

Towards a Multi-Dimensional Consumer Segmentation Tool for South Africa

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Background



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Introduction

- Consumer market segmentation indices are being used **internationally** to segment consumer markets.
- Consumer segmentation indices like the Living Standard Measure (LSM) have been used in South Africa to segment consumer markets for **some time**.
- Many consumer segmentation indices being used in South Africa are based on a **single dimension**, i.e. income, living standards, consumer behavior, etc.
- Internationally consumer market segmentation indices **became more multi-dimensional** as Big Data, data joining, AI and machine learning methods became more powerful and prevalent.

Meaning of market segmentation

- The term *consumer market segmentation* can be defined as referring to the practice of dividing a consumer market into fairly uniform groups for market information, market tracking and marketing purposes.
- Through market segmentation consumer market subsets are being created based on demographics, customer needs, consumer interests, consumer behavior, socio-economic characteristics and psychographics.
- Most market segmentation models have only limited success during their life course due to consumer behavior changing the whole time and being much more complex than can be captured in a segmentation model.

Why consumer market segmentation is important?

- It is important to **identify markets** for specific products and/or services and to identify the characteristics of such markets.
- By tracking different consumer market segments, **changes** in such market segments can be identified and acted upon.
- Market segmentation aids in ensuring **targeted above-the-line and below-the-line marketing**.
- Through market segmentation **detailed knowledge** about consumer market segments are being realized.
- **Tracking** of changes in consumer market segments become possible.

