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INCREASING DOMESTIC CONSUMPTION OF SOUTH AFRICAN WINES: IDENTIFYING THE KEY MARKET SEGMENTS OF THE “BLACK DIAMONDS”

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Increasing domestic consumption of South African wines: Identifying the key market segments of the “Black Diamonds”

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Abstract

Although South Africans are not predominantly wine drinkers, the industry is looking for ways to develop the local market to balance exports. The black middle class, increasingly referred to as the Black Diamonds are the most powerful marketing trend in the last 10 years as they have emerged as the strongest buying influence in the economy and making inroads in understanding this market presents a good opportunity. The study asserts that the key factors influencing the South African consumers' behavior are age, gender, income, race and wine drinking history. The study also asserts that not only are the black middle class are different from the white middle class but within the Black Diamonds different segments exist. The industry should particularly focus on marketing to the women and the “Start me up” age group in the group as there is limited consumer knowledge about wines, but a high willingness to experiment. The study also suggests various new brand communication platforms that can be explored to reach this market as well as co-opetition between industry stakeholders.

Keywords: Black Diamonds, wine consumer behavior, alcoholic beverages

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1. Introduction

The marketing and distribution of South African wine has changed dramatically in the past 15 years prompted by new opportunities and challenges mainly due to the political liberation of South Africa and the ending of sanctions. With the removal of statutory control and sanctions, combined with a global shift to free international trade during the 1990's, the value chain in the South African wine industry suddenly found itself in a new operational environment, an environment which exposed the industry to new opportunities and threats (SAWIC, 2007: 7; Agri-Africa, 2008:8).

Stakeholders in the South African wine industry are increasingly under pressure because although exports are growing, the strong rand erodes the profits; there is a global over supply of wine; there is an influx of new brands; large retailers are densely concentrated and wield the power against a fragmented supply side; and prices are perpetually under pressure. The industry is structured for the production of large quantities of what is perceived to be low priced wine for which demand is declining. The South African wine industry has therefore averted some of its focus towards the local market (Meissenheimer, Karaan & Vink, 2004:7 A&T Consulting & Naumann, 2005: 15; SAWIC, 2007: 7; Agri-Africa, 2008:8).

2. South Africa's domestic market for alcoholic beverages

The local market for wine has stabilized. Although export growth dropped in 2005 and 2006, it has since stabilized and is on the rise again (SAWIC, 2007:8). The industry is tasked with finding ways of increasing domestic per-capita consumption which slumped in 2001 and 2006 and for the first time in the industry's history domestic sales are far outweighed by export sales. The industry is now ranked 35th in terms of world domestic consumption rankings. For the wine industry to be successful, a strong domestic market is critical. An opportunity to increase domestic consumption of wine exists through the inclusion of the urban black majority (Van der Merwe, 2006:21; Rands, 2007). A detailed breakdown in the trend in domestic consumption is illustrated in Table 1.

Table 1: Domestic Market – Wine and Brandy

DOMESTIC SALES	2005 MILLION litres	2006 MILLION litres	2007 MILLION litres	2007/2006** TREND
Natural wine*	299.8	298.6	312.1	104.5
Fortified wine	32.0	33.5	34.2	101.9
Sparkling wine	8.3	8.6	9.5	109.9
Brandy @ absolute alcohol	19.7	20.2	20.0	98.8

* Includes wine used in grape-based liquor and alcoholic fruit beverages

** 2006 is the baseline and therefore 2006=100

Source: Wait: 2008:4

SAWIS expects better growth in wine sales by both volume and value for the ensuing years compared to 2006 levels. This growth in domestic demand is in spite of the fact that South Africa has no dominant wine culture. In 2006, the market share of sorghum and malt beers combined were nearly 68%, but while the wine sector has been meager in comparison to brown spirits, premium beer and ready-to-drink alcoholic beverages in the growth stakes so far in South Africa's ongoing economic boom, producers have reason to be a bit more optimistic this year (Clare, Ramatapa & Currin, 2004:51-53; Wait, 2007:29).

