



**HOW TO BEST SERVE THE RURAL AND SMALL TOWN MIDDLE CLASS  
MARKET IN SOUTH AFRICA**

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## **ABSTRACT**

This is an exploratory study with a purpose to gain an understanding of the middle class that is not situated in the cities in South Africa, whether this middle is served adequately in their areas. A population of middle class consumer who reside in the rural and small towns of South Africa and those who visit these areas was interviewed in in-depth face to face interviews. Expert interviews with retailers that they normally purchase from were also conducted.

The study shows evidence of the middle class in the rural and small towns that goes out of their towns to source aspirational goods that are not available in their small towns. This class is aware of current styles and brands as they are exposed to media and they are influenced by those who live in the cities and also get exposure through their travels. It was also found that there is a number of the black middle class that currently resides in the cities however through their family ties in the rural and small town areas, they go back seasonally to be with their families and hence they expect to find the goods that they are accustomed to when they get there.

The retailers had concerns with the size of the market in the rural and small towns, being small, however, this market does increase seasonally and models to serve a seasonal market are suggested. The research concludes that there is a middle class in the rural and small town areas of South Africa, this market grows seasonally and ways to service this market can be sought.

## **KEYWORDS**

Rural Areas, Small Towns, Middle Class, Aspirational buying, Seasonal Market

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Funeka Nomasundu Khumalo

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Date

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# 1 CHAPTER 1: INTRODUCTION TO RESEARCH PROBLEM

## 1.1 INTRODUCTION

The purpose of this research is to get a better understanding of the middle class that is found in rural areas and small towns around South Africa, whether they get adequately served, if not, are there alternatives to serving this market.

The rural areas in South Africa have a high number of the consumer group that is termed the Bottom of the Pyramid (BOP) that is low income earners, estimated at 78% (Chipp & Corder, 2010) with a number of the adults in the BOP category having an average income of R1,312 a month (Chipp& Corder, 2010). Due to these high numbers of the rural population having low income levels, the fact is often overlooked that there are members of the rural and small town population that earn high incomes (Hendriks & Lyne, 2003).

The rural areas are not all the same, hence one can not generalise, this market needs to be studied and understood. It is often said that the most generalisable theory about rural marketing is that 'it is impossible to generalise' (Velayudhan&Sridhar, 2009). There are people that fall into the middle class market, as described by McKinsey (2005), as those that have a tertiary education, secure jobs, and middle income levels, that are found in the rural areas and small towns.

The rural areas and small towns, including the villages, do have a middle class consisting of professionals, including general practitioners, nurses, lawyers,



teachers and business owners, who service the needs of those living in these areas and who themselves (middle class) have needs that must be taken care of. The social classes can also be classified by Living Standard Measures (LSM). LSM are based on access to services and durables, and geographic indicators as determinants of standard of living (SAARF, 2010). The rural areas, according to SAARF (2010) are characterised by the population of up to 500 people, whilst the small towns or villages are characterised by populations of between 500 – 39 999 people.

Table 1 below shows the adult population in South Africa by the communities that they are found in.

**Table 1: South African adult population by communities.**

**Source :** SAARF, AMPS 2009B

	TOTAL	TOTAL
	'000	%
Adult Population ('000)	31,305	100
By Community:		
Metro (250,000 +)	10,801	34.5
Cities/Large Towns (40,000 – 249,999)	4,113	13.1
Small Towns/Villages (500 - 39,999)	3,992	12.8
Settlements/Non Urban (under 500)	12,399	39.6

According to SAARF (2010), the following are the demographics of people living in rural areas and villages by Living Standards Measure (LSM):

**Table 2: LSM demographics in South Africa as a percentage of total adult population.**

**Source:** SAARF, AMPS 2009B

TOTAL										
LSM	1	2	3	4	5	6	7	8	9	10
Population (%)	100	100	100	100	100	100	100	100	100	100
Total Population ('000)	1092	2314	2466	4476	4782	6140	3214	2386	2668	1986
Community:										
Metro	-	2.8	4.6	11.0	24.1	46.6	58.4	58.8	60.3	66.2
Cities/Large Towns	-	1.1	2.7	7.8	14.3	17.2	19.1	22.1	19.6	15.9
Small Towns/Villages	-	4.3	4.7	14.5	19.2	16.4	10.4	12.6	13.2	10.4
Settlements/Non Urban	100	91.8	88.0	66.7	42.4	19.8	12.1	6.5	6.9	7.5

LSM are a set of descriptors based on more than one variable that help to segment the market in terms of their wealth, not based on their income levels (SAARF,2010). LSM 6 and above category has a matric and higher qualification with an average household income of R5755 per month (SAARF, 2010). As shown in table 2 above, the rural areas and small towns do have a population that is classified in the LSM 6 and above, which indicates a middle class market.

Retailers often cite issues that prevent them from entering the rural or small town market: distribution systems, size of the market (being small), low income, and the fact that it is often dispersed, making it difficult to serve efficiently, being on top of the list (Aithal&Vaswani, 2005).

Ruhiiga (2000) has argued that poor accessibility, due to the poor state of the roads in the rural areas, forces retailers operating in these areas to charge high prices for goods owing to high transportation and maintenance costs incurred in sourcing goods for these areas. He continues to argue that poor or lack of, piped water, electricity and communication systems is a hindering factor in some of these areas.

In this research, alternatives in serving this market are sought as there is evidence of the middle class that still need to be served in the challenging environment of the rural areas and small towns.

## **1.2 RESEARCH SCOPE**

The scope of this research will be limited to the middle class market that resides in the rural areas and small towns of South Africa, and that visits these areas regularly, and the retailers of semi-durable and durable goods that operate in the South African market space but are not operating in this rural and small town market.

Looking at the Living Standards Measure (LSM) as described by the South African Advertising Research Foundation (SAARF), there is a noted rise in number of people that are in the higher LSM (5-7) since the post-apartheid era (Chipp &Corder, 2010). Some of these people in LSM 5-7 are residing in the rural areas (as indicated in table 2) or at least spend time either visiting families or going on holiday at certain times of the year. The standard of living in the

rural areas varies as there are different classes of people, of which the majority are the so called BOP population, however, the middle class does exist and should not be ignored.

There are a number of retailers that exist in South Africa but most do not reach non - urban South Africans. Some retailers do not even operate in towns that are close to the rural areas, for example: Urban, Space and Jenni Button are well known popular brands but are not found in towns like East London, even though East London is classified as a Metropolitan (SAARF, 2010), Queenstown, Vryheid, Umtata - to name only a few, Umtata also classified as a city (SAARF, 2010). So clearly, there is an oversight in terms of how these markets are perceived and how they are being served.

“Anecdotal evidence reports that retailers are experiencing the take up of typical middle class status goods by black households to correct the historical asset deficit.” (Edcon Annual Report, 2005). This again affirms that focus needs to be put on this rise in middle class status by the black households and some of these households are in the small towns and rural areas of South Africa that are being ignored.

The chairman, MacFarlane, states that an increasingly affluent black consumer has emerged through the normalisation of society in the democratic South Africa as a result of Employment Equity and Black Economic Empowerment initiatives. As a consequence, retailers have benefited from the upward mobility and aspirational spending of the “previously disadvantaged” (Mawer, 2005).

It seems that even though there is recognition of this market, attention is only paid to those in the metropolitans: this is shown by the lack of availability of some retailers in the markets outside the metropolitans. The middle class market that needs to be served, whether or not they reside in the rural or small towns, and those in urban areas, need to be adequately served when they visit the rural areas and the small towns around South Africa.

### **1.3 RESEARCH MOTIVATION**

There are goods not available in the rural areas and small towns around South Africa that are available in the urban areas, due to a number of reasons cited by retailers, the most prevalent being the cost of distributing to the rural areas and the high number of poor people in these areas limiting the market size. The rural areas and small towns do not only have the poor or the Bottom Of the Pyramid (BOP) people, but also middle class people that live in, or visit these areas, and who spend money on transportation to source goods outside these areas. In fact, the unavailability of some goods (that could be termed basic by urban standards) could discourage potential tourists who might otherwise visit these areas at certain times of the year.