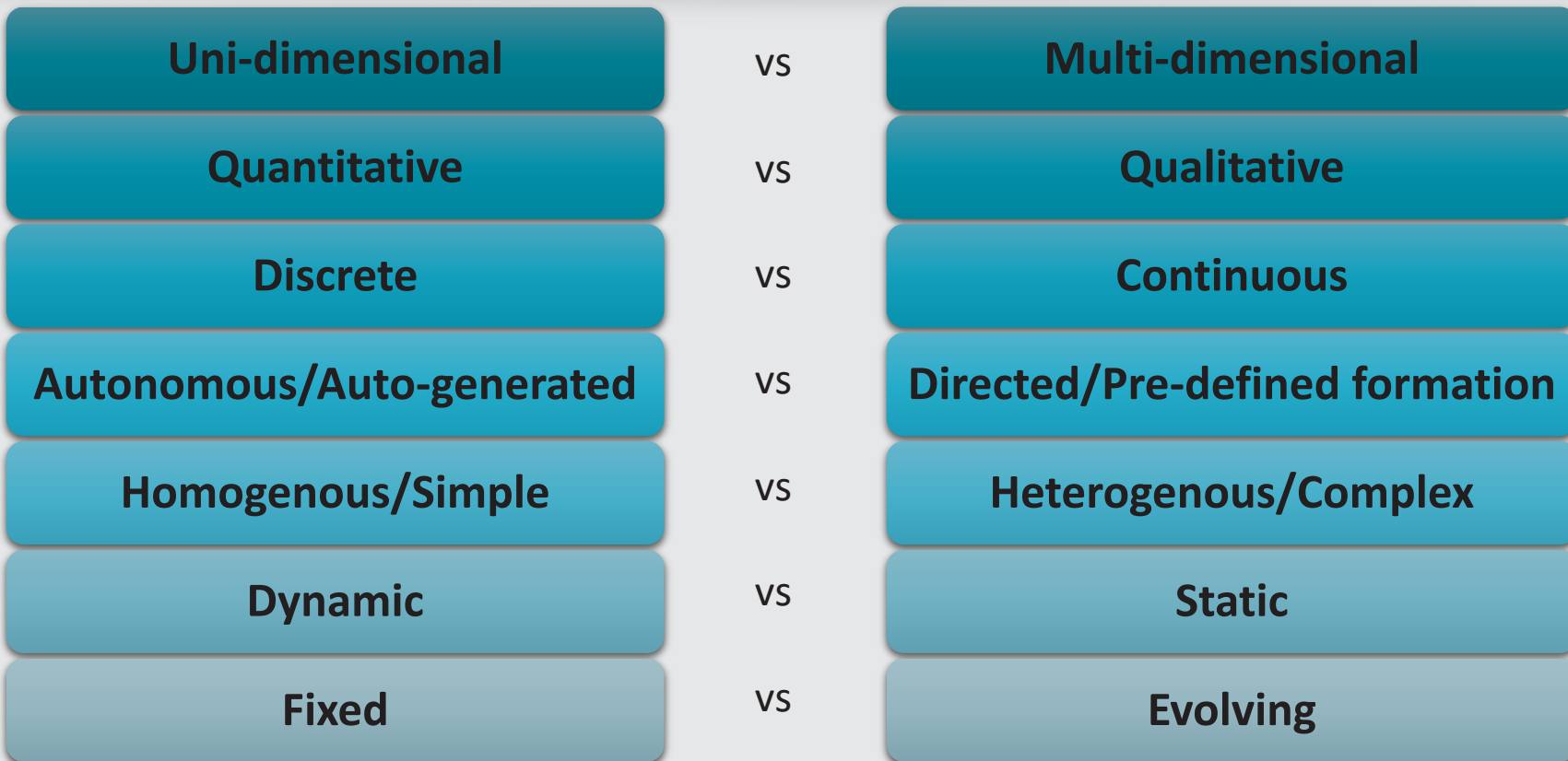
Market segmentation approach



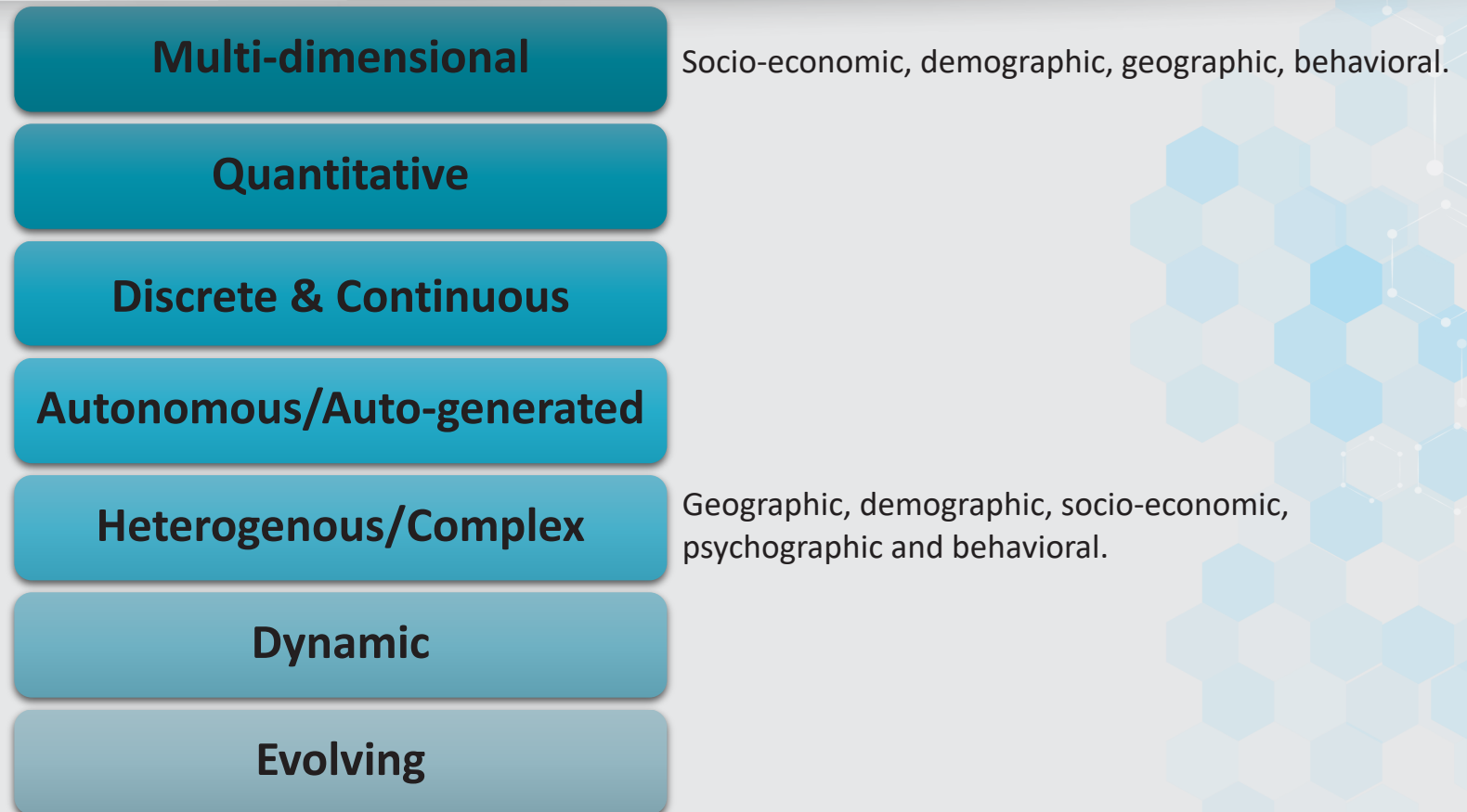
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Market segmentation approaches



The BMR's market segmentation approach



BMR Consumer Market Segmentation Tool



Selection of segmentation cluster variables

- **Consumption capacity:** This refers to the spending capacity of consumers as proxied by employment status, personal income and household expenditure.
- **Consumption potential:** This refers to the broader human and social capital status of consumers as proxied by educational attainment, digital inclusion and purchasing style (psychographic).
- **Consumption capacity/consumption potential nexus:** This reflects a link between consumption capacity and consumption potential to reflect differential consumption patterns of people with different consumption capacity and consumption potential statuses.

Populating the BMR Consumer Market Segmentation tool

New MAPS data

- Subjected to diagnostic testing and RIM weighted

Six variables

- Investigated/scrutinized/analysed in a variety of ways

Three socio-economic capacity variables

- Machine learning identified index structure (during early 2022 with 2021 MAPS data)
- Construct the consumption capacity index

Three socio-economic potential variables

- Machine learning identified index structure (during early 2022 with 2021 MAPS data)
- Construct the consumption potential index

Indices

- Populated indices with data, investigated and analysed

The BMR Consumer Market Segmentation structure

		Consumption potential		
		Low	Middle	High
Consumption capacity	Low	LC-LP	LC-MP	LC-HP
	Middle	MC-LP	MC-MP	MC-HP
	High	HC-LP	HC-MP	HC-HP

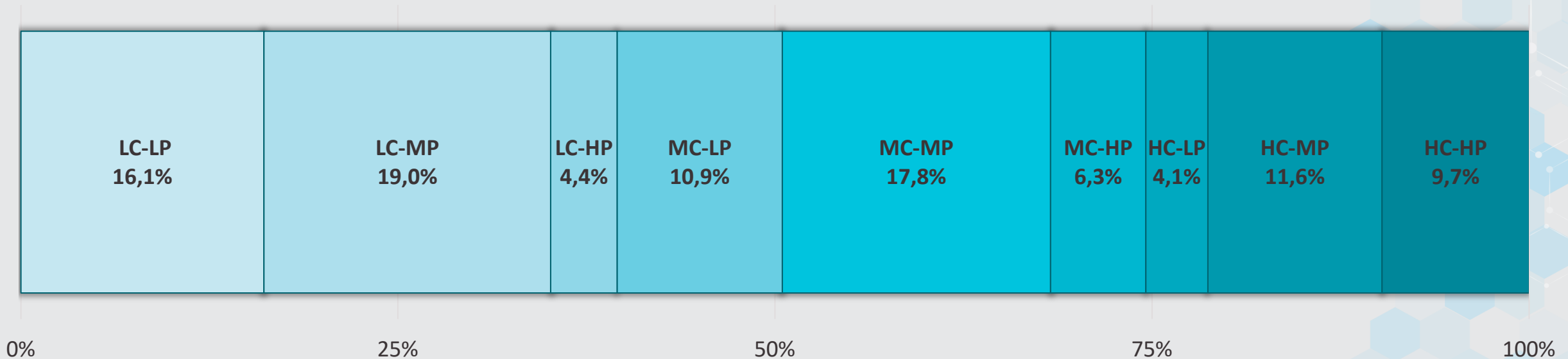
Continuous Segmentation

	LOWER (20 M)			MIDDLE (12 M)			UPPER (11 M)		
	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH
Consumption potential	1	2	3	4	5	6	7	8	9
Consumption capacity	LOW	LOW	LOW	MEDIUM	MEDIUM	MEDIUM	HIGH	HIGH	HIGH
	<ul style="list-style-type: none"> • Low Income • Low potential for income growth • Low connectivity 	<ul style="list-style-type: none"> • Low Income • Some potential for income growth • Connected 	<ul style="list-style-type: none"> • Low Income • High potential for income growth • Highly connected 	<ul style="list-style-type: none"> • Middle income • Low potential for income growth • Low connectivity 	<ul style="list-style-type: none"> • Middle income • Some potential for income growth • Connected 	<ul style="list-style-type: none"> • Middle income • High potential for income growth • Highly connected 	<ul style="list-style-type: none"> • High income • Low potential for income growth • Low connectivity 	<ul style="list-style-type: none"> • High income • Some potential for income growth • Connected 	<ul style="list-style-type: none"> • High income • High potential for income growth • Highly connected