3. Marketing implications

The South African wine market is undergoing some changes at both the producer and consumer levels, such as the influx of the new brands and new consumer demands with respect to health, biodiversity concerns and ethical issues (SAWIC, 2007:8). Developing the domestic market for wines is integral, with the emerging market being of utmost importance. However, limited research has been undertaken with respect to the market potential of the domestic market (Rands, 2007). Producers in the wine industry face a challenge to deliver wine offerings that are aligned with wine consumers' needs and preferences because culture is one of the foremost differentiators between races, and it is a principal factor which cannot be discarded when marketing to South Africa's multi-cultural population. A full understanding of wine consumers' needs, preferences, attitudes and buying behavior is

needed in order to identify market segments and to try to contribute to present and future business profitability (Bolin, 2007).

Thus, implications for management in terms of the development of effective marketing strategies for emerging wine producers are vast. The quest is to close this “offerings-wants gap.” To achieve this strategic goal, there is need to acquire knowledge about what wine producers are offering on the one hand and the preferences of black consumers on the other hand. Undifferentiated marketing appears to be an unrealistic approach to the expansion of the wine market. A completely differentiated strategy, on the other hand, is not possible as promotion costs are almost unaffordable for most wine companies as the companies are quite small and produce wine of varied quality (Gil & Sanchez, 1997).

Despite these assertions, industry leaders believe that the number of black wine consumers is increasing, with women leading the way (Morris, 2006). There is an overwhelming desire among black African South Africans to have access to a lifestyle they believe is their right (Naidoo, 2007: 5). This has seen the propagation of a westernized culture in local communities (Onyeani, 2005:4).

4. The South African consumer market

South Africa has a multi-cultural society made up of diverse ethnic groups and cultures with a wide variety of wealth groups and cultural denominations spread over urban and rural areas. South Africa’s society is undergoing significant changes following the end of apartheid in 1994, when white minority rule was abandoned and a black majority rule was accepted (BFAP, 2007:46; PlanetRetail, 2008).

The Universal Living Standard Measures (SU-LSM) is a market segmentation tool developed by the South African Advertising Research Foundation (SAARF) to partition the consumer market on the basis of socio-economic status of consumers. The poorest consumers are in the segment SU-LSM 1 and the richest are SU-LSM 10. 59.3% of South African consumers fall within SU-LSM 1 to SULSM 5. The most powerful marketing trend in the South African economy in the last 10 years has been the emergence and growth of the black middle class. They are mostly in SU-LSM 4 to SU-LSM 6. They currently constitute about 43% of the South African population, make a 37% contribution to retail shopping and have the highest retail shopping frequency (BFAP, 2007:47). TNS Research Surveys and the UCT Unilever Institute coined the term “Black Diamonds” to describe the South Africans that comprise the country’s fast-growing and affluent black middle class (Mawers, 2006).

South Africa's black middle class, increasingly referred to as Black Diamonds, has grown by 30 percent per annum in the years 2001-6 and an astonishing 35% in the 2006-7 year. This growth has been stimulated by a combination of factors which include job opportunities, constitutional freedom, greater access to education, relatively low inflation and interest rates, and more spending power to buy goods and services (Naidoo, 2007:1). The black middle class citizens currently constitute an estimated 2.6 million South Africans, compared with 2 million in 2005. There is not only growth from new entrants into the Black Diamond segment, but also from within its ranks as people move up the ladder and establish themselves in the middle class (I-Net Bridge, 2007).

The contribution of this group to total buying power has grown considerably in absolute terms, reflecting an increase of R50-billion in just over a year (2006-7). Their combined annual spending power has grown tremendously from R130 billion at the end of 2005 to

R180 billion at the beginning of 2007. In comparison, white South Africans' annual collective buying power increased from R230-billion to R235-billion and that of black South Africans collectively from R300-billion to R335-billion over the same period (SouthAfrica.info reporter, 2007). It is noteworthy that the richest 12 percent of South Africa's Black Diamonds account for 54 percent of all black buying power (I-Net Bridge, 2007). The black middle class has emerged as the strongest buying influence in the South African economy. Making inroads in understanding this market presents a good opportunity since this is an important economic group (Muyambo, 2006; SouthAfrica.info reporter, 2007).

Producers endeavour to grow the domestic market by wooing an emerging black middle class because of the growth in black wine consumers due to the increase in black South Africans with a "decent disposable income" (Morris, 2006). The emerging Black Middle Class is showing itself to be a formidable force in the South African economy both in terms of earning and spending. The rise in the spending power of black consumers is boosting key retail sectors.