In discussions with a professional, a manager from the Department of Sports, who resides in the small town of Vryheid, they (middle class) find it difficult to access some goods in their market. There are goods they can only access in cities, hence the leakages taking place through spending their income outside the smaller towns.

Different routes to market have to be employed to reach this market that is currently not being served. A large number of black South Africans come from the rural areas, due to past apartheid policies of homelands, and most go annually (and some more often) to visit their families or to attend functions and events. It is often frustrating to learn that some of the goods people see in televisions, or are accustomed to in the urban areas, are not accessible in rural areas and small towns owing to huge transportation costs and time which has to be incurred in sourcing the goods.

Hendricks & Lyne (2003) conducted research that showed income increases in the rural areas have enabled rural dwellers to purchase more durable and semi-durable goods that they cannot source within their towns, but they have to incur transportation costs in sourcing these, having to go to cities.

#### **1.4 RESEARCH PROBLEM**

The research aims at exploring the changes in the rural and small town market in South Africa and the existence of the middle class market within these areas that is often ignored by retailers. The focus will also be the seasonal growth, in size, of this market due to those who return to the rural areas and small towns during the holiday seasons and on other occasions during the year, and how this market can be served efficiently.

## **2 CHAPTER 2: THEORY AND LITERATURE REVIEW**

### **2.1 RETAILER CONCERNS IN THE RURAL AND SMALL TOWN MARKET**

Due to the size of the market in rural areas and small towns, it is noted that small to moderate sized customers cannot be economically served by traditionally direct channels, because the selling and operating cost will surpass revenues (Aithal & Vaswani, 2005). Hence smarter channels are imperative to profitably tap into the rural areas.

Lee & Lee (2009) acknowledge that a correct selection and implementation of the market channel will allow producers to lower the cost and distribute products more efficiently. They further state that the range and number of channel members is affected by the nature of demand by end users, and the leadership of the channel can vary from situation to situation. The demand by the rural and small town market needs to be established in order to efficiently serve this market in a cost effective manner. For example, in the commodity market there are two predominant channels - the manufacturer-based and retailer based channels. The main challenges cited by Lee & Lee (2009) are designing the right channel for a particular market and its implementation, which is the case with the middle class in the rural areas and small towns.

Distribution functions have to take place to reach the rural and small town consumers as in most cases the manufacturers are situated outside these

areas. As Kreuter and Bernhart (2009, p. 2124) stated, “The question is not whether these marketing and distribution functions are needed but rather who will perform them”, and these will add to the cost of serving this market. It is however, a valid concern for retailers to worry about distribution costs, as it is crucial for organisations to keep these in mind (Lee & Lee, 2009) to remain profitable. Channels that operate at too high a cost are not effective, therefore not sustainable.

Researchers have also highlighted that retailers need to intensify the distribution of goods that are highly sought by consumers, as low distribution intensity of a product, although enhancing the image of the brand, may limit the market coverage and result in lost sales opportunities (Frazier & Lassar, 1996). Manufacturers of high end brands may seek retailers to sign restrictive contracts to ensure commitment from the retailer carrying the brand. They have also found that the higher the brand is positioned, the lower the level of distribution intensity, which could affect sales.

A smaller, and less diverse, group of retailers is needed when the target market is relatively small (Frazier & Lassar, 1996), suggesting that seasonal goods, as is the case in the rural and small town market, can be focused in a few retailers.

Aithal & Vaswani (2005) also argue that, to tap into the rural market, distribution systems have been acknowledged as the most critical component due to the low density of population and inaccessibility, making the problem of servicing villages, individually, difficult and often uneconomical. They suggest that direct



delivery of goods, even to the top one percent of villages, costs twice as much as servicing the urban areas.

It is also acknowledged that physical characteristics of a product play an important factor when distributing to the rural areas, as these will have an impact on the distribution structure and storage (Aithal&Vaswani, 2005). Hence it is suggested that retailers need to focus on durable and semi-durable goods which will not be impacted by storage time in cases where the intended sales are not realised.

Manufacturers develop products that are to be enjoyed by consumers located in geographically diverse areas, and marketing channels should be established to ensure these goods do reach the intended consumer, including those in rural areas and small towns. Therefore, marketing channels must be behind every product and service that consumers and business buyers purchase everywhere (Lee & Lee, 2009).

In the Eastern Cape, the important shopping hubs for the rural market are towns like East London, Umtata, King Williams Town and Queenstown (Ruhiiga, 2000). But these still do not have most of the current products that people in these areas aspire to own, even though East London is classified as a metropolitan and Umtata as a city (SAARF, 2010).

Retailers perform a marketing function and their structure is founded upon consumer behavioural patterns (Aithal & Vaswani, 2005), hence these

behaviours must be learnt and understood. They have also argued that even though you will find a high number of retailers in the rural areas, the quantum of business that each does is very small as compared to their urban counterparts.

## **Conclusion**

The retailer concerns in the rural market are valid as distribution needs to be thought of carefully. Smarter distribution channels are suggested. Retailers also need to focus on certain goods as the physical characteristics are important, and this need to be factored into the distribution process. To ensure products are sold, retailers need to focus on known brands that will be easily recognisable in the market and mostly durable, and semi-durable, products. The rural market is changing and retailers need to ride this wave. How this market is changing is discussed in the next section.

## **2.2 CHANGES IN THE RURAL MARKET**

There is an increase in the middle class status in South Africa (Mawer, 2005) and how this is taking place is discussed in detail in the following section. It is this increase in the middle class in the country and rural areas which brings about changes in consumer spending behaviours. Some researchers argue that due to this era of increased globalisation, consumer values, attitudes and behaviours are becoming more homogeneous (Cleveland, 2007). The spending patterns of those in the rural areas and small towns is changing and reflects changes within the country itself and globally.

The changing face of the rural areas is also impacted by the rural to rural migration as Cross (2001) found in her study of migration in South Africa that contrary to popular belief there is more migration between rural to rural areas, towards the coastal areas where there is more economic activity than the original rural to city migration.

People in the rural areas are now spending their income on more durable goods. Research has indicated that due to increased income in the rural areas, increase in demand is likely for commodities other than food, which creates leakages of the income to imported and manufactured goods (Hendriks & Lyne, 2003). Hendriks & Lyne (2003) further argue that this increase in income is likely to be spent on household durable and semi-durable goods and clothing, and also that an increase in income is likely to cause an increase in demand for more luxury goods, which in turn increases the demand for purchased goods.

Jha (2003), in his attempt to bring more understanding of the rural market, disputes the fact that wealth is only in the metro and mini metro areas by citing a few cases in the Indian context. He argues there is money generated in the rural areas through a different 'moneyorder economy' that gives the rural dwellers more disposable income. Jha (2003) also argues that a school teacher in the rural area may have more disposable income than a school teacher in an urban area due to the higher costs of living in the urban area.

In the South African context, in their study, Hendriks & Lyne (2003) found that the wealthier group analysed in the KwaZulu Natal communal areas had per

capita household expenditure ranging from R4 117 to R17 051. They also found, from the magnitude of the expenditure elasticities, that rural households are much more likely to spend additional income on goods other than food.

Those living in the rural areas get a source of income from those who have migrated to work in the cities, like Cape Town, Durban and Johannesburg (Ruhiiga, 2000). There are, consequently, transaction flows involving the rural consumers, with the major urban areas in the Eastern Cape, with East London, Umtata, King William's Town and Queenstown, acting as the important shopping centres (Ruhiiga, 2000). It is also observed that proximity to major centres tends to channel consumers towards them, hence focus could be on these centres.

Ruhiiga (2000) also mentions that rural consumers take long trips to towns where prices are generally lower, compared with the exorbitant prices charged by the general dealers in the rural areas. With improved public transport in some areas of the Eastern Cape, in the form of regular bus services and minibus taxis linking towns to settlements, an increased mobility of rural consumers led to higher frequencies in shopping trips to towns (Ruhiiga, 2000). Another aspect that encourages the rural dwellers to shop in towns is the unavailability of stock and low stock variety in most of their nearby general dealers (Ruhiiga, 2000).

It is also recognised that people who reside in rural areas are exposed to the media and are aware of brands. In AMPS 2009B, it is shown that 28% of those

who reside in small towns or villages read weekly magazines and 38% monthly magazines. Another 1.4 % of those in rural settlements read weekly magazines, while 20.7% read monthly magazines. This shows their awareness of what is happening around the country, and internationally, and could indicate brand awareness.