Number of consumers in the various segments

		Consumption potential			
		Low	Middle	High	Total
Consumption capacity	Low	7 061 807	8 328 009	1 928 308	17 318 124
	Middle	4 790 830	7 794 453	2 773 270	15 358 553
	High	1 793 724	5 065 221	4 268 692	11 127 637
	Total	13 646 361	21 187 683	8 970 270	43 804 314

Consumer segment shares



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Low Consumption Capacity, Low Consumption potential

N = 7 061 807 (16.1%)

Low consumption capacity	Low consumption potential
<ul style="list-style-type: none">• Poor – expenditure more than income• Not economically active or unemployed• Focus on buying necessities• Physiological and safety needs• Require strong guidance• Followers – looking for leaders• Incremental instructions• Keep it simple and specific• Focus on survival (existence)• Very good at budgeting to survive	<ul style="list-style-type: none">• Very low level of education• Very low level of digital inclusion• Low maturity• Low need to achieve• Extrinsically motivated• Low adaptability• Low level of assertiveness• Low self-confidence• Low conceptual development• Unable and insecure

High consumption Capacity, High Consumption potential: N = 4 268 692 (9.7%)

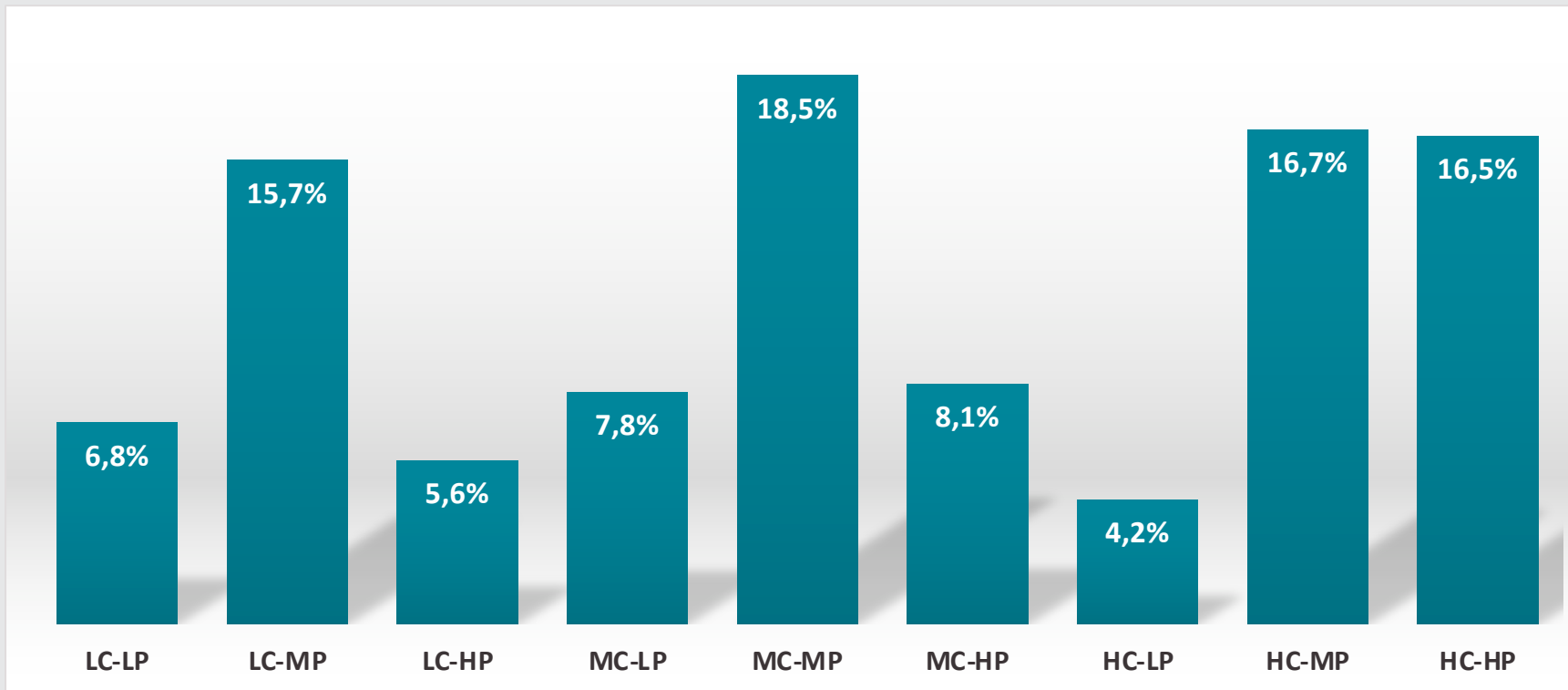
High consumption capacity	High consumption potential
<ul style="list-style-type: none">• Middle to high incomes• Formal sector employed or self-employed• Buying necessities and luxuries• Esteem and personal growth needs• Require little guidance - participation• Leader mentality• Support their good behavior• Keep it simple and specific• Focus on status and growth• Overspending and under-saving	<ul style="list-style-type: none">• High to very high level of education• High to very high level of digital inclusion• High maturity• High need to achieve• Intrinsically motivated• High adaptability• High level of assertiveness• High to very high self-confidence• High to very high conceptual development• Able and relatively secure

Applying the Consumer Market Segmentation Tool to a capita selecta of MAPS data variables



Number of consumers in the various segments who read a newspaper (past 4 weeks)

