shoes	34%	4th	34%	Books
Gift vouchers	32%	5th	33%	Gift vouchers
CD	29%	6th	32%	Jewellery / watch
Beauty care, massage, spa treatment	28%	7th	32%	Cosmetics / Perfumes
Cosmetics / Perfumes	26%	8th	30%	CD
Jewellery / watch	25%	9th	18%	-
Food & Drink	23%	10th	24%	Beauty care, massage, spa treatment



There is a clear generational split when it comes to gift expectations. 18-24 and 25-34 age groups rank cash as their most desired gift, whereas the 35-44, 45-54 and 55-64 age groups rank books as their most desired gift. The notion of freedom of choice for a gift seems to be appreciated by the younger generation. There appears to be a mismatch between what one desires and what one will offer as a gift to friends and family. For the 2nd consecutive year, chocolates remain the most likely gift that will be purchased for friends and family. Cash does not appear in the top 10 gifts one would give to friends and family and this raises the paradoxical question as to why cash is deemed to be an unsuitable gift?



In 2014, books occupy 1st place in many countries such as France, Germany, United Kingdom and Italy. The strong resurgence of books in 2014 has been at the expense of cash. Interestingly, books have regained popularity in 2014 after having had decreasing popularity for the past two years. Cash continues to remain popular in 2014, which is indicative that there is still a desire among Europeans to keep their options open regarding gifts.

Table 1b: Types of gifts respondents think they are most likely to receive

	2014	2013
United Kingdom	Books	-
France	Books	Money (cash)
Portugal	Money (cash)	Money (cash)
Spain	Books	Money (cash)
Italy	Books	Money (cash)
Greece	Travel	Money (cash)
Switzerland	Money (cash)	Money (cash)
Germany	Books	Money (cash)
Luxembourg	Books	Books
Belgium	Money (cash)	Money (cash)
The Netherlands	Money (cash)	Money (cash)
Denmark	Books	Money (cash)
Finland	Money (cash)	Money (cash)
Poland	Books	Money (cash)
Ukraine	Money (cash)	Money (cash)
Russia	Money (cash)	Money (cash)
South Africa	Money (cash)	Chocolates



Table 1c: Top 10 gifts expected by men

Top 10 (1-10) Average

2014		Placing	2013	
Money (cash)	38%		1st	40%
Books	34%	2nd	34%	Books
CD	31%	3rd	33%	Clothes / shoes
Clothes / shoes	31%	4th	33%	Games
Games	28%	5th	32%	CD
Food / drink	28%	6th	31%	Smartphone
Smartphone	27%	7th	29%	Gift vouchers
Gift vouchers	26%	8th	27%	Laptop / PC computer
Chocolates	24%	9th	26%	Food / drink
Laptop / PC computer	23%	10th	26%	Chocolates

Table 1d: Top 10 gifts expected by women

Top 10 Average

2014		Placing	2013	
Chocolates	50%		1st	51%
Beauty care, massage, spa treatment	43%	2nd	46%	Cosmetics / Perfumes
Money (cash)	40%	3rd	42%	Jewellery / watch
Cosmetics / Perfumes	39%	4th	39%	Clothes / shoes
Books	37%	5th	38%	Beauty care, massage, spa treatment
Gift vouchers	37%	6th	37%	Gift vouchers
Clothes / shoes	37%	7th	35%	Books
Jewellery / watch	33%	8th	33%	Money (cash)
CD	27%	9th	30%	Accessories (Bags)
Accessories (Bags)	26%	10th	27%	CD

Gadgets for men and pamper time for women ...

This Christmas women expect to be treated to chocolates, beauty care/massages/ spa treatments and cash which are at the top of their wish lists. Beauty care and cash have increased in popularity by 6% and 7% respectively from last year at the expense of cosmetics/perfumes and jewellery/watches. This turnaround means that gentlemen will have to be on their toes when shopping for their partners this Christmas.

Compared to 2013, men have remained fairly consistent in their gift expectations. Cash, books and CD's remain firm favourites. Men are more attracted by new technologies; their top ten is mostly composed of high tech gifts (such as smartphones, laptops and tablets) whereas women are more interested in fashion/beauty gifts. Cash features prominently in both men's and women's wish lists indicating that both sexes enjoy the freedom in choosing their own gifts.

Beauty care and cash have increased in popularity by 6% and 7% respectively from last year

Rise of the teenage bookworms ...

The top 2 most offered gifts (games and CDs) for teenagers has remained the same as 2013 however the popularity of these gifts has decreased by 6% and 3% respectively. Books now rank as the 3rd most popular gift, considering that books did not feature in the top 10 last year this is indicative that there is a trend in favour of books for teenagers. Books now occupy 1st place in many countries such as Portugal, Italy, Germany, Switzerland, Luxembourg, The Netherlands and Poland. Although books have taken a stronghold in the top 10, the composition of the top 10 still sees a strong mix of high tech gifts such as dvd/ blue ray, game consoles, iPods and smartphones.