This rural population also views TV and listens to the radio, exposing them to the products and brands that are available in the markets, 91.3% watch TV in the villages and another 73.7 % watch TV in the rural areas. The village and rural dwellers also listen to the radio, comprising 91.3% in the villages and 86.8% in the rural areas (SAARF, 2010).

More research is still needed to understand the rural market however, Jha (2003) argued that there is a market in the rural areas and marketers need to ensure that goods are affordable and available. Rural marketing is also defined by Aithal & Vaswani ( 2005, p 192) as “a process of delivering better standards of living and quality of life to the rural environment” which is crucial in ensuring that the middle class that is in the rural areas enjoy the quality of life that they deserve.

## **Conclusion**

The rural market has changed and is still changing; there are higher income levels than in the past. Due to the non-existence of retail shops that keep purchasable goods by the middle class in this market, these goods are sourced from bigger cities. A smarter way of servicing this market is needed and the

development of a different route to expand this market must be sought. Exactly who is the middle class in South Africa and their behaviour is discussed in the next section.

### **2.3 BLACK MIDDLE CLASS IN SOUTH AFRICA**

Definitions of 'middle class' vary and there is no one agreed definition. In defining it, factors that are often included are education, wealth, environment, social networks etc. (Mawer, 2005). The size of the middle class will then depend on how it is defined. Schiffman & Kanuk (1997) describe the definition of social classes by occupation, amount of income, and education. This is in line with the McKinsey (2005) definition which describes Middle Class as:

- Achievement of tertiary education, including financiers, lawyers, doctors and clergymen, regardless of their wealth.
- Belief in bourgeois values, such as high rates of house or long term lease ownerships.
- Jobs which are perceived to be secure.
- Lifestyle and socially judged pointers.
- Low rate of union membership.
- A middle range income.

People that satisfy most of these factors are found in the rural and small towns around South Africa and can be termed middle class. The buying power of black people including those in small towns has improved significantly as a

result of improved social economic environment conditions in South Africa (Mawer, 2005). This is due to a number of aspects, including improved levels of education and affirmative action post the apartheid era. According to Mawer (2005), there is a rapid rise of black South Africans entering higher income brackets and boosting a black middle class, which is driving the rise in consumer spending by this class.

In view of this growth in middle class, McKinsey (2010) also acknowledges that Africa represents a large and growing opportunity for moving consumer goods and that this rapid growth creates an opportunity for suppliers and retailers of fast-moving consumer goods. Informal interviews conducted with the black middle class living in these areas highlighted frustration that is felt by those living in such areas who cannot access certain goods they wish to purchase.

Some of those who migrate to the urban areas still send money back to their families in the rural community, thereby increasing the disposable income in these areas; this is supported in a study by Ruhiiga (2000), who found that one of the big sources of income is migrant remittances from those working in big cities, such as Cape Town, Durban and Johannesburg.

Retailers need to analyse and segment the rural and small town market, as segmenting of the market will help to understand new opportunities in underserved customer groups (Mawer, 2005), which include the middle class in rural areas and small towns.

## **Conclusion**

The face of the rural market has changed due to the growing number of affluent black people since the apartheid era, and some still have family ties in the rural areas. This market is used to obtaining certain goods in the urban areas and, when they are back in the rural areas, they expect to have similar access. The middle class that still lives in the rural areas also desires to have the same access as the urban middle class, hence they travel long distances to bigger towns to source these goods, which is not ideal. The movement of the middle class from the cities to the rural areas and small towns during the holidays creates a seasonal market, which grows the size of the middle class at those seasons of the year.

## **2.4 SERVING A SEASONAL MARKET**

The face of the rural small town market in South Africa is changing due to the migration of adults to the urban areas seeking employment (Ruhiiga, 2000). Some come back seasonally to visit their families during holidays or when big events in their families or communities take place. This seasonal movement back to the rural areas and small towns increases the size of this market during those particular periods, and there is an opportunity for this market to be served. This seasonality in the market is also observed due to second home owners in small towns around South Africa ( Hoogendoorn & Visser, 2010), who live in cities and only go the small towns occasionally.



Serving a seasonal market affects sales of most products and services and determines the channels through which goods move and the composition of many markets (Berkowitz, 1986). High seasonal demand profiles can present serious problems to a business: lower sales to earnings stock prices (depending on high or low season), higher capitalisation costs geared to short periods of peak production, skewed work force levels, relatively high inventory costs and obsolescence (Berkowitz, 1986). However, employing smarter supply chain models can assist the business to plan and forecast for any fluctuations in demand.

Seasonal varying market demand has to be catered for by production planning that could have an impact on inventory build-up, production rates, use of overtime and outsourcing of other functions (Ludwig, Treitz, Rentz & Geldermann, 2009). This can, of course, impact on the operational costs, and this is why it has to be thought of critically. In dealing with seasonality, capacity has to be utilised effectively (Ludwig *et al.*, 2009).

Berkowitz (1986) also argues that seasonality has an effect (rather like very short business cycles) – a constant softening and strengthening of the economy. In dealing with this, developing segmentation strategies to deal with consumer needs that vary seasonally is fundamental to profitability (Berkowitz, 1986). Focus in this market is required to ensure the demand is understood and planned for. Lee & Lee (2010) suggest the following elements when focusing on a market:

- Analysis of the demand factors in the market place and their importance for distribution channel design.
- The responsive design process that characterises the optimal distribution channel to reach target segments end users.
- The recognition that these decisions are made in the context of environment, a managerial bound on behaviour.
- The identification and closing of channel gaps wherever possible.
- The issues surrounding effective implementation of the optimal channel design.

It is in these elements that there is a potential solution for designing for a seasonal market. In order to raise awareness of the availability of goods that are seasonal, advertising and promotion of these goods has to play a big role and seasonality is seen as a surrogate measure of product usage (Berkowitz, 1986). During periods of peak activity, usage and consciousness of the product category are high. At other times, consumers are less perceptive about product and brand information and express lower levels of interest.

It is also shown that the most dominant brands show the least seasonal changes compared with new, unknown brands. Hence, for a seasonal market, retailers need to focus on already known brands to minimise the risk of no sales (Berkowitz, 1986). It is thus key to develop a strategy to deal with seasonal needs that will lead to increased profitability.

To mitigate the high costs associated with having high inventory in a seasonal market, a concept known as lateral transshipment is used by retailers in China (Yong-bo, Jian, Xiao-ling&Yan, 2008). This occurs when an out of stock retailer “borrows” inventories from another and then shares the sales revenue to satisfy the demand which otherwise would have been lost. This also eliminates the need for extra space to keep large stocks for seasonal goods that maximise revenue without increasing inventory.

Yong-bo *et al.* (2008) found that the transshipment concept works well for fashionable products that are non-perishable during the selling process. The transshipment agreement needs to be looked at with acceptable trade-offs for the retailers. The optimal transshipment policy follows a time-dependent threshold policy. At each time period there exists a critical inventory level that indicates only when the retailers’ on-hand inventory is above this value should the transshipment request be accepted from the other retailer (Yong-bo *et al.*, 2008). This model is also employed by the Australian wool industry which has a seasonal market, to ensure cost effective distribution flows (Cassidy & Toft, 1991).

There are various strategies employed to serve a seasonal market and these also include a pinch point strategy that looks at the tradeoffs between stock outs, inventory, and capacity adaptations (Ludwig *et al.*, 2008). In a case study conducted in China, the seasonal demand for bicycles was assessed, and costs of production strategy were calculated using observed and estimated values for materials, labour, workforce changes and inventory (Ludwig *et al.*,

2008). This resulted in low costs, focusing on inventory/stock outs and a small number of costly capacity adaptations (Ludwig *et al.*, 2008).

It is, however, acknowledged that storage costs of certain seasonal goods can bring a problem, more especially those that tend to decay. Hence a selection of these goods and inventories is crucial as physical characteristics play a role. A chase strategy is also recommended to minimise the storage costs (Ludwig *et al.*, 2008). This pinch point analysis is said to allow for forecasting methods and multi-period planning for any dynamic growth.