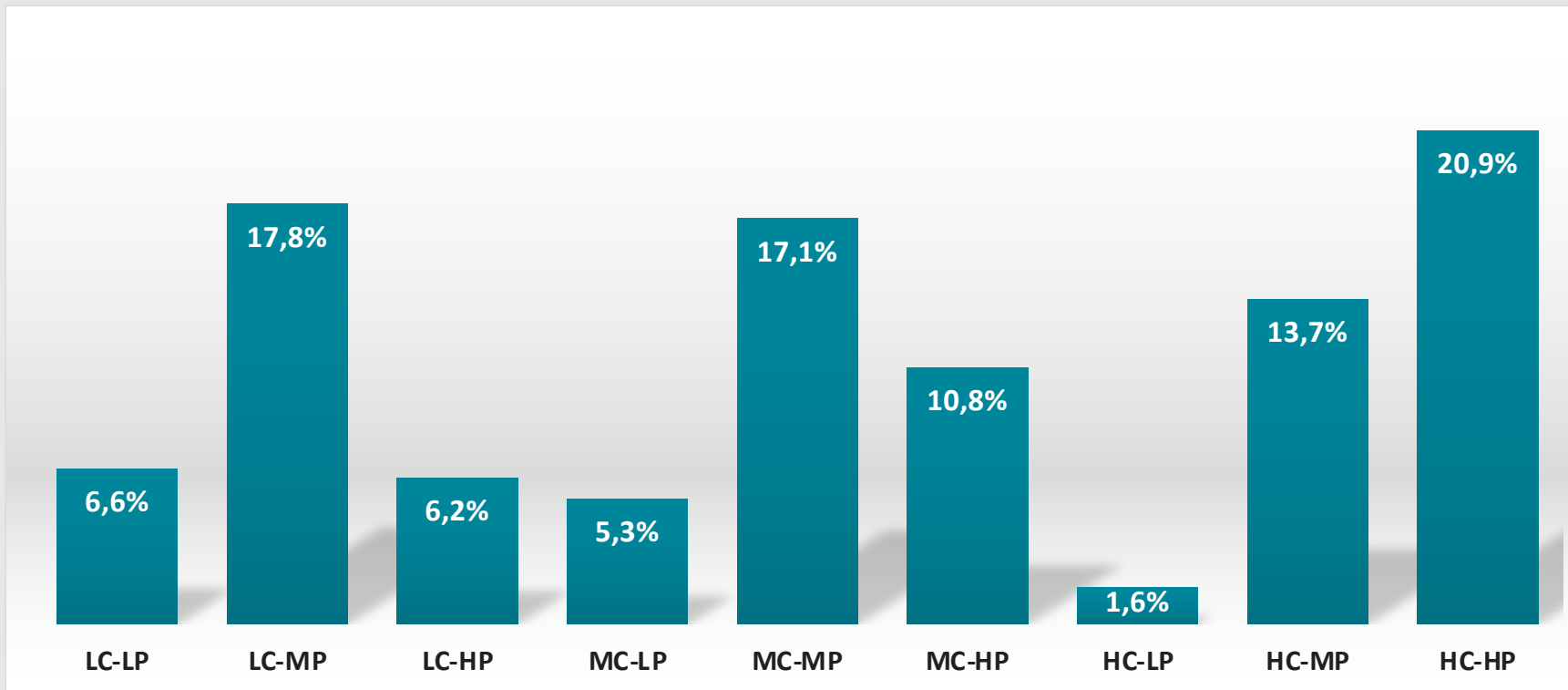
N = 14 827 733



L = Low; *M* = Medium; *H* = High
C = Capacity; *P* = Potential

Number of consumers in the various segments who read a magazine (past 4 weeks)

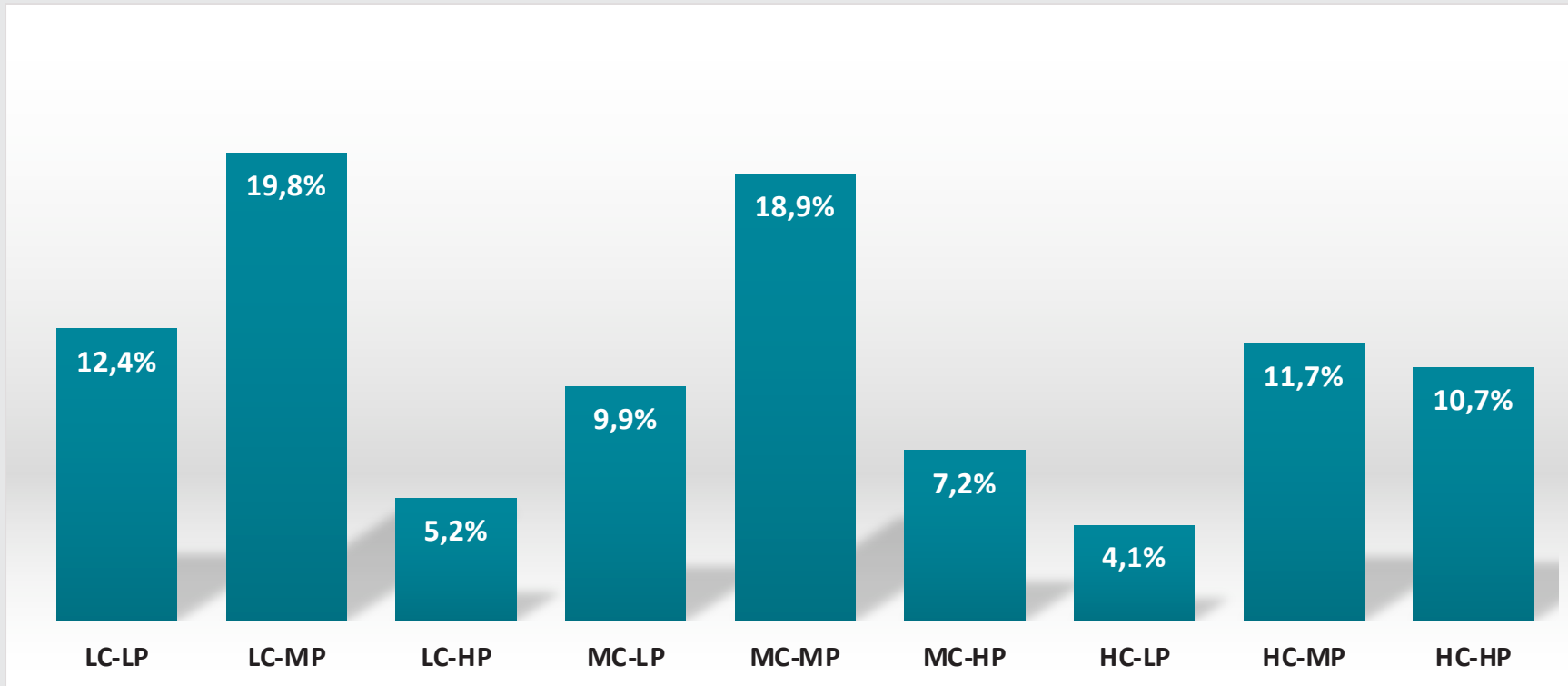
$N = 4\,400\,762$



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Number of consumers in the various segments who watched television (past 4 weeks)