Table 1e: Types of gifts that respondents might buy for a teen between the ages of 12 and 18 – South African rankings

Top 10 (1-10) Average

2014		Placing	2013	
Games	39%		1st	45%
CD	26%	2nd	29%	CD
Books	25%	3rd	25%	Clothes / shoes
Chocolates	24%	4th	25%	MP3 Players / iPods
Money (cash)	23%	5th	24%	Money (cash)
Clothes / shoes	23%	6th	20%	Gift vouchers
Arts and crafts / creative design	19%	7th	20%	Console / device (Nintendo / Wii)
MP3 Players / iPods	19%	8th	19%	Chocolates
Gift vouchers	18%	9th	18%	Books
Console / device (Nintendo / Wii)	18%	10th	16%	Arts and crafts / creative design

Table 1f: Types of gifts that respondents might buy for a teen between the ages of 12 and 18

First choice

	2014	2013
United Kingdom	Games	-
France	Games	Games
Portugal	Books	Books
Spain	Games	Games
Italy	Books	Books
Greece	Books	Books
Switzerland	Books	Money (cash)
Germany	Books	Books
Luxembourg	Books	Games
Belgium	Money (cash)	Money (cash)
The Netherlands	Books	Books
Denmark	Games	Games
Finland	Gift cards	Gift cards
Poland	Books	Books
Ukraine	Chocolates	Chocolates
Russia	Chocolates	Chocolates
South Africa	Games	Games



Educational toys reign supreme for children ...

Compared to 2013, the composition of the top 10 gifts for children under the age of 12 has remained fairly consistent. Games, action figurines and dolls continue to remain popular gifts for South African children. There is a strong drive towards gifts that are educational and innovative in nature, with parents stating that these are the two key attributes they consider in selecting gifts for their children. South African parents are still lagging behind their European counterparts with respect to caring about sustainability as a key gift purchasing requirement. Across the age spectrum, educational gifts are preferred however; young adults are more inclined to purchase gifts that are innovative compared to grandparents who would opt for purchasing gifts of a more traditional nature.

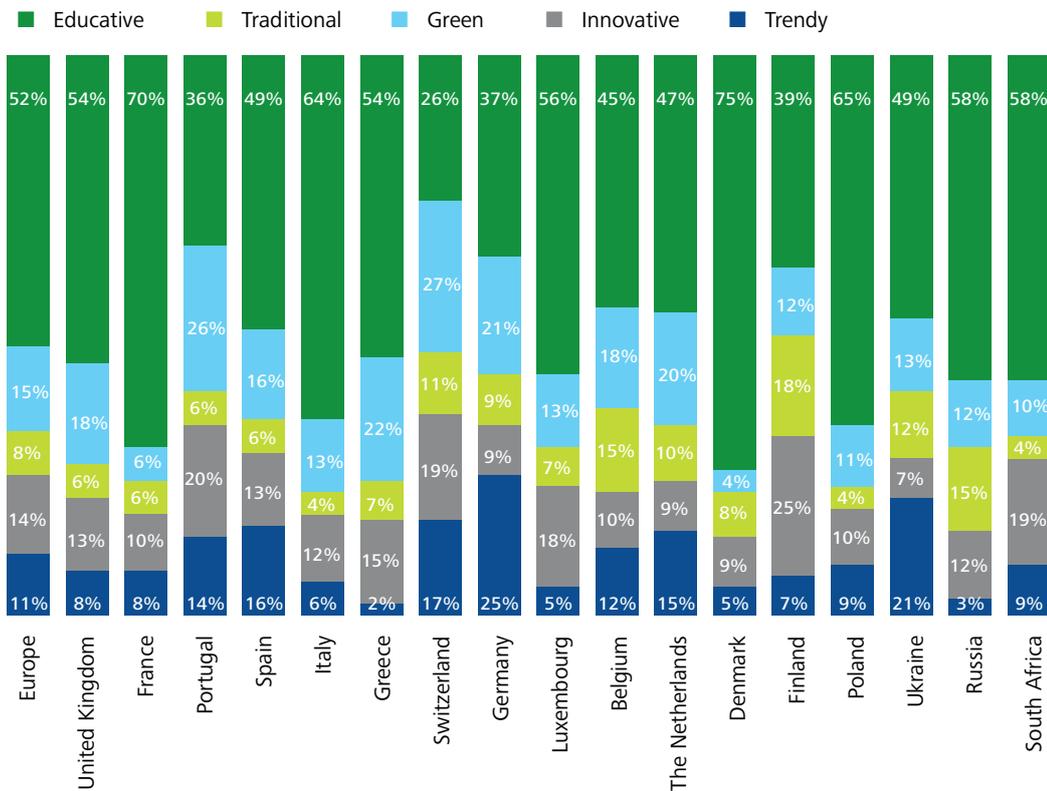


Figure 1g: Criteria favoured for respondents' selected toys for children under the age of 12