According to Zamora, Valenzuela & Vasquez-Parraga (2004), in Chile, where 83% of the population is urban, rural migration to the cities is still prevalent. However, the trend of people choosing rural destination for holidays is still observed. Rural tourism is seen to be growing in the United States as well as Europe. It was also found that 64% of people who reside in rural areas still prefer rural holiday destinations, and 40% of those who reside in urban areas also prefer rural holiday destinations. This would suggest there is a seasonal need for some goods that are ideally not available in the rural areas to be available in the holiday seasons for this market.

Another finding by Zamora *et al.* (2004) was that over 70% of the upper class still prefers rural destinations, with over 50% of the middle class showing a similar trend. Results of their study showed that people with rural origins are more willing to pay for rural destinations. This is explained by the influence of their childhood and youth experiences (Zamora *et al.*, 2004). They have also

suggested that new tourist products and services can be designed based on this new marketing mix.

## **Conclusion**

A seasonal market does exist in the rural areas and there are models that can be used by retailers to ensure they can serve this market whilst not incurring high storage costs. These include production planning and transshipment of goods. These models have potential to work well with collaboration by the retailers. Retailers need to analyse the behaviour of consumers in the rural areas and small towns and the fact that they wish to source certain goods and are aware of brands that are available in the urban areas which they aspire to own.

To win in the seasonal market, Berkowitz (1986) argues that dominant brands are the most sustainable and that retailers will need to focus on well-known brands and also ensure adequate advertising of the products. The seasonal market is a channel on its own that needs to be looked at to assess how to effectively manage any channel.

It is also crucial for marketers to understand the consumer behaviour in the rural and small town market to ensure that they are well catered for.

## 2.5 CONSUMER BEHAVIOUR

In the paper by Chipp & Corder (2010), they show that international brands are recognised throughout the different tiers in the market which suggests that those who live in the rural areas are brand aware. Since some of these goods are not available in their areas, the consumers in the rural and small town areas incur transportation costs to source them in bigger towns (Ruhiiga, 2000).

The younger and the more exposed influence the buying patterns of the older generation in the rural markets (Jha, 2003) which has changed the buying behaviour in the rural areas and small towns due to the younger and more educated persons emerging in these areas. These changes are further influenced by those who work in urban areas and return at certain seasons in the year.

This shows that the market in the rural areas and small towns is changing and aspires to own aspirational goods, so they go out to source the products they want and know exist( Ruhiiga, 2000) which are not available in their areas.

The existence and visits by the black middle class in the rural areas increases this market and makes it more viable to be served. It is also acknowledged by Lee & Lee (2010) that what changes in markets is how products are bought and sold and that channels remain viable through time by performing duties which reduce the consumers search, waiting time, storage and other costs.

It is often argued that rural dwellers have low aspirations but, due to their increased exposure to better schooling and migration to cities, this has changed (Jha, 2003). He also disputes the comments that rural buyers are not rational and cites retail failures caused by consumer rejection of low value premium-priced products, arguing these consumers value money and gives consideration to what they purchase.

Jha (2003) continues to argue that the notion by retailers that the rural consumer is not quality conscious should be discarded, and he cites a few examples of high-end products which gained huge market share in rural India, like Sonata and Tata hand pumps and pipes.

With the changes in life-styles due to globalisation, retailers need to be cognisant of the fact that success can be achieved by those who are abreast of the life style changes, and these include shopping behaviours (Harcar & Kaynak, 2007) of those active in the market. With this in mind, it is evident that understanding the consumer behaviour is imperative to the success of any business.

Shopping by consumers has also evolved to a source of entertainment and leisure (Moss, 2007). This is said to give a psychological boost to the consumers. Hence it shows that it is an important component of any consumers' life.

## **Conclusion**

The consumers in the rural areas and small towns are aware of the goods that exist outside their areas and would like to own these. In the achievement of the middle class status, consumers have aspirations to own goods that they could not afford before. It was brought to light that these consumers value money, and pay more consideration to what they spend their money on.

## **2.6 ROUTE TO THE RURAL MARKET**

Having discussed the middle class in the rural and small town markets, their behaviours and how they wish to spend their income, a good marketing channel is necessary to reach this market. A good marketing channel is viewed as that which develops a good distribution policy, manages the logistics system and develops interdependent, mutually beneficial relationships (Gallager, Maher & O'Dwyer, 2000).

The primary function of a distribution channel is to bridge temporal and spatial gaps between supply and demand and to facilitate exchange of goods and services (Aithal & Vaswani, 2005). They have acknowledged that distribution channels and structure are the vital source of competitive advantage and cost savings. Distribution into the rural areas has been seen as a great challenge, and also imposes higher costs than distributing to the urban areas.

Distribution costs can be lowered through co-operation and sharing of resources, such as central depots, which will lower the logistics costs



(Gallagher *et al.*, 2000). Another distribution strategy that works in servicing more customers is the advanced sales strategy, where the sales function is separated from the delivery function to ensure the goods being delivered match the orders that have already been placed by different customers (O'Neil&Bommer, 1988). Therefore, the selling process is done in advance, which improves the delivery process efficiencies because there are no goods that will be returned unsold.

Looking at the demand side in the rural areas, the rural and small town consumers decide on a shopping location from value that can be derived from that particular location or experience. For example, consumers would travel to far bigger shopping centres for the value that is gained. The bigger shopping centre will afford the consumers more choice where they can co-consume and indulge in multi-purpose shopping to minimise their shopping costs (Amanor-Boadu, 2008).

Researchers acknowledge that the channel structures need to be flexible and explore alternatives in serving a seasonal market and ways in which this can be done efficiently. Coughlan *et al.*, cited in Aithal & Vaswani ( 2005, p. 193), define channel structure as “A summary of the types of channel members that are in the channel, the intensity or number of members of each type, and the number of distinct channels that coexist in the market”, and these structures must coexist in ensuring that market demands are served. The structure of channels comes about when certain activities cannot achieve economies of

scale within an organisation, and economic forces create advantages through specialisation.

Retailers in rural areas to be sustainable need to increase their attractiveness through the perceived value they offer, which includes product prices and mix. It should also be acknowledged that not all rural areas and small towns are the same; adequate analysis and understanding of the area and its dynamics are necessary for any business to tap into such a market (Atkinson, 2009).

## **Conclusion**

Very few recent articles are available that look at the changes in the South African rural market. The face of the rural areas is changing and more so of the middle class located in the rural areas and small towns around South Africa due to the influence of media and the movement between rural and urban areas of this class. The middle class can be served through different routes to reach this market and use of smarter supply chains.

## **2.7 EMPLOYING SMARTER SUPPLY CHAINS**

Supply chain in today's world needs to deal with challenges of cost containment, visibility, risk, customer intimacy and globalisation (Butner, 2010). In addressing the rural markets, the above issues become even more prevalent and they need to be analysed. Butner (2010) argues that smarter supply chains would be inherently flexible, and they would comprise an interconnected

network of suppliers, contract manufacturers, and service providers that can be tapped on demand as conditions change.

In supply chains, the concept of chaining is often used as it tends to reduce the costs of sales and administration. Chaining also provides an effective means to reduce physical distribution costs such as transportation, loading, unloading, storage and packaging (Wako & Ohta, 2004). They further state that the distribution centres aiming at the centralised management of stocks at member stores can reduce the total quantity of inventory because no buffer stocks at each store are necessary. They also emphasise that if the physical distribution shifts from direct delivery by a producer to collective delivery through chain stores distribution centre to member stores, the distribution costs can be reduced even more for goods of a higher turnover ratio and a greater delivery lot.

Similar to multinationals entering new markets, understanding of the local market is vital because success or failure generally relates to this. Therefore, analysis of the host market and its distribution system is needed before entering a market (Baoli & Si'en, 2008). This is crucial for any retailer which seeks to operate in the rural areas because it needs to analyse the market to get an understanding of what the market wants.

Distribution channels are however determined by the organisation's strategies, such as the example of Coca-Cola's CEO, who said, as early as the 1930s, that Coca-Cola products should always be "within an arm's reach" of desire for

everyone who wanted them (Kreuter & Bernhardt,2009, p.2123). This statement or strategy drives the distribution and availability of Coca-Cola products in any segment, in any area. Organisations need to define up front where they need to be and develop the correct distribution channels for their products to reach the intended end user. Organisations need to be clear on the markets they want to serve and going into rural or small towns will require a sound strategy.