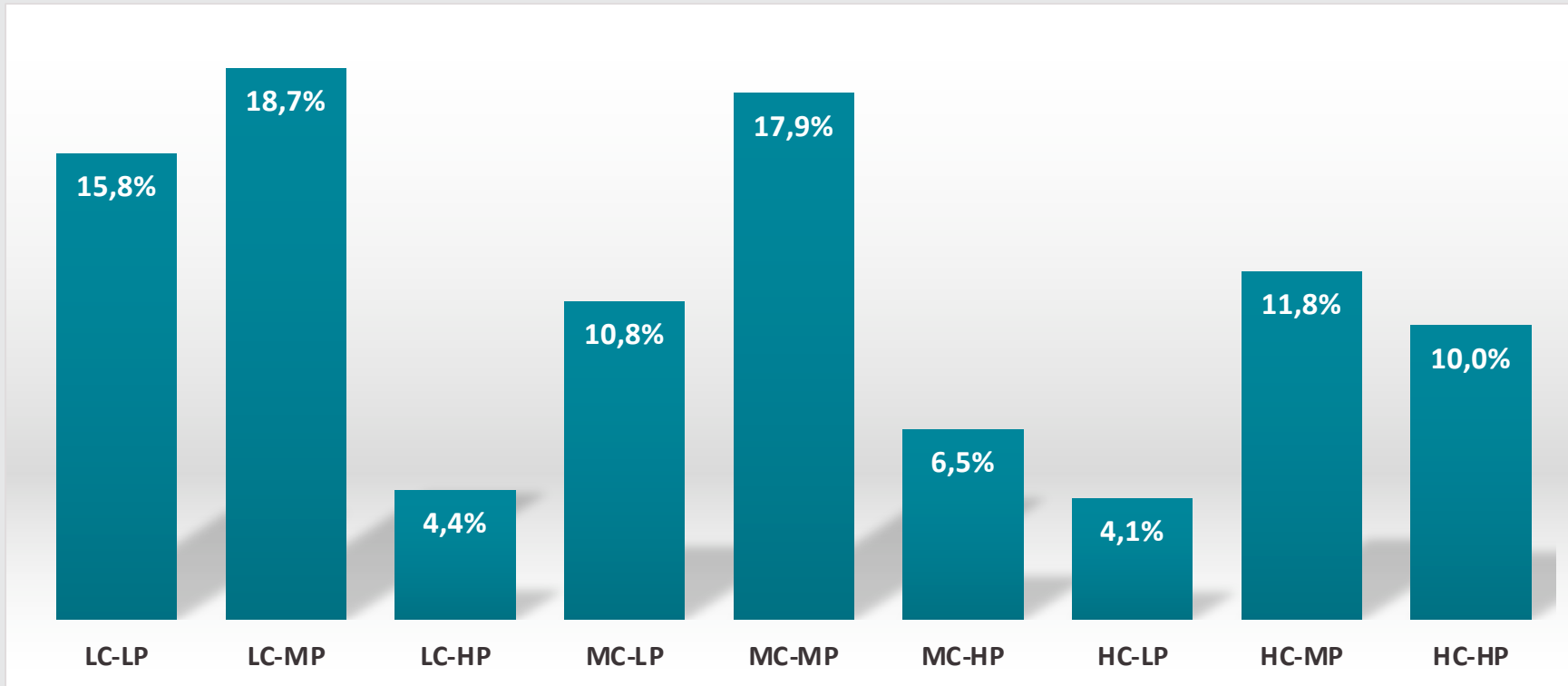
$N = 31\,548\,602$



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Number of consumers in the various segments who have access to cellphones

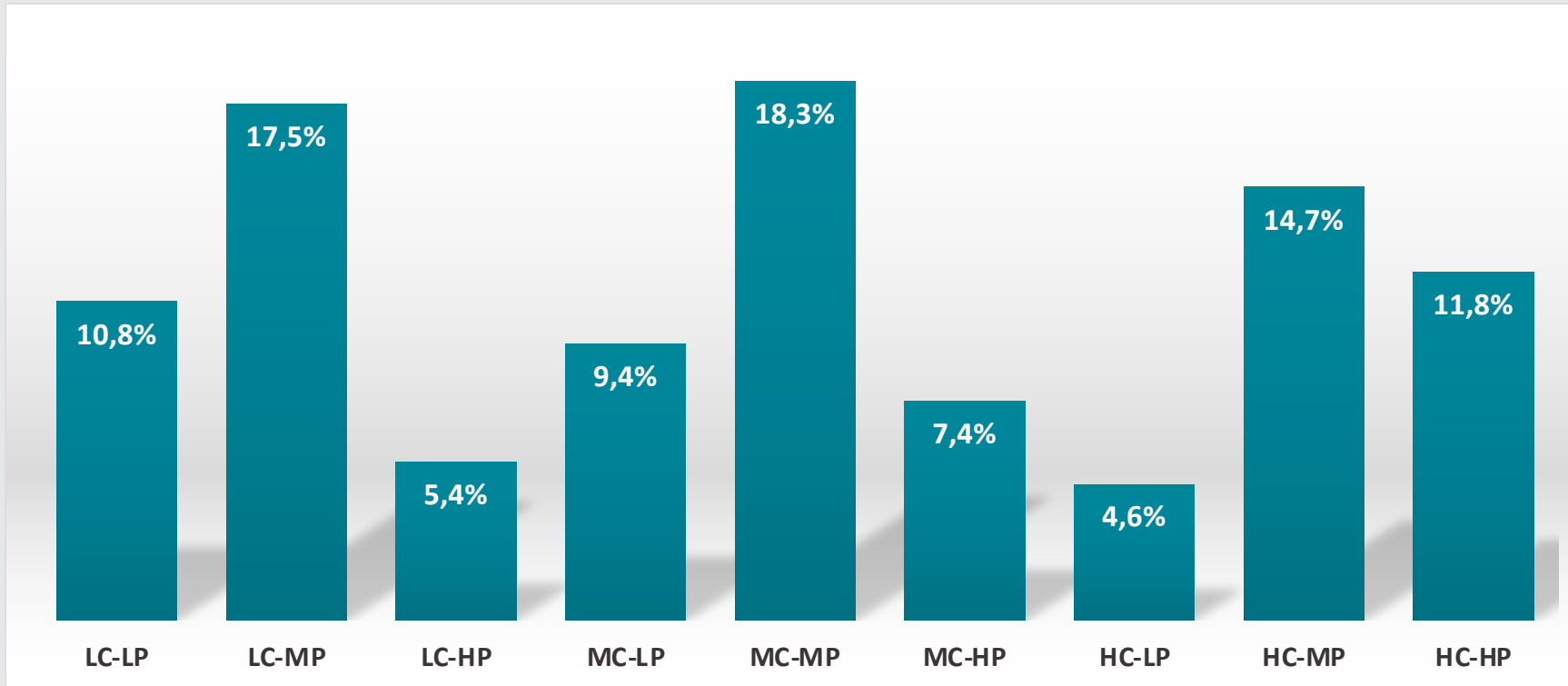
$N = 42\,514\,252$



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Number of consumers in the various segments who have a transactional savings account