5. Market segmentation of the Black Diamonds

South Africa's Black Diamonds are not a homogenous group and consist of a number of different segments defined by life-stage, age, occupation, education and income. Four super-segments have been identified that can be further divided into seven sub-segments. It is not surprising that much of this buying power lies in the hands of an older, more established super-segment:

1. **The Establisheds** - mainly 35 to 49, married with school-going children, the wealthiest and best educated, they consist of about 39% of the Black Diamonds and contribute 58% of the Black Diamond buying power. There are two-sub-segments:

a. Those preferring the *status quo* - the oldest group, with strong township roots (though 19% live in the suburbs), comfortable and settled, and the most conservative in their money management. They consist of 44% of the Established and 17% of the Black Diamonds. They contribute 22% of the buying power and have an average monthly personal income of about R6900.

b. Those with a *future focus* - the most affluent group with many professionals, highly optimistic and driven, with a greater propensity to invest in property and be more financially active; they have the highest car ownership and consist of 56% of the Established's and 21% of Black Diamonds and contribute 36% of the buying power with an average monthly personal income R10 000. A third live in the suburbs.

2. **Young families** - most of this more female group have young children, mostly under the age of six; half are single, a third live with their parents; they consist of 22% of Black Diamonds and contribute 20% of the segment's buying power. This group illustrates the immense economic potential of the “*bappie*” group. Again, two sub-segments emerge:

a. Those preferring the *status quo* - the group with the strongest township roots (though 18% live in the suburbs), the least financially savvy and least well-educated with a strong female skew, they consist of 55% of the Young family segment and 12% of the Black Diamonds, contributing 7% of the buying power with an average monthly personal income of R3400.

b. Those with a future focus - they are better educated, mostly in full-time employment and are the most goal-orientated segment with the highest propensity for financial risk and interest in (suburban) property; they have the highest need for credit and consist of 45% of the Young family segment and 10% of Black Diamonds and contribute 13% of the buying power. They have an average monthly personal income of R7 200. 81% still live in the townships but many of these will move to suburbia as soon as they can.

3. **Start-Me-Ups** - these are youngsters starting out and on the way up: most are single and childless and in the 18 to 29 year age group with a male and white-collar job bias - they like fun and parties; they make up 21% of Black Diamonds and contribute 19% of buying power. This is the mostly “*buppie*” group. The two sub-segments here are as follows:

a. Those preferring the *status quo* - a strongly male group, 78% live in the townships and will probably stay there (even suburb dwellers have a strong township orientation); they are the least optimistic group and are less well-educated with a strong Johannesburg bias; they consist of 63% of the Start-Me-Ups and 14% of the Black Diamonds, contributing 11% of the buying power with an average monthly personal income of R4 700.

b. Those with a *future focus* - gender is more even in this group; they are better educated with better jobs - most work full-time - and are very positive about their future, with a understanding of investments and financial risks. They consist of 37% of the Start-Me-Ups and 8% of Black Diamonds. They contribute 8% of the buying power and have an average monthly personal income of R6 000.

4. **Mzansi Youth** - this last segment is primarily young, single students with low incomes of about R800 and live with their parents. However, they are very optimistic, physically the fittest and the most active with clear plans to further their education. They like the lack of

restrictions that they find in the townships. They make up 18% of Black Diamonds but contribute just 3% of the buying power - nonetheless, they are the future.

6. Factors influencing consumer behavior

Black Diamonds are the market of the future, and marketers need to understand their heterogeneity and different mindsets as it will probably become more complex and fragmented in the future. In order to gain the competitive edge, marketers must understand what is in the mind of the black middle class consumer, as well as their culture, ethnicity, social and economic background, faith, language, values and customs (Mawers, 2006).

The black middle class has both unique characteristics, as well as similarities to the white comparative group and the black middle class differentiates themselves from the white middle class by their culture and roots. Black people are more influenced by traditions, customs, laws and social purpose. Self-respect and dignity was also found to be of great importance to black respondents, all of which will influence buying decisions, and therefore the manner in which products and services should be marketed to a black middle class. An understanding of what the needs of the black middle class are will ensure a connection with the customer (Mawers, 2006).