In unpacking the issues and challenges that are faced in supply chains, research suggests that it is no longer enough to build supply chains that are efficient, demand driven, or even transparent, they must be smart (Butner, 2010). Smart channels are driven by understanding of the market, its size and any variations that impact on its profitability and being able to counter these.

## **Conclusion**

In order for companies to efficiently serve the rural and small town market, a better understanding of this market is crucial which will also inform the supply chain processes to be employed. It is emphasised though that in order to be cost effective and have still have an efficient supply chain, the process must be smart and flexible in order to respond to changes in the market.

### **3 CHAPTER 3: RESEARCH PROPOSITIONS**

The rural areas and small towns or villages are often assumed to be homogenous, and it is further assumed that there are only poor people living in these areas or the people that are termed the Bottom of the Pyramid. As a result, retailers often do not go to these areas and this deprives the other market (middle class) that exists - the middle class - which seeks to purchase aspirational goods that are available mainly in the urban areas.

The propositions are aimed at bringing to bare the existence of a middle class market in the rural and small town areas, the right income earners who are aware of brands even if they are not available in their areas. The size of this market might not be big enough but there is an argument for a seasonal increase in this market which could make it viable.

Berkowitz (1986) argues that a seasonal market can be served by ensuring well-known brands are used to prevent loss of sales when the season is low and focusing on durable and semi-durable goods.

This study will be an exploratory study to answer the following propositions:

1. There is a market in the rural areas and small towns that is currently not being served due to the perceived size and distribution of this market.

2. A number of people in the middle class share their income with those that are back in the rural areas, thus boosting the disposable income of a number of households in the rural areas.
3. The Black middle class tends to migrate towards the rural areas and small towns at certain seasons, hence the increase in the size and income levels of this market.
4. The majority of the Black middle class come from the former homelands, or the rural areas, where they tend to go during holiday periods.
5. There is a potential for serving this market when they are there.
6. Efficient supply chains, that could include mobile units, are necessary to serve this market.
7. Distribution costs can be lowered through co-operation and sharing of resources such as central depots to lower the logistics costs.

## 4 CHAPTER 4: RESEARCH METHODOLOGY

### 4.1 RESEARCH METHOD

This research aims at establishing the viability of the Black middle class market in the rural areas and the small towns in South Africa, the seasonal increase of this market and how this market can be better served by the retailers of durable and semi-durable goods through employing alternative methods of serving a seasonal market.

A qualitative, exploratory research methodology was used. Zikmund (2003) states that exploratory research is intertwined with the need for a clear and precise statement of the recognised problem; in this case the existence and serving of the middle class market in the rural areas and small towns of South Africa. Zikmund (2003) also states there are three interrelated purposes for a qualitative study:

- Diagnosing a situation
- Screening alternatives
- Discovering new ideas

Qualitative research is an umbrella concept covering several forms of inquiry that help us understand and explain the meaning of social phenomena with as little disruption of the natural setting as possible (Merriam,1998). Merriam continues to argue that qualitative researchers are interested in understanding the reality people have constructed, which is how they make sense of their world and experiences.

An exploratory research will help to address the propositions that have been posed for the research while exploring new alternatives or different ways of conducting business in the rural areas and small towns. This will also bring more light into the topic of route to this market as exploratory research provides an orientation for management by gathering information on a little known topic (Zikmund, 2003).

An interview guide was developed for, and interviews conducted with, the middle class that exists in the rural areas and those who visit these areas regularly. The middle class consumer interviews were aimed at establishing if this market does exist and what products they buy outside the rural and small town areas. The interviews were also aimed at establishing what products they spend most of their money on and whether they do indeed recognise and buy the popular brands, even if these are not available in their nearby towns.

Face to face interviews were conducted with the retailers, using an interview guide to gain an in-depth understanding of their reasons for not operating in these areas and what alternatives could be sought.



## 4.2 POPULATION

### 4.2.1 DEFINITION OF THE POPULATION

In this study there are three populations:

The first population is the black middle class consumer population, who live in the rural areas. They were interviewed to gain more insight into the rural and small town market. The second population is the black middle class consumer population who visit the rural and small town areas at different seasons of the year. This gave an insight into the growth of this market at certain periods of the year. The third population is the population of the retailers operating in South Africa, but not operating in the rural areas or small towns as identified by the consumer populations.

The selection of the middle class market was done using the definition of middle class as stated by Schiffman & Kanuk (1997) and by McKinsey (2005): consumers who have achieved tertiary education, have professional jobs and earn middle range income. The interviews were focused on the age group 25 – 45 years, as these are the consumers highly active in the purchasing of aspirational consumer goods and who are highly mobile. According to Mawer (2005), the buying power of the black people has improved significantly and Ruhiiga (2000) further states that those who are in the rural areas do receive additional income from those who work in the urban areas, thereby bolstering the disposable income of those in the rural areas and small towns.

It was also found by Hendriks & Lyne(2003) in their study that the increased income levels of those in the rural areas is likely to be spent on goods other than food, such as durable and semi-durable goods, so this will be established.

The retailers interviewed were those in the durable and semi-durable goods but excluded the furniture retailers due to the size and the weight of the goods posing a complication in terms of storage and distribution costs. The retailers included those that are in household and clothing retail.

### **4.3 UNIT OF ANALYSIS**

This research is consumer - centric and aims at understanding the existence of the middle class market in the rural and small town areas, what this market aspires to and how they can be better served.

The unit of analysis for this research is the middle class that is found in the rural areas and small towns of South Africa.

### **4.4 SAMPLING METHOD AND SIZE**

There will be two different sampling methods for the consumers and the retailers:

Sampling for the middle class consumers was based on quota sampling for access and simple availability. Some of the consumers stay in the rural areas

and small towns and some do not live in these areas, visiting only at different periods. Quota sampling is a non-probability sampling method that seeks to ensure the desired characteristics of the population sample are represented (Zikmund, 2003). In this case, the sample should show the characteristics of middle class as defined earlier.

The same number of consumers living and not living in the rural areas and small towns was interviewed. The quota sampling method ensures the desired quota of consumers is achieved. The advantages of this sampling method are the speed of data collection, lower costs and convenience (Zikmund, 2003). The consumers were phoned and appointments scheduled for the interviews.

The sampling of retailers was through identification of them by the consumer population and expert interviews of those involved in market development, buying and planning within their organisations. Interviewing the experts in the consumer market development gave a more informed insight into how the organisation decides on the markets in which it operates.

The final sample depended on retailers available and willing to participate in the study and pure convenience. Zikmund (2003) describes convenience sampling as sampling that is used to obtain the number of people who are conveniently available.

The advantage of the convenience sampling technique is that it can give access to a large number of responses at a very low cost, but the data cannot

be projected beyond the sample. Tharenou, Donohue & Cooper (2007) also state that it is difficult with this technique to generalise beyond the sample as there is no way to guarantee representativeness of the sample. They also state that this technique is better used for exploratory studies. Welman, Kruger & Mitchell (2005) argue that because the sample is based on who is easily accessible, the sample could be biased and any generalisations are likely to be flawed.

## **4.5 DATA COLLECTION PROCESS AND ANALYSIS APPROACH**

### **4.5.1 DATA COLLECTION**

In-depth interviews were conducted using questions as detailed in the interview guides, Appendices A, B and C. The interview guide is designed to share light on the research propositions. The data collection method was aimed at identifying important variables in a particular area and formulating penetrating questions on the variables.

Consumers in the rural areas, small towns, and those who visit these areas, were interviewed using the designed questions to give the view of this market's existence. Interviews were planned with the different retailers not operating in the rural areas and focusing on those that were identified from consumer interviews as the preferred retailers for their areas and from whom they already purchase.

The aim was to gather different views from these retailers, which are then analysed and consolidated into the study. Observation and method notes were taken and written up immediately after the interview. Some interviews were recorded, where the respondents were comfortable with being recorded. Most of the respondents preferred not to be recorded.