Purchasing behaviour

47% of consumers surveyed are increasing their online research to find better prices and great deals

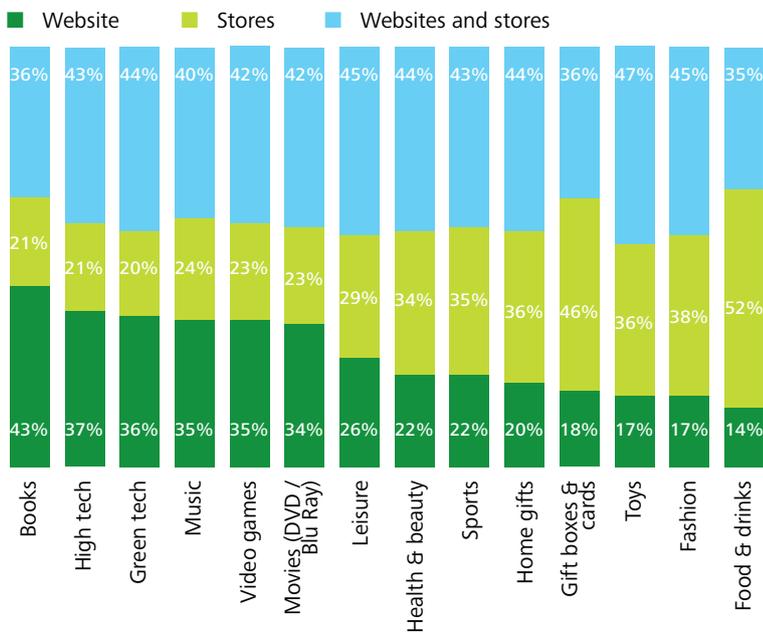


Figure 1h: Where are you getting ideas and advice on the gifts categories below?



Savvy shoppers go omni-channel ...

A large number of South African consumers are supplementing their in store browsing by going online to get ideas and advice on what to buy on this festive season. Compared to 2013, 47% of consumers surveyed are increasing their online research to find better prices and great deals and 40% are spending more time online to get suggestions and recommendations. This trend has given consumers the upper hand over retailers, empowering them to be savvy shoppers who are less likely buy on impulse (72% say they will decrease impulse spending this year). Books, music, movies, video games and high tech items are the categories mostly researched either online or in a combination of online and in-store. When comparing product specifications and prices, South African consumers favour the omni-channel approach through a combination of both website and in-store research to make their final purchase decisions. Food and drinks remain one of the few categories largely unaffected by this trend, as in-store is still the preferred channel to search and compare food products. Due to this category's significance in the average South African's holiday spending budget, stores will continue to be as busy as ever this year.

Braving the stores from November...

The peak time for South Africans to do festive season shopping is from November right up until Christmas Eve on the 24th of December. The most popular time period is early to mid-December (30%). Out of all the countries surveyed, South Africa only trails the UK, Germany and the Netherlands in terms of the 'early shoppers' whereas; the majority of consumers in these countries do their festive season shopping in December.

Bargain hunting is out in full force this year ...

South Africans love a good bargain, 56% of South African survey respondents have indicated that they are inclined to buy more items on sale this year compared to only 40% of European respondents. This behaviour was notably more prominent among our female respondents (62%) who feature in the 25-34 age demographic and in the average to above average income groups. Bargain hunting will be driven by the conscious spenders who appear to be increasingly weary of credit from retailers and tailored consumer credit loans from financial firms. Over 60% of consumers surveyed have indicated that they will be using credit based method of payment less in 2014.