Complex factors influence consumer behavior toward wine. Consumer behavior is defined as a set of activities that people perform when they look for, evaluate, use and dispose of goods with the object of satisfying their needs and wishes. These activities include not only mental and emotional processes but also physical actions (Palau, Glade, Otaño, Dulce & Ordóñez, 2006:2). Together, these factors share geographic, demographic, and use-defined markets. Most of the factors are demographic, concerning consumers' location, income, gender,

education, and age (Engels, Sardaryan & Heboyan, 2004:9). Many theories have been developed to explain consumer behavior and predict consumer preferences. Kotler and Keller (2006), postulate that the Consumer Behaviour Model, (as shown in Figure 1) is a stimulus-response model. The characteristics of the buyer influence the way in which he perceives and reacts to stimuli. The decision process of the buyer itself affects the conduct of that buyer.

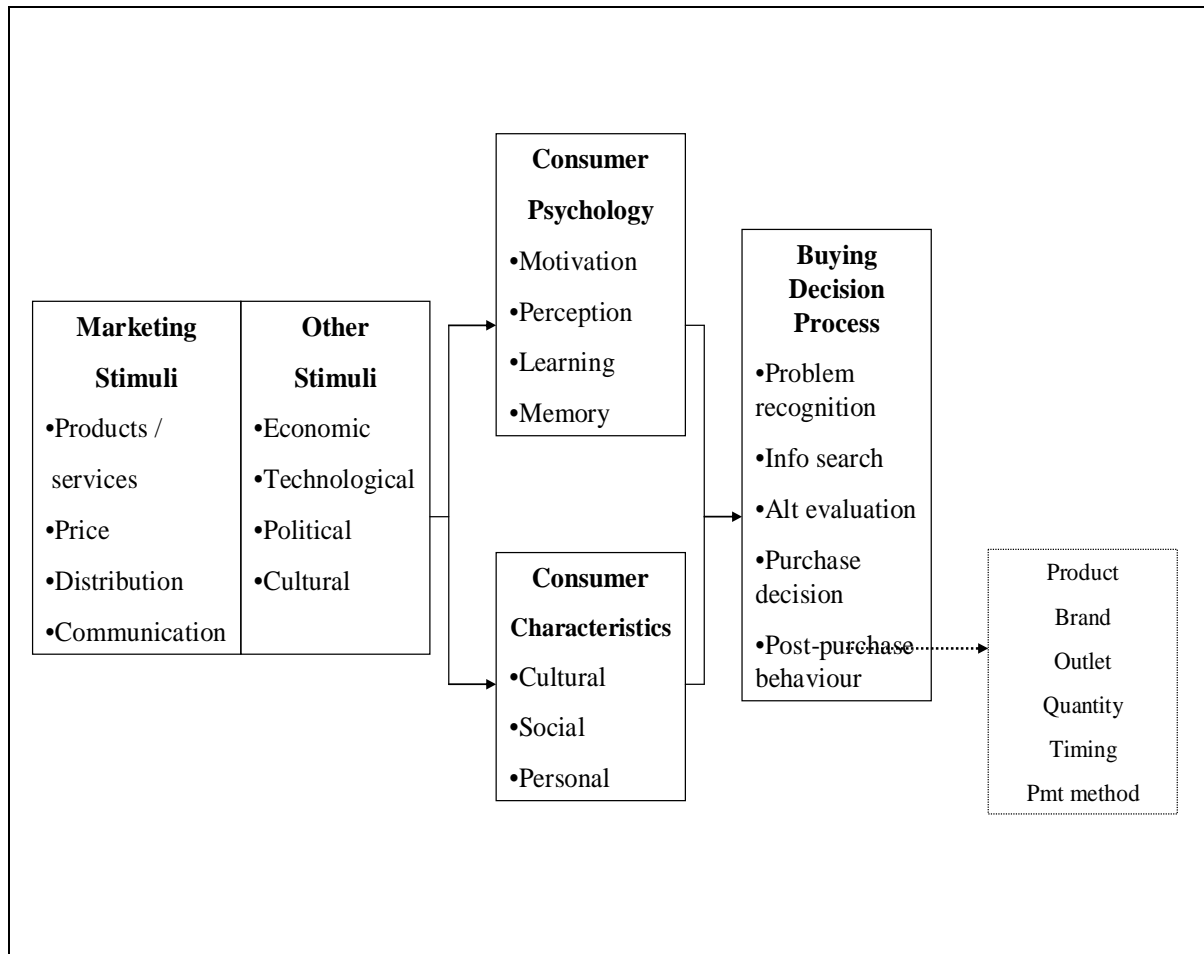


Figure 1: The consumer behaviour model

Source: Adapted from Kotler & Keller, 2006: 184

In accordance with the Consumer Behaviour Model above, it can be noted that cultural, social, personal and psychological characteristics affect the behaviour of consumers. In general, these factors cannot be controlled but must be taken into account. Cultural factors exert a wider and more profound influence on consumer behavior, especially with respect to South Africa's Black Diamonds. Culture is the most basic origin of people's desires and

conducts. Consumption patterns and the choice of different products will depend on the consumer's culture. That culture in turn has more reduced subcultures, which are groups of people who share value systems based on common experiences and situations (Kotler & Keller, 2006: 174-183).