This is a qualitative method which, as Merriam (1998) explained, will assist in understanding the reality that people have constructed in these markets both by the consumers and the retailers.

#### **4.5.2 DATA ANALYSIS**

The collected data from the interviews was consolidated into a document and arranged in emerging themes and analysed. Data was analysed using methods of narrative enquiry in the way questions are answered and stories told in the interviews, as well as a thematic and content analysis of detailed examination of the data. Conclusions were then drawn on the existence of the middle class market in the rural areas and small towns, and what these consumers expect to find in their areas.

The retailer interviews were also consolidated to understand what the impediments are in going into these areas and, taking into account the propositions, seek to find solutions and alternative ways to serve the middle class market in the rural areas and small towns.

## 4.6 RESEARCH LIMITATIONS

Quota sampling may introduce some bias as the interviewer could have limited the interviews to the respondents who are conveniently available and easily found. The researcher falls in the Black middle class market and might introduce a bias by interviewing only those respondents who were found to be easier to talk to, and those in the same age group.

It might also be difficult to get honest information from the retailers because they might not want to expose their strategies and their ignorance of the market. As much as this will give some insight into the particular area and the retailers interviewed, the results must be seen as tentative and generalisation should be avoided as most situations are atypical in some areas that are not the same and do not show the same markets.

It will not be possible to reach all the retailers, so conclusions are drawn on a sample of a few who were willing to participate in the research. Qualitative research is subjective in nature and cannot be used to replace a quantitative research as a conclusive final research project (Zikmund, 2003).

## 5 CHAPTER 5: RESULTS

### 5.1 INTRODUCTION

This research seeks to get an understanding of how the middle class that is situated in the rural areas and small towns around South Africa, and also those who visit these areas seasonally, can be better served. The main question is still whether this market is recognised and adequately served. The methodology described in chapter four was used, where three different populations were identified and interviewed to try and get an understanding of the middle class which is outside the big cities. The middle class who visit the rural areas and the retailers who are currently not operating in these areas were also interviewed.

The number of respondents from the population of middle class in the rural areas and small towns was ten. The number of respondents from the middle class that visits the rural areas and small towns was ten, and eight retailers willing to participate in the study were interviewed. The middle class population was asked some questions, as outlined in the interview guides, Appendices A and B to establish that they do indeed belong to the middle class market. To establish the middle class status the description of social classes as stated in Chapter two by Schiffman & Kanuk (1997) and McKinsey (2005) was used. The criteria chosen to establish the middle class status were the education level of the respondents, their current jobs, and their income levels.

All but one of the respondents had at least one tertiary education qualification, and income levels were above R200 000 per annum. The one without a tertiary qualification is doing her final year towards completing her bachelor's degree in economics while working full time. The respondents all occupied professional positions in their respective organisations. The age group of the respondents was between 25 – 45 years of age with only one respondent aged 23. The age group was established to ensure that people interviewed are in the active spending market.

The population of the retailers was established from the consumer population by asking them the type of goods they spend their income on. More emphasis was placed on the semi-durable and durable goods and the retailers they would use to source these goods. They were further asked where these retailers were situated and how they source these goods. The retailers were interviewed using the interview guide as outlined in Appendix C.

The results are grouped under the research propositions they are meant to address.



### **5.1.1 Research Proposition 1:**

**There is a market in the rural areas and small towns that is currently not being served in their areas:**

The respondents were asked questions to establish the existence of the middle class market in the rural areas and the small towns around South Africa. They were asked their current residency, whether they live in the rural areas or small towns, what they spend their income on and where they source the goods.

The respondents interviewed from the rural areas and the small towns around South Africa were from Haga Haga in Eastern Cape, Mdantsane in East London, Mqanduli, Gcuwa and Umtata in Eastern Cape, Vryheid and Mondlo in KwaZulu - Natal, Kuruman in Northern Cape, and Ladybrand in Free State.

A number (eight) of respondents that currently reside in the rural areas or the small towns around South Africa acknowledged their need to buy more aspirational goods currently not available in their towns. All (ten) of the rural middle class respondents spoke about how they travel to the big cities to actually source the goods they need.

These respondents argued they are aware of the aspirational goods through media, television, and magazines. They also visit cities like Johannesburg, Durban and Cape Town which makes them aware of current styles and fashion and that stimulate a desire to own such goods. They continue to argue that

living in small towns does not mean they cannot afford these goods. This seems to be the general thinking.

One respondent said *“Not everyone who lives in the small towns is poor; we can afford these goods, so we go to Durban or Johannesburg to source them.”*

Another respondent said *“In townships in Vryheid you find a lot of people wearing designer clothing, they have the money but no one is looking at this. The market is changing, we are becoming global, you find flat screen TVs in townships, and we are becoming more global”.*

*“it is very hard to find what you want or current styles in Kroonstad. I would sometimes wish to purchase certain goods as well when I am there but it is difficult to find the goods that you can find in Pretoria, which is where I live and work. Sometimes I would look for certain brands of whiskey; you can’t even find what you are used to.”*

It seems to be a common trend that those who can afford to purchase high end goods, like the middle class in the rural areas, travel to faraway places outside their areas to actually source the goods they seek. One respondent said *“I travel from Vryheid to Durban, which is 300 km away or Johannesburg, which is 400 km away, to source the goods that I want because they are either poor quality in Vryheid or they do not exist.”*

The respondents who visit the rural areas were asked about their families still living in the rural areas and what these families spend their income on. One of the respondents described how her mother, who is a teacher in Kroonstad, has to travel about 60 km from Kroonstad to Welkom to source the goods she wants because they are not available in her hometown.

*“One can hardly find anything in Kroonstad so my mother will travel to Welkom to buy furniture, household goods and clothing; there is not even an Edgars!”*

The respondents who visit the rural areas and small towns mainly visit their families who live in Upington, Umtata, Kroonstad, Qonce (King Williams Town), Vryheid and East London. The respondents were asked if they spend any money on semi-durable and durable goods when they visit the rural areas. The respondents who visit the rural areas or small towns at certain seasons in the year explained that due to the fact they know it is difficult to find goods in those areas; they will buy from where they live, in the cities, and take the goods home to the rural areas and the small towns.

This can be an inconvenience, as one of the respondents explained: *“Even if I want to fly back home, I cannot; I have to use my car because I have to buy all the household goods that I cannot find in East London or, if I do find these, they charge exorbitant prices in East London.”*

The respondents were further asked if these retailers were to come to their towns, would they buy from them. Most respondents agreed they would buy

from them but most argued that even though the market is there, it is not that big.

One respondent said *“We used to have an Edgars, which has now closed probably because people were not buying there.”*

Another respondent agreed that *“It would be nice to see better retailers available in Umtata, which is close to Mqanduli where I come from, but the biggest market is when people come back during December holidays. But since people are used to not finding anything, a lot of marketing would be required to ensure that you capture and get people to buy.”*

The respondents from East London seemed to believe there is a big enough market in East London consisting of a lot of young professionals who would be more than happy to see better stores like Boardmans, Coricraft, Loads of Living and @Home for household goods, and Europa, Urban, Jenni Button and Space for clothing, to name a few, in their areas, and would buy from them if they were there.

A respondent from Kuruman did not believe there was a big enough market in his town. He argued that most people in the area are poor and unemployed and even if these stores were to open, the sales would not be realised.

A respondent from Vryheid argued there was a big enough market in Vryheid as it was central to a number of other small towns in the vicinity. She explained the following:

*“There are government offices in Vryheid and there is a Transnet office that is based here, so there are quite a number of people who actually look for better quality. Vryheid is also a centre for a number of towns in the vicinity such as Nongoma, uLundi, Pongola, and Paulpietersburg, and consumers who come and shop in Vryheid also pass the town when they travel to and from Johannesburg.”*

Another responded explained, *“Definitely we would use them; most of us from East London have moved to Johannesburg for work or at least visit Johannesburg, and there are a lot of fashion styles that we would like to adopt but find it a challenge because of the high prices charged by East London boutiques.”*

Another responded explained that to have well known retailers in your town also gives them pride as it is normally a sign of development and recognition. *“When we see big retailers opening shop here, it makes us feel that at least someone recognises that we exist”*

The retailers, however, do not believe there is a big enough market in the rural areas or small towns and one said, *“We have not considered moving into the*

*rural areas as we started with a small town and the store is not doing well, so we need to reconsider the strategy of doing business in small towns.”*

Some of the comments that came from the retailers were:

*“Currently we don’t see the viability of this market.”*

*“The size of the market is very small and as much as the consumers say they love our goods, the sales in these areas never materialise. The buying power is also very low.”*

## **Conclusion**

There is limited support for this proposition as the respondents agreed that they are sourcing the goods from outside their small towns, therefore, they are being served outside their areas. However, the retailers do not see this market as they argue it is very small. The respondents are also used to not finding the goods that they want in the small towns that they do not even consider their areas when looking to shop and when they look, they do not see the quality they want.