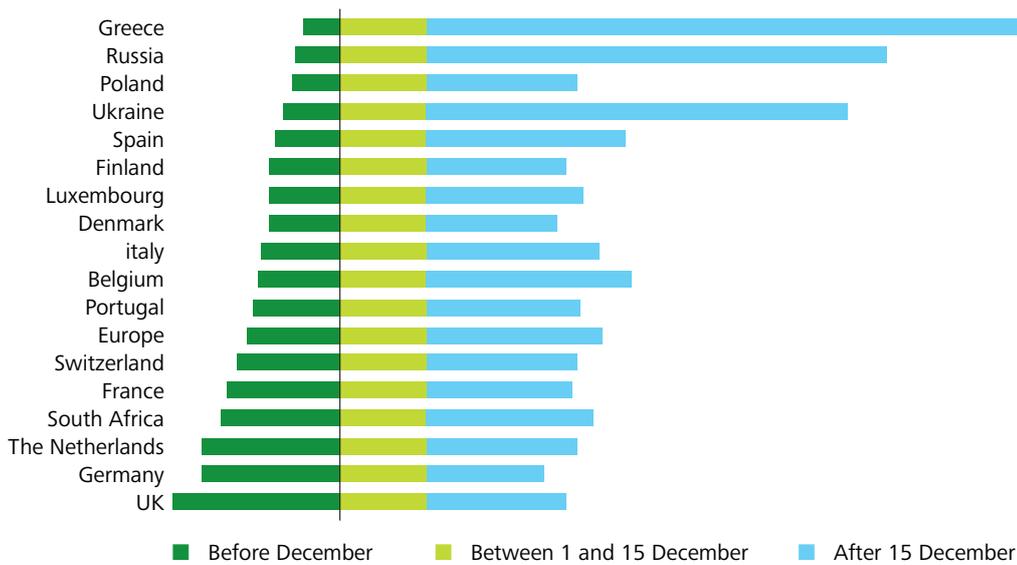
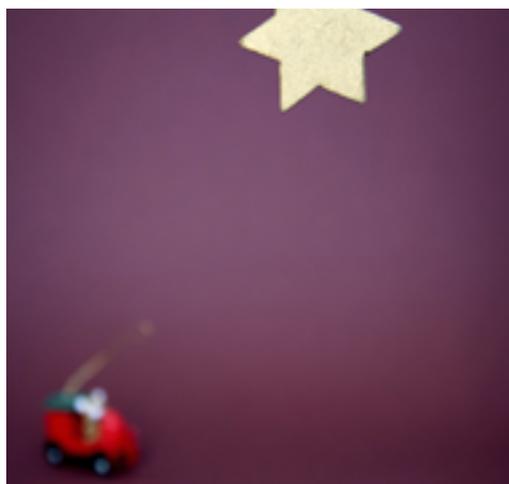


Figure 11: When do you expect to purchase the majority of your gifts for this year versus last year?