Regarding the social factors, social classes are relatively permanent and organized divisions of a society, whose members share similar values, interests and conducts. They are not determined by a single factor, but are measured as a combination of occupation, income, studies, wealth, family and other variables. Regarding the personal factors, one of the components that most influences the purchasing behavior is the economic situation that determines the lifestyle, a person's life pattern. In order to understand these forces, the main AOI (areas of interest) of consumers must be measured: activities (work, leisure, shopping, sports, and social events), interests (foods, fashion, family, recreation) and opinions (Palau, *et al.*, 2006:2).

Phillips & Peterson suggest several different types of customer characteristics may be used as the basis for identifying a group of target buyers. Marketers have used demographic characteristics (e.g., age, income, gender, etc.) both broadly and narrowly to group potential customers into segments. Marketing researchers have proposed other customer characteristics besides demographic traits to segment markets. Sissors (in Phillips & Peterson) identifies a number of customer characteristics including usage patterns, brand loyalty, and readiness to buy, among others. Another method, called lifestyle segmentation, was developed by integrating demographics with psychographics (attitudes and values).

Senauer, Asp and Kinsey (1991) discuss a lifestyle-based segmentation scheme used by the Pillsbury Company. It divides food consumers into five categories: the Chase and Grabbits,

the Functional Feeders, the Down Home Stokers, the Careful Cooks and the Happy Cookers. A number of other lifestyle-based segmentation systems are also described in detail in Senauer *et al.* The final class of customer characteristics that may be used to create market niches are behavioral factors. Yankelovich (in Senauer *et al.*, 1991) suggests seven bases for behavioral segmentation. They are value, susceptibility to change, purpose, aesthetic concepts, attitudes, individualized needs, and self confidence.

In recent years, marketers and scholars have endeavored to increase wine consumption by providing information about "typical wine" to consumers and market segmentation in Australia (Johnson, *et al.*, 1991), Spain (Gil & Sanchez, 1997), Greece (Tzimitra-Kalogianni, 1999), New Zealand (Thomas & Pickering, 2003), Armenia (Engels, *et al.*, 2004), the Czech Republic (Chládková, 2004), New Mexico (Alimova *et al.*, 2006), India (Jha, 2007), Italy (Segheiri, *et al.*, 2007) and the USA (Anonymous, 2007). In South Africa, the industry has contracted WOSA to develop a generic marketing strategy for the local wine market in the hopes of achieving growth of the MP (medium price) and HP (high price) wine categories to ensure the whole industry benefits and generic to avoid duplication of activities by local companies (Birch, 2007).

7. Black Diamonds' wine consumer segments

In light of the identified wine consumer segments based on consumer behaviour, socio-demographic characteristics and psychographic segmentation, the wine segments described in Table 3 were proposed for Black Diamonds' wine consumers.

Table 3: Black Diamond wine consumer segments

Black Diamond segment	Wine consumer segment	Socio-demographic description	Wine behaviour	Wine involvement
The Established's	Connoisseurs	High income broadsheet readers	- High frequency (on- and off-), high spend - Ritual oriented conspicuous wine enthusiasts - Purposeful inconspicuous premium wine drinkers	High
Young families	Mainstream At-homers	Suburban middle income professionals	- High frequency, average spend, drink mainly at home - Habitual wine buyers	High
Start-Me-Ups	Fashion/ image oriented	Young singletons	- Low frequency, above average spend - Sociable promotion seekers - Aspirational image seekers	Low-medium
Mzansi Youth	Enjoyment oriented social drinkers	Lower income TV viewers	- Low frequency, low spend - Weekly treaters - Risk averse rational buyers	Low

Given this segmentation, the Start-Me-Ups were identified as the most economically viable market for launching wine due to high prevalence of young, single consumers with high spending power and aspiration for a "high class" lifestyle in this group. The Young families are a more profitable market as they are habitual wine buyers and not adventurous, therefore if they enjoy a particular brand, they are more likely to be brand loyal.