### 5.1.2 Research Proposition 2

**A number of people in the middle class share their income with those who remain in the rural areas, thus boosting the disposable income of a number of households in these areas:**

Most of the respondents agreed they send money back to their families in the rural areas. Some respondents (six) said their families mainly use the money for groceries, and another four said their mothers use the money to buy semi-durable and durable goods, such as household goods. There were a few (three) who agreed the money would also be used for clothing. The respondents said the following:

*“My mother is retired now, but my brother works. I send my mother about R1000 – R1500 a month for groceries. I also buy any bigger items needed.”*

*“I send about R1000 a month to her (my mother) to help with my kids; because she also works, she has money to spend.”*

*“On average it will be R1500 that I send to my family who live in East London.”*

*“They normally spend the money on food because I purchase most of the big items.”*

## **Conclusion**

There is support for this proposition and it is clear that there are remittances that are sent to those who live in the cities and those in the rural areas due to family ties.

### **5.1.3 Research Proposition 3:**

**The Black middle class tends to migrate towards the rural areas at certain seasons causing the increase in size and income levels of this market:**

The respondents that reside in the cities were asked where they originally came from and if they go back to their places of origin at any given period. The majority of respondents were originally from the rural areas, mainly former homelands, and some from the small towns around South Africa. The common pattern was moving to the cities for study purposes as there are insufficient institutions for higher education where they come from; they also seek employment in the cities owing to there being greater opportunities for work.

All (10) of the respondents that currently reside in the big cities agreed they go back to their places of origin at least twice a year, mainly during the Easter and the December holidays, and stay an average of two weeks. All of them still have families living in the rural areas who they visit during the holiday seasons. The respondents who reside in the rural areas also agreed that a number of people who come back during those seasons do so to be with their families for the holidays.



It was also highlighted by the respondents that the out migration from Johannesburg is so noticeable over the December period as most of those who work in Johannesburg are not originally from Johannesburg but are ‘ migrant workers’ who come from other towns around South Africa and they always go back during holidays.

They also mentioned their own family members who work in places like Durban, Johannesburg and Cape Town and some, working outside the country, who come back during the Christmas holidays to spend about three weeks with their families.

One of the respondents said, *“Even though most of us have left our homes in the rural areas to work in Johannesburg, we go back at least twice a year and during the Christmas holiday. I stay at home (rural areas) for about two weeks.”*

A respondent, who originally comes from East London, said, *“I normally visit about four times a year and I sometimes stay as long as three weeks, more especially during holiday seasons.”*

Another respondent said, *“I visit a place called Haga Haga, a farm area about 70 km outside East London. I visit about once a month. My home town is Port Elizabeth but I also visit places like Qonce (King William’s Town) quite often”.*

A respondent who lives in Grahamstown said, *“In Grahamstown the trend is different from what is observed in other small towns which have more people during the holiday periods. Being a university town, Grahamstown becomes a ghost town during holiday periods, the main activity occurring during the year and over the hugely popular Grahamstown Festival in June/July.”*

It was established that respondents who work in cities closer to their home towns visit more often than those farther away. It was evident those working in Johannesburg, and originally from the Eastern Cape, would visit twice a year on average while those, closer to their home towns, visit monthly.

One of the respondents who works in Pretoria and is originally from Kroonstad said, *“Most of the time I visit for a weekend, but during holidays it may be longer, a week to two weeks at a time. This is normally during the Easter and December holidays.”*

It was further revealed from the interviews that even those who work far from their homes do go back for big functions like weddings and traditional functions, but that these do not happen often and are mostly planned around long weekends and holidays when most people can attend and spend a longer time at home.

Another respondent explained that many people from the cities come back during the holiday seasons but that retailers are always ill-prepared notwithstanding it is an annual pattern.

She said, *“There are also more people over the Easter and December periods and a lot of retailers run out of stock. For example, from 16 December one cannot get clothing for the kids, and it is worse in the grocery stores”*.

*“My family still lives in Mqanduli and my sisters are there with their families. I visit them about two to three times a year and spend about two to three weeks when I visit.”*

Because the Black middle class in the urban areas still has family in the rural areas, they visit and still regard these areas as their home where, in some cases, their parents and siblings still live.

One of the retailer respondents argued, *“The size of the market generally increases during the December periods but is not enough to open a store as we need to consider the operational costs such a store will have given low sales at other times of the year.”*

Another retailer respondent also argued, *“We are aware of the increase in market size at different seasons but moving goods also impacts on the logistics of manpower, damages etc.”*

## **Conclusion**

There is support for this proposition and it is clear that there is a bigger market over the holiday seasons that the retailers can tap into. Those who originally

come from the rural areas and small towns to work in the cities still go back during holidays hence increases in this market.

#### **5.1.4 Research Proposition 4**

**The majority of the Black middle class come from the former homelands or the rural areas where they tend to go during holiday periods:**

The respondents interviewed, who visit the rural areas, do so because they originally come from these areas and still have families living there. They visit them every year, especially during the Christmas period.

In the proposition above, most respondents explained they go to the rural areas because their families still live there and they visit them during holidays. Some respondents argued that a holiday other than in the rural areas is not a proper holiday. Even if they decide to holiday somewhere else, they must first go home for Christmas and then go to another place later.

*A respondent said, "In fact, I do not remember spending Christmas anywhere else except at home in Mondlo (Vryheid), where my father comes from, ever since we were kids. We always came to Mondlo first for Christmas, the whole family, and later everyone would continue to other destinations, like Durban or Cape Town."*

Most of this Black middle class explained that they moved to the cities to seek better opportunities, which are not available in the rural areas or small towns.

## Conclusion

There is support for this proposition as all the respondents were originally from the rural areas and small towns around South Africa and they agreed to spend holidays there.

### 5.1.5 Research Proposition 5

**There is a potential of serving the middle class market when they are in the rural areas:**

Responses on the question relating to this proposition varied among respondents. Some respondents (8) agreed they would use the retailers situated in their home towns, but added that the quality is not the same and the trends are not current.

One respondent said that because there are hardly any current styles in the area where he lives, he always goes to Johannesburg to do his shopping. The question was asked if these were to be upgraded, and more current trends brought in, would they buy? *“I would probably not because I would think that they are not genuine, I would think they are fake and not the same quality as those in Johannesburg.”*

This statement is in line with an issue raised by one of the retailers that consumers in the small towns and rural areas do not want to buy in their areas. The retailer explained that they had tried in the past to open a store in a big

mall in the township but found that consumers, even though they were fully aware of the existence of the shop in the township (from a survey conducted), still enjoyed going to town to buy what they wanted. *“You find that consumers actually enjoy buying from the bigger and more up market shopping centres like Sandton.”* This can be explained by consumer behaviour analysis.

Another insight the respondents brought to bear was that most of them already knew they could not find what they were looking for in their home towns so, on returning home, they had bought most of what they want in the bigger cities.

They find it difficult to obtain goods in their home towns and some of them have stopped looking as they do not expect to find anything of great quality, and so they spend their money outside the area. Most find it frustrating that they have to travel as far as 300km away just to source what can be termed basic goods in the bigger towns and cities.