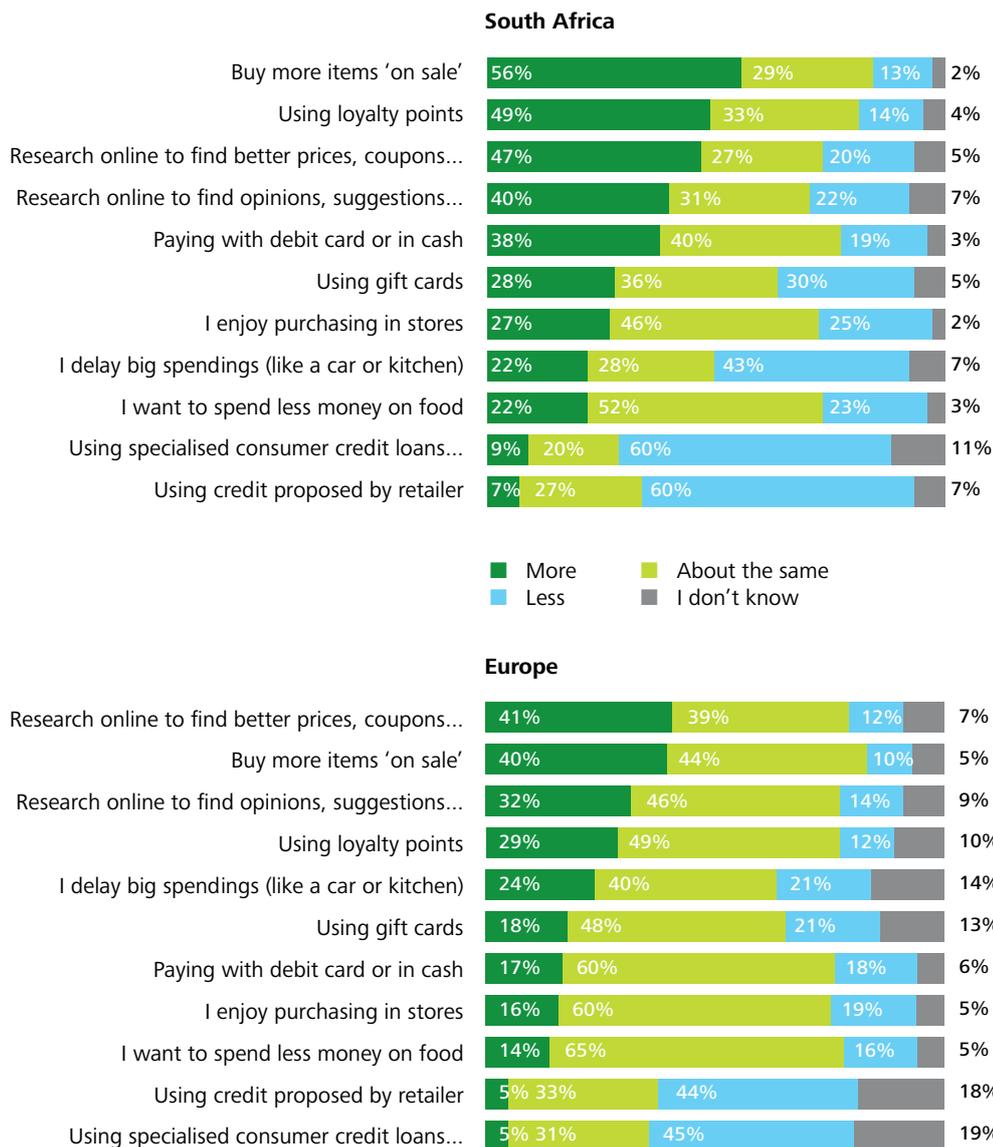


Figure 1J: Thinking about your actual spending behaviour compared to a year ago, are you doing less, the same or more of the following?

Loyalty points ... currency of choice this festive season?

Although already popular in South Africa, loyalty programmes are still on the rise. Nearly half of South African consumers surveyed (49%) said that they will be using loyalty points more this festive season. Although immediate cash discounts are favoured, vouchers redeemable in store or in several retailers

have grown in popularity. The experience of instant gratification given by immediate cash discounts is especially popular with women (33%) over men (24%) and above average income consumers (35% vs total average of 28%). Retailers need to make sure their loyalty programmes are tailored to positively enhance the shopping experience for consumers by offering real value customer rewards and incentives.



Where will South Africans do their shopping this year?

Physical stores dominate, but online gains momentum

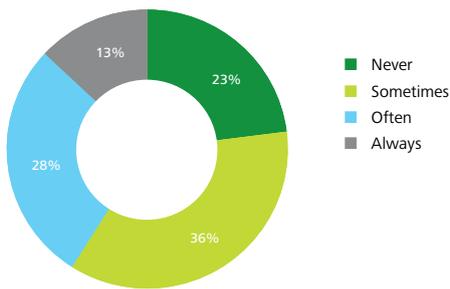
South African consumers continue to increase their exposure to multiple channels, with physical stores still dominating purchases. The latest survey results highlight the stronger interaction between physical stores and online channels, giving importance to both channels as key to fully capture the South African consumer's purchasing behaviour.

A significant majority of South African consumers continue to shop directly in physical stores; however, there is a steady growth in consumers who plan to use online channels to purchase specific items in 2014. Physical stores will continue to experience high foot traffic volumes as there are a significant number of respondents who plan on ordering online after visiting or whilst at a physical store. This is also reflected in the combined 77% of consumers who reported using physical stores to conduct their product research and compare products, before making a purchase via the internet.

51% of all respondents reported having used their smartphones to purchase a product

Growing internet traffic volumes in South Africa reflect an increase in the percentage of respondents who plan to use their online platform as the primary channel for purchases. The percentage of online shoppers is growing across most of the categories, with the strongest growth in sports equipment, high tech products and books. Similarly to 2013, the largest online purchases during 2014 are expected to be digital items (music, movies and video games) as well as books and other high tech products. The food and drinks category remains the product category with the least online presence, as only 7% of South African consumers reported purchasing food online.

Online for research, physical stores for purchases



South African consumers remain tentative when it comes to using online platforms to make purchases as they would rather conduct product research and comparisons online, but majority still choose to purchase their products in-store, with only 25% expecting to buy items online in 2014. This is notably lower than European customers, where 36% anticipate making purchases online.

South African consumers continue to use the traditional multiple channels available to conduct product research prior to purchasing specific items. Similar to 2013, search engines and brand / supplier websites are the dominant platforms for consumers to conduct their product research. In addition, the integration of online and physical stores remains an important theme in South Africa, as 89% of the survey respondents reported using online shops with one or more physical stores to conduct their research, which is on par with Europe at 91%.

Social media drives online engagement

Despite the dominance of traditional platforms, the strongest growth was witnessed across the relatively newer channels, for example, social media (71%), forums and blogs (54%), as well as newsletters and online leaflets received via email (75%), are used more to search and compare products. In comparison with Europe, South Africans engage much more with social media when giving advice and opinions and when specifically looking for information. The survey also highlights that South Africans engage much more with their peers and with retailers using social media channels in comparison to European consumers.