8. Conclusions and Recommendations

Although there is limited consumer knowledge about wines and low levels of brand awareness, black consumers are willing and yearning to learn more about wines as they view them as an aspirational lifestyle beverage. In any society, a vibrant, significant middle class is an essential pre-requisite for sustainable long term economic growth. In most societies, it takes four to five generations for a person to rise from poverty to affluent middle class, however, in contemporary South Africa, this is happening within a few years. This thrust out of poverty raises concerns about acceptance and social practices and explains why black consumers are still unsure about what wine attributes are important in choosing a wine. The industry needs to increase its efforts in educating and understanding this diverse market as the cultural attitudes towards wine are indeed changing.

This study illustrates the role of entrepreneurial universities, research institutes and public-private partnerships in leading agri-food research & development as it is anticipated that it will contribute to industry decisions. Of utmost importance is for the industry to integrate the afore-mentioned institutions into their plans. SAWIS must be expanded to address the information requirements of the entire industry and value chain; WOSA must be expanded to address the overall marketing requirements of the industry, local as well as international and VinPro should play a critical role by integrating the requirements of the consumer with production.

Beer is currently growing in the market at the expense of wine, mainly because that industry is making a substantial investment in brand and lifestyle promotion. The wine industry will do well to emulate their ineffably successful marketing strategies. It is critical that WOSA, together with universities and private firms, undertake market research and make this

available to wine producers which should enable the industry to develop brands that will connect with the consumer. Only then can there be promotional activity. With regard to the latter, there is need for fresh innovative marketing campaigns that speak directly to the target market and this requires more focused in-depth research into the consumer preferences of the target market. Word of mouth recommendation is still the most valuable for wine owners and therefore promotions and tastings are more effective than adverts.

The industry's target market should be focused especially on women and the "Start me up" age group as they show the highest willingness to learn about wines and pay for brands that they consider to be premium brands. This has also been the case in all new wine markets such as the USA and China. A recent American study showed evidence of both a generation and gender gap in relation to wine and with this in mind one wine merchant in France has decided to follow-up this new line of thought with a line of nearly thirty wines developed just for women. Apparently, the fairer sex prefers more subtle, supple and elegant wines. A Japanese study has also identified gender, price and consumer behavior segments.

Traditionally, marketing is based on the 4 Ps of marketing, product, pricing, promotion, and placement and their concomitant areas in wine marketing, such as branding, new product development, pricing, public relations, managing the sales force, and distribution. It is impeccable, and non negotiable, to maintain the quality of the product (wine). The industry should therefore promote a product offering that still simulates high quality wines but at a competitive price in supermarkets and liquor stores in upcoming suburban areas and new neighborhoods that the Black Diamonds are moving into, as well as in up-market township malls where black consumers thrive.

Brand building is also of critical importance as it involves the influencing of consumer perceptions about the different aspects of the product. This implies that brand building and consumer communication goes hand in hand. Marketers must thus find new ways and angles to communicate their brand messages to the consumer; such as coopetition, extended service offerings, wine tourism and E-marketing. Wine tourism has definite potential because through festivals such as the one at which the consumer behavior study was undertaken, winemakers have the opportunity to tap into a new wine tourist – black professionals who may then be tempted to come to the Cape on holiday and visit the winelands.

By associating wine with having a good time and positioning it in social contexts the industry demystifies wines and helps to shed its pretentious and snobbish image, which has cast wine as a drink only affluent educated people can enjoy. Visiting the Western Cape's wine route could also stimulate their interest and hopefully lead to a higher purchase recall and an urge to undertake wine education. However in terms of e-marketing, compared with mobile phone penetration and the reach this medium has had across all ethnic groups as well as urban and rural areas, the internet still has a great deal of ground to cover within the South African population.

The success of the industry will be determined by the consolidation of buyers, national and international. There is need for sharing facilities in the operational environment and joint marketing initiatives as they will become necessary in future. With an 8000t production capacity and domestic wine consumption in South Africa dropping from 9.1 to 8.7 and in 2008 to 8 litres per person per year, not exploring the potentially large local market for wine would be ludicrous. While it is important to maintain the current wine drinkers, it is integral to increase the number of new wine drinkers. In this regard, Black Diamonds are definitely

the market of the future and the industry stakeholders need to make a more concerted effort to delve into these untapped markets.

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