Another respondent complained, *“There is hardly any place in Mqanduli where one can buy, even foodstuffs, and even spices for cooking have to be purchased in Umtata, about 35 km away. When it comes to clothes and household goods, my family normally goes to East London, which is over 200 km away, or Durban, to source what we are looking for because even in Umtata these are not available.”*

One of the respondents said, *“I buy shoes from Socrati, Europa they are not available in Port Elizabeth, but I get these in Johannesburg. Regarding clothing shops, it would be nice to find Space because it is trendy.”*

Another respondent from Port Elizabeth (PE) confirmed there is a Jenni Button, which is a trendy retailer *“But they sell old stuff and it would be nice to get a new range. For instance, when I go to Johannesburg, I see a different range that is more current. Most people go out to Cape Town or Johannesburg to get the current trends. The boutiques in PE will buy dresses from Space and sell at double the price in Port Elizabeth.”*

Interviews with respondents that visited very small towns and rural areas found their frustration even on finding food. They said it can be difficult to find even what you think are basic foods, which one can get at a garage shop in Johannesburg.

The question was asked whether it bothers them not to find what they are looking for in their areas. Most respondents (nine) said it can be frustrating while one said, *“Not really, because I travel a lot to Pretoria and I buy what I need from there. What I once found frustrating was not to find the type of cell phone that I was looking for, which is typical of this area. So most of the time I don’t even look because they will not be available in the area. Certain car dealers as well, but it really doesn’t bother me much.”*

In towns like Umtata, even though this is classified as a city, even with the shops they have, the respondents complained the range is usually too small. One respondent said the following:

*“In Umtata, even though there are shops, they are normally small and one cannot find the variety one looks for. For instance, there is a Woolworths, but it only sells a slim range of clothes. There are no Woollies foods, which a lot of people would like to have, but there are a number of Spars. I would like to see places like Game and Clicks (although there is one in Umtata but not in Mqanduli), but there is no Edgars. When we look for furniture, we would normally go to Sevens in East London. For shoes, we go to Luella in East London as there is nothing in Umtata, not even a jewellery shop. You may find a small range in a particular shop, but nothing current. Even when looking for books, there is no Exclusive Books, one has to go to East London.”*

One of the retailers agreed, *“Profits can be achieved in these areas but we need to look into the manpower issues we encountered before in these areas. We are now focussing more on the hospitality business, which has become our main focus.”*

Another retailer explained that *“We opened a store in Somerset, a small town, and it is not doing well, so now the strategy is to focus on the big cities.”*

One of the retailers was adamant they were not interested going anywhere outside Gauteng as they want to be in full control of the business to avoid other



complications brought about by expansion. They serve those outside by accepting orders, placing orders and they will send goods to the areas where the customers want them sent.

Another retailer was specific that the board decision is to only open a store in a shopping centre, *“Our stores open in shopping centres so we consider places where there is a shopping centre.”* This can definitely limit the rural areas and small towns as there are few or hardly any malls in these areas, most stores being located on the town streets.

Most respondents said that they would use retailers if they were in the area, but added that some marketing, promotion and advertising would have to be done as a number of people already do not expect to find much in those areas, and there is a perception that the quality of goods available in those areas is sub-standard.

This was observed even when asking about the national retailers, and the respondents seemed to believe that quality of goods obtained in the rural areas, even from the well-known retailers, is not up to par with city stores.

## **Conclusion**

There is support for this proposition however the retailers would have to work on a marketing strategy to change the mindset of what is perceived to be poor quality in the rural and small town areas.

### 5.1.6 Research Proposition 6

#### **Efficient supply chains are necessary to serve this market:**

One of the questions asked of the retailers was whether they are aware there is an increase in market size around the Christmas period. What they had agreed on was an increase in general at this time when people do most of their spending. It was highlighted from insights gained from the consumer interviews that there is an increase in market size in the rural areas and the small towns around South Africa because of the move back to rural areas, by consumers, to be with their families.

A question was asked whether they would look into serving this market at that particular period of the year. Most retailers were not convinced that such a market would be viable. One of them said they might continue looking into serving the rural and small town market as their growth was mainly due to the Black middle class market.

One of the retailers said, *“Moving the goods around at times damages them, which is an expense, and when you move the goods for these shows you need to have manpower, resulting in extra costs and reduced manpower at other stores. The numbers of those who buy, as much as they love the goods, are too small. Considering Return on Investment (ROI), these decorex events do not prove to be worth an investor’s while.”*

The Decorex is a seasonal showcase by different designers of household goods on display at one venue for a period of time. The public is allowed to come and view, purchase on the spot, or place orders should they want something not available at the venue.

None of the clothing and shoe retailers interviewed had tried this model even though some were adamant it wouldn't work. But some agreed it to be an interesting concept that could be brought to their shareholders attention for consideration.

## **Conclusion**

The support of this proposition is generally negative even though the retailers agreed that they had never tried this model in rural and small town areas.

### **5.1.7 Research Proposition 7:**

**Distribution costs can be lowered through co-operation and sharing of resources such as central depots to lower the logistics costs:**

Interviews were conducted with different retailers which do not operate in the small towns or rural areas. Most retailers cited the issue of increased operational costs as not justifiable for a small market. One retailer said they had tried in the past to open shops in a small town but were forced to close down as sales were not materialising, but added they had never tried to share space with another retailer.

Some retailers argued that because of previous failures in the small town market, they were not ready to consider anything as yet. Another retailer said his company were currently looking into opening a store in a small town, as a trial, and would monitor the performance before expanding further. He added, *“There is no consideration to go to the Eastern Cape currently due to the low sales observed at one of their shops, so, in terms of small towns, the current consideration is Polokwane.”* He also said his company is currently not considering partnering at this stage but it is something that can be put to the shareholders.

One retailer said owing to the exclusivity of their designs and clothing, even though they are a part of another big retail chain, they have decided to be a stand-alone and their designers are not allowed to have their designs at any other store except theirs: *“To ensure the brands are not harmed.”*

One respondent acknowledged that space sharing has worked wonders for them following a pilot in one of the big malls in Johannesburg. Their company will be looking at the space sharing in other areas around the country. This is what they said:

*“As we are part of a big retail group, we have now opened an emporium in Johannesburg where there are different levels with different goods, we have a level with only our goods. This is doing well and can be tried at other areas where these stores are already available. Therefore share the space.”*

Another retailer agreed that space sharing and have a house of brands concept in one store could work in the small towns and this could reduce the fixed costs for the company and it is something to be considered.

## **Conclusion**

There was little support for this proposition as some of the retailers were not too happy with the concept of sharing with other retailers arguing for protection of their brands and designers.

## **5.2 ADDITIONAL RESULTS**

When interviewing some consumers from the rural areas, what kept coming up was the fact that most rural areas are dominated by poor people and there is high unemployment. These are some issues that need to be addressed to ensure development and viability of the rural market. Another issue raised was the fact that because of the state of services and the debilitated buildings in these areas, it was really becoming very difficult to keep the middle class there. There is no motivation for the middle class to stay in these areas due to lack of, and slow development in most areas. The middle class is imperative for the development of these areas as they have the education and skills to encourage development, hence keeping them should be of high priority.

## **5.3 CONCLUSION**

The collected data shows that there exists a middle class in the rural areas and small towns around South Africa. It also shows this middle class does aspire to

own high end goods similar to those owned by the middle class living in the urban areas. This testifies to the changes of the rural and small town market.

It is further shown that they are influenced, in what they buy, through media and interactions with the urban life. These consumers in the rural and small towns go to the extent of travelling over 400 km to source goods they want and it is also apparent that they seek high quality goods.

The results from the retailer interviews show this market has not really been recognised, and alternatives on how it can be served have not been developed, especially as they have had poor returns in the past. The retailers argue the size of this market is too small to serve but seasonal growth has not been analysed and it was clear that most of the black middle class living in urban areas visit the rural side at least twice a year.

It was also evident this market is taken for granted as the issue of lower quality was raised by the consumers. But the retailers did not give insight into this claim, some arguing that they are trying to cater for the lower end of the market that is dominant in the rural areas and small towns. It is then evident that to change the perceptions of the quality and also the availability of goods that retailers bring to this market, promotion and advertising of these goods will be imperative.

## **6 CHAPTER 6: DISCUSSION OF RESULTS**

### **6.1 INTRODUCTION**

In this chapter, the results are analysed and discussed to address the research problem and motivation as highlighted in Chapter 1. The interviews with the consumers and the retailers have shared some insights into the issues of serving the middle class that is situated, or visits, the rural areas and small towns around South Africa. There