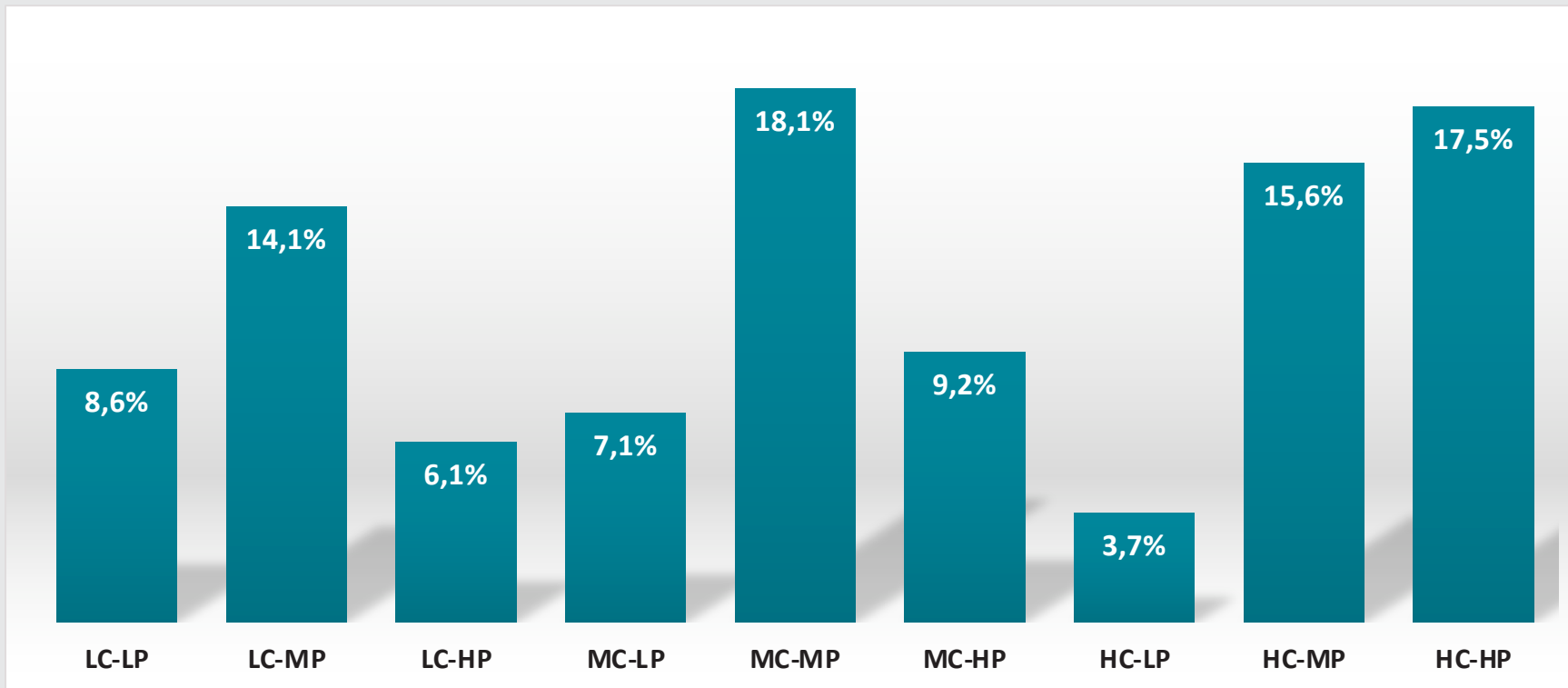
$N = 25\,504\,474$



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Number of consumers in the various segments who make use of e-money services