South Africa

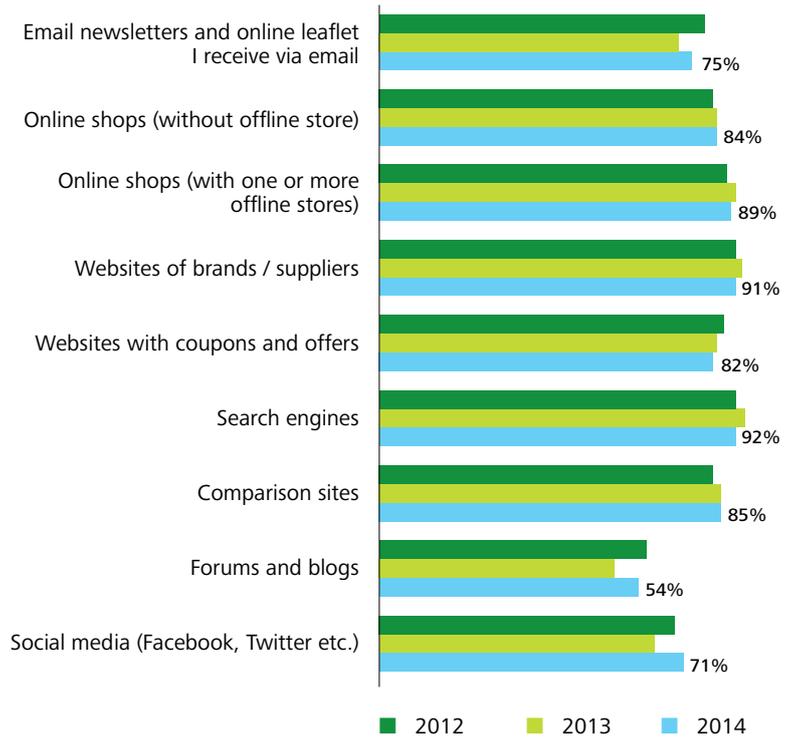


Figure 1K: You stated that you will be going online. Please state for each option mentioned below if you will or will not be using them for searching and/or comparing products.

A majority of 77% of survey respondents use social media to provide advice, comments and recommendations, whilst 72% reported using social media for advice on product properties. The strongest growth was in retailer engagement, where the number of respondents reporting that they provide opinions and advice to retailers rose by 7 percentage points between 2013 and 2014. Furthermore, 85% of all survey respondents reported using social media to look for special deals, recommendations, gifting ideas, product information, as well as prices, which all ranked higher than Europe.

As online retail takes off in South Africa, the number of respondents who have purchased products has also increased significantly over the past two years. During 2014, 51% of all respondents reported having used their smartphones to purchase a product, up from 38% in 2013. Despite the strong growth in the respondents who have used their smartphones, only 49% expect to use smartphones for future purchases, which is down from 59% in 2013.

Traditional shopping continues to drive holiday season shopping

The South African consumer's association with traditional means is also evident in their preferred store type for the upcoming festive season purchases. In South Africa, the traditional department stores are the most preferred store format and are expected to see more customers during 2014. On the contrary, European consumers are moving away from the department stores and expect to purchase products from Hypermarkets and Supermarkets. Specialty chains are ranked second by South African consumers as the preferred shopping destination, followed by Hypermarkets and Supermarkets as the third choice destination. Consumer preference for Traditional local shops has increased between 2013 and 2014, whilst luxury stores and factory outlet stores account for less than 5% of expected purchases.

South African consumers predominantly focus on three product categories that dominate the December purchases, namely, food, fashion, as well as health and beauty products. Fashion and health and beauty products are predominantly found in Department Stores, with home gifts, sports products and leisure goods also contributing to the strong preference for this type of store. Food is mainly distributed through Hypermarkets and Supermarkets and these stores' ability to achieve cost efficiencies, lower prices and wide product availability plays a significant role in attracting consumers. Specialty Stores mainly catering for unique gift purchases (e.g. digital products, books, high tech and green tech, as well as toys), which generally consumer a smaller portion of the budget amongst consumers, especially in a low growth economic environment.

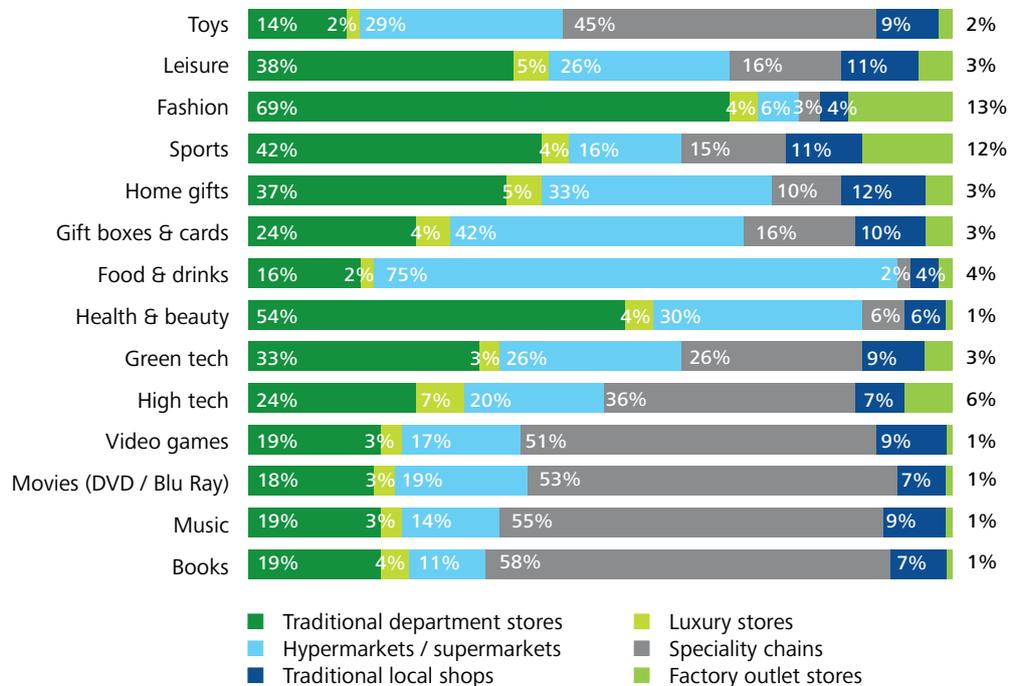


Figure 1L: For the gifts you intend to buy in stores, where do you think you will buy your gifts?

83% of the respondents reported ordering gifts online and receiving them during 2013



Low prices and product availability in Hypermarkets and similarly sized shops will account for most of the food purchases during this festive season. Overall, 77% of survey respondents expect to buy their food from these stores, which is up significantly from 45% in 2013. The sharp increase could be related to the increasing importance of low prices, given the depressed nature of the South African economy. Preference for traditional specialty food shops (i.e. butcheries and bakers etc.) has also increased from 41% expecting to buy in 2013, to 61% in 2014. The normal size supermarkets have lost favour amongst South African consumers, with the percentage expecting to buy from these stores declining from 76% in 2013 to 49% in 2014.

Home Delivery Growing in South Africa

Whether South Africans purchase products after visiting the store or after browsing online, there is a growing preference for home delivery of purchased goods due to the convenience and flexibility it gives customers as they are able to avoid crowded malls and stores, queues, as well as give customers better control and use of their time during the festive season. The number of respondents who prefer home delivery after ordering online increased from 22% in 2013 to 26% during 2014. Although the dominant preference remains consumers taking away their own goods after shopping in store, this form of delivery has received less favour amongst consumers, with a decline from 67% in 2013 to 59% in 2014. Both these trends are in line with what is being experienced in the European market, where there has also been an increase in consumers who prefer home delivery after ordering online and a decline in those who want to take their purchases away immediately after shopping in store.

There is a distinct difference in how the various generations of shoppers prefer their products delivered in South Africa. The older generation of shoppers (35 – 55 years) remains committed to taking away their own products after purchasing in store, whilst there is a much larger number of consumers in the younger generation (18 – 34) who would like their products delivered at home after shopping online. This trend could be related to the demographics on the online segment, where the younger group typically use the internet much more than the older cohort of the South African population.

Online channels gaining trust

As the online presence grows, South Africans are also beginning to trust the internet store model more. Of the total survey responses, 83% of the respondents reported ordering gifts online and receiving them during 2013. However, of those who did not receive their gifts on time, there is a clear dominance again of traditional shopping preferences. 31% of all respondents who did not receive their gifts on time in the preceding year, will revert back to buying gifts in store, whilst 25% will give the online model another chance, as they will buy via the internet, but at a much earlier time period. Furthermore, 17% of people who did not receive their goods on time will continue to buy online, but rather fetch the goods themselves as opposed to relying on delivery agents to fulfil the order.

Faith in the online channel is much higher in Europe, where 33% of all respondents will continue purchasing products online and scheduling deliveries, but those purchases will be conducted much earlier than in the previous year, whilst only 24% of all respondents who did not receive their purchases on time, will ditch the online channels and revert back to the physical store format.

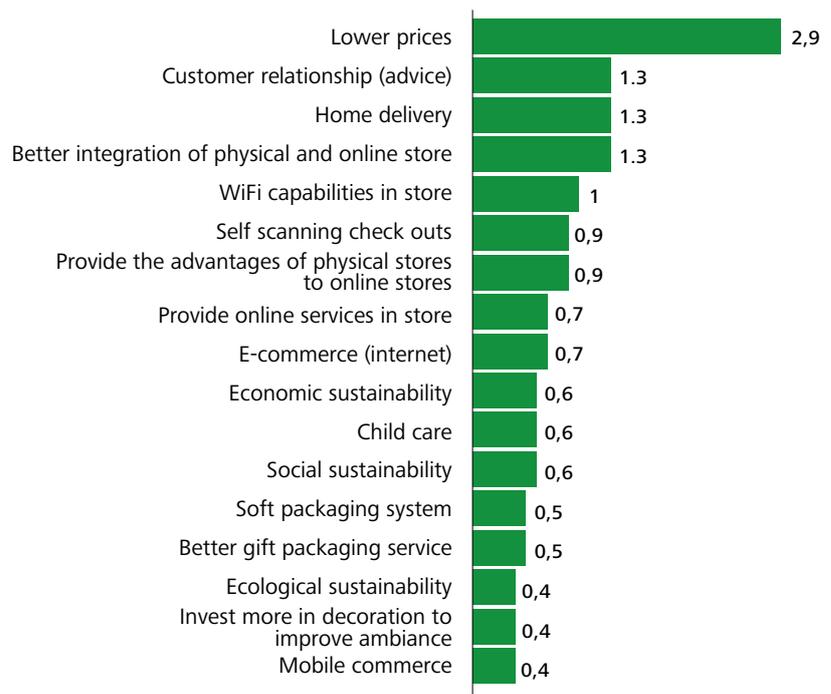
Part of the reason behind South African consumers reverting back to the physical store format is the belief that physical stores cater best to their shopping needs in comparison to the other channels. This is based on the fact that 84% of all respondents believe it is much easier to exchange and return products at physical stores, 76% believe they can get products purchased quickly at physical stores and 74% prefer the after sales service from physical stores as opposed to any other channel. However, a larger number of European consumers prefer the E-commerce platform, as they believe it provides better prices, easy comparison and ability to review other user comments prior to making a purchase.



4% prefer the after sales service from physical stores as opposed to any other channel

Tips for retailers

Price remains a key theme for South African and European consumers, as it is the highest ranked area that both groups believe retailers should focus on in order to improve their shopping experience. This is followed by customer relationship management, efficient home delivery and better integration of physical and online store formats. Limited Wi-Fi connectivity in South African stores is also a notable pain point for consumers, as it reduces their ability to compare online whilst in stores.



Rated on a scale of 1-5

Figure 1M: Which area would you expect retailers to invest in, in order to improve your shopping experience?

About this survey



The findings of this report are based on consumer data obtained during a survey realised by Deloitte in cooperation with Q&A Research and Consultancy. This survey covered 18 countries from Western Europe, Eastern Europe and South Africa. Respondents are aged 18 to 65 years of age.

The fieldwork was executed in September 2014 (second and third week).

For all the countries, the survey results were analysed and compared with previous years. The comparisons were only made for questions identical to those used during prior-year surveys.

Information has been collected via the Internet, with a structured questionnaire for a sample of individuals, within controlled panels. Each consumer in the panel is identified through the following aspects:

- Socio-demographics
- Personal interests
- Consumer behaviour

To adjust the Internet sample to the population of each country, we used ex-post statistical weighting. The weighting is based on gender and age in each country.

The South African sample is more representative of middle and upper social classes, since the survey was done via the Internet. The survey was conducted in nine regions:

- Gauteng Area (42% of the sample): Two major cities were included in the study: Johannesburg, which is the business and financial centre and which carries out 40% of the GDP, and Pretoria which is located in the most populated area. These cities account for 19% and 7% of the South African sample.
- Western Cape (23% of the sample): This is a tourism province. Cape Town is the capital of the province and represents 15.6% of the sample.
- Eastern Cape (7.1% of the sample): This is one of the poorest provinces in South Africa. The two major industrial centres Port Elizabeth and East London have well-developed economies, based on the automotive industry. The survey was conducted in these cities, which accounts for 4% of the South African sample.
- Free State (3.3% of the sample): Bloemfontein: In the region surrounding Bloemfontein, farming, livestock and mining are the main occupations. The city is a road and railway hub.
- Kwazulu-Natal (14% of the sample): This is the most populated area of South Africa.
- Mpumalanga (5% of the sample): This is a province in Eastern South Africa. In 1995, the name was changed from Eastern Transvaal to Mpumalanga.
- North West (3.8% of the sample): North West is a province of South Africa. Its capital is Mafikeng.
- Limpopo (0.7% of the sample): Limpopo is the most northern province of South Africa. The biggest city in Limpopo is Polokwane.
- Northern Cape (1.1% of the sample): This is a large and the most sparsely populated province in South Africa. Its capital is Kimberley.

Africa Consumer Business team



The Deloitte South Africa Consumer Business team has extensive experience in retail, distribution and consumer-product manufacturing. We provide innovative, industry-specific solutions to retailers and their suppliers across audit, tax, consulting and advisory services. This team has delivered significant cross-border engagements into Africa where we have supported retailers and consumer-product manufacturers with market entry and expansion strategies, market analysis and distribution optimisation. If you would like to discuss any of the topics in this report, or our services to the consumer business industry in South Africa and other African countries, please contact:

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