

# SA faces new competition in retail investment

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South Africa will compete for retail investment with countries other than China, Brazil, Russia and India, its partners in the BRICS grouping, as consumer spending doubles in the next decade, according to research by AT Kearney, the management consultancy.

The South African economy, like those of many other emerging economies, has been driven by consumer spending, as opposed to investment.

Due to globalisation and rising wealth in middle-income countries such as Indonesia, Israel, Thailand and Estonia, South Africa faces new competition for investment in product- and service-hungry consumers.

AT Kearney on Monday released a report on a survey it conducted on the spending patterns of 86 countries. It says most countries will spend more as their citizens gain wealth, but the spending patterns will not necessarily follow a traditional model. Consumer goods companies will therefore need to analyse their customers differently.

"By now, the explosion of consumer spending in Asia and the Bric countries and the revival of luxury spending in developed markets are common knowledge," it said in its report.

"Despite these clear economic surges, however, retailers and consumer packaged goods manufacturers still struggle to fully understand how people in different markets spend their money, and how their spending patterns change over times as consumers get wealthier."

The consultancy said that, adjusting for inflation in both the unit cost of goods and currency, global growth in real spending was expected to rise by US\$12-trillion in the next decade. Spending on food would account for only 10% of this growth, while spending on durable goods, personal care items, transport, healthcare, hotels and leisure activities would account for a much larger percentage.

"As consumers elsewhere in the world become more sophisticated, their spending does not appear to follow traditional paths such as Maslow's hierarchy of needs or US patterns," it said.

Maslow's model is based on a pyramid of people's needs. It places nourishment as a primary need, but AT Kearney said consumers in developing countries were thinking beyond nourishment when spending their money, rather aiming towards esteem, a higher level on the pyramid.

For example, as incomes rise in China, its citizens are spending a much larger "share of wallet" on education and less on tobacco and alcohol, the report said.

While South Africa as an investment destination may face competition from the likes of Turkey, Europe's fastest-growing economy, it also has to overcome challenges closer to home.

Economists expect Nigeria's gross domestic product to overtake South Africa's within the next two decades.

Philipp Bode, manager at AT Kearney SA, said Nigerians spent money largely on transport, as the country's infrastructure was weak, and on education. South Africans spent relatively more on recreation.

McKinsey, the consultancy, recently said Africa's middle class was burgeoning. The continent has some of the poorest people in the world, but investment in a country such as Zambia created a middle-class gold mine for producers.

Since 2000, according to McKinsey, consumer spending in sub-Saharan Africa grew 4% a year, reaching nearly \$600bn in 2010. The market is expected to be worth \$1-trillion by 2020, creating demand in other African countries for products from South Africa and from overseas.

Source: *Business Day*

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