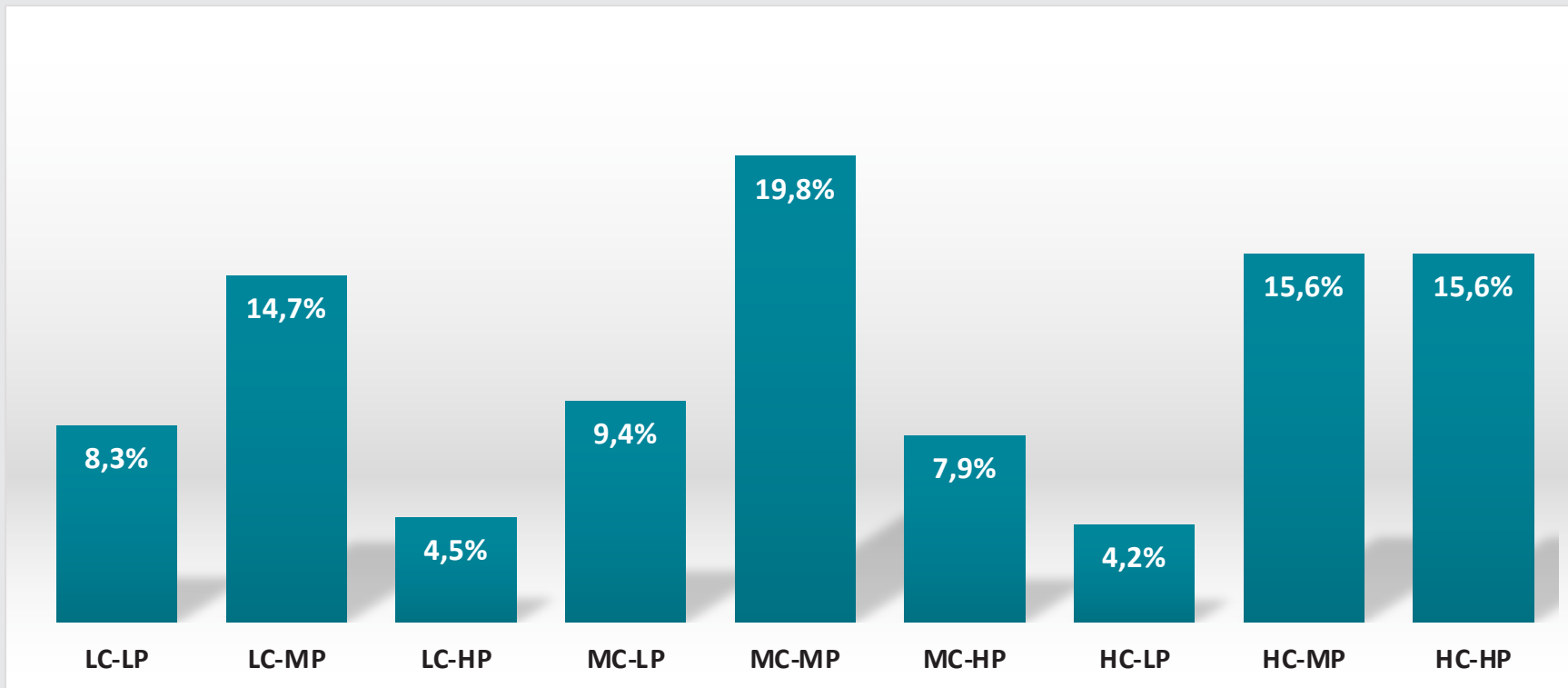
$N = 14\,917\,698$



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Number of consumers in the various segments who have a retail loyalty card

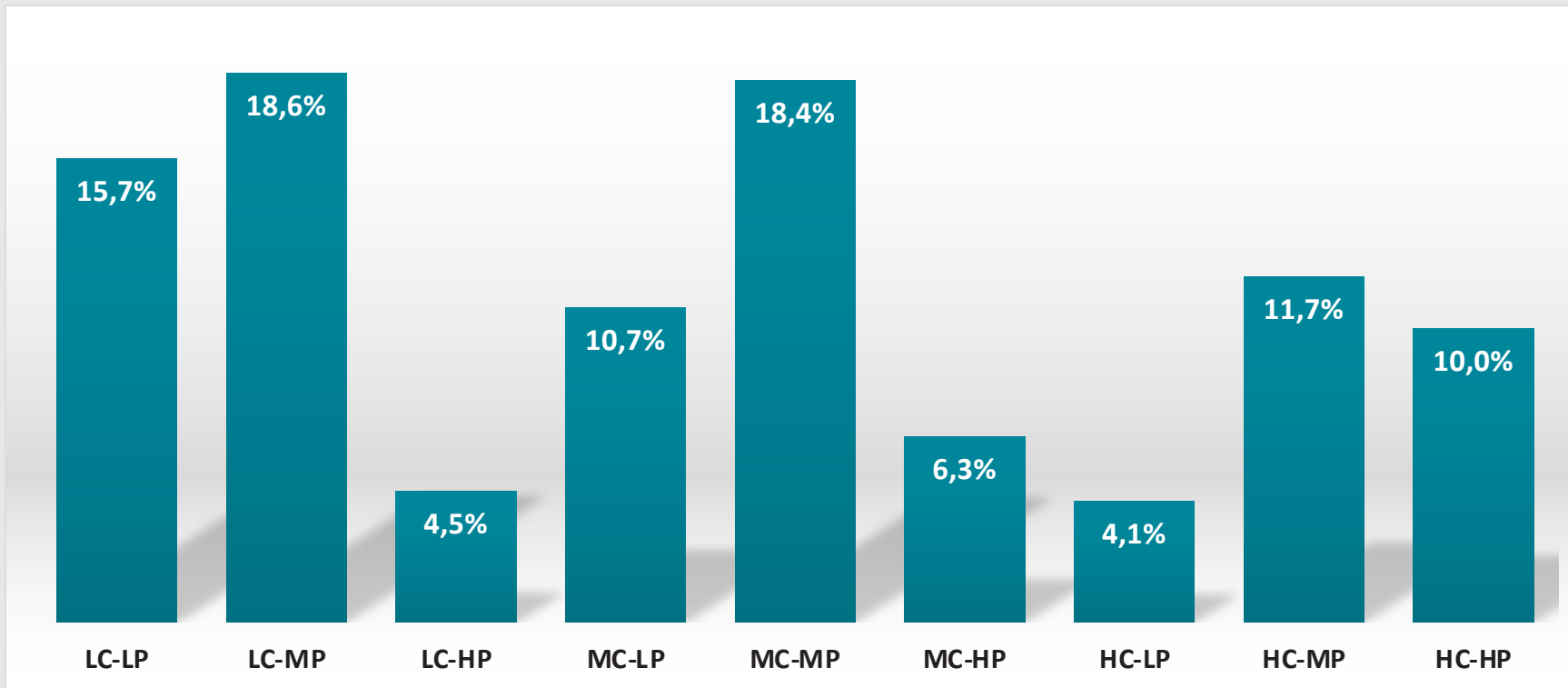
$N = 19\,362\,391$



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Number of consumers in the various segments who bought bread during the past 7 days

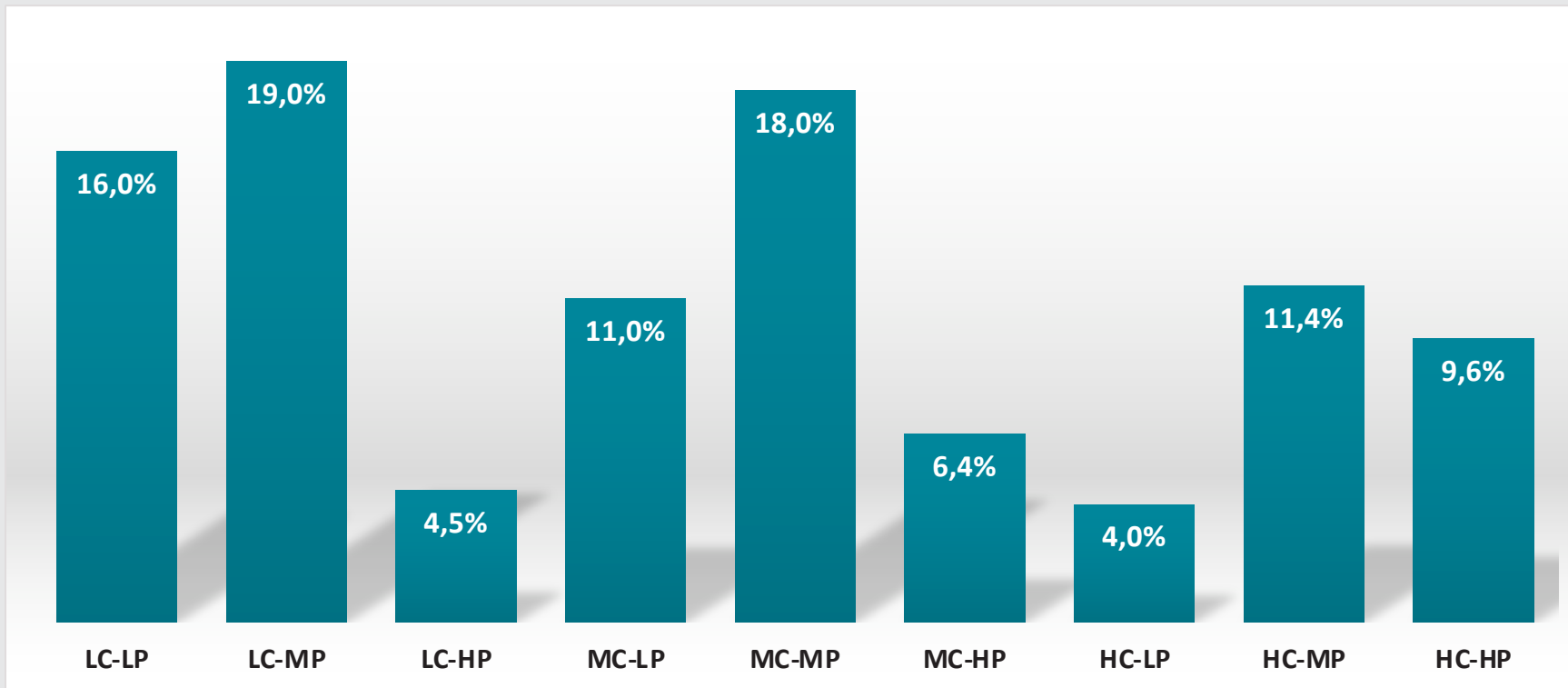
$N = 38\,251\,849$



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Number of consumers in the various segments who used hand/body soap during the past 4 weeks

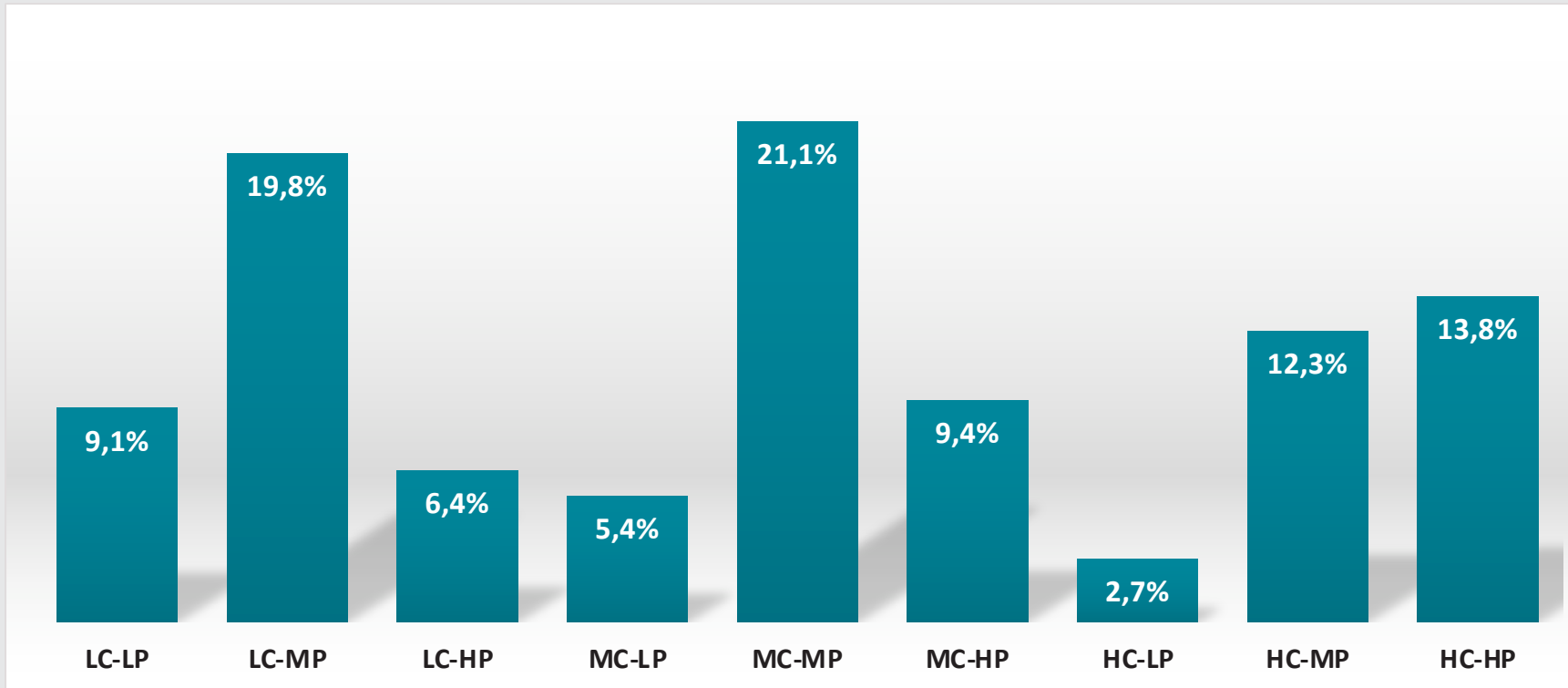
$N = 40\,144\,410$



L = Low; M = Medium; H = High
C = Capacity; P = Potential

Number of consumers in the various segments who bought cosmetic make-up during the past 4 weeks

$N = 5\,321\,582$



*L = Low; M = Medium; H = High
C = Capacity; P = Potential*

Concluding remarks

- **Parameter checking:** The Consumer Market Segmentation tool conforms to what is known about the South African consumer market.
- **Consumer insights:** The Consumer Market Segmentation tool provides actionable insights into consumer spending power and behavior.
- **Imputation:** The Consumer Market Segmentation tool can be imputed into other datasets as well in order to generate segment tracking and a wider variety of segment insights.
- **Big data:** The Consumer Market Segmentation tool can be linked with Big Data in order to determine the impact of changing preferences on consumer behavior.

Thank you for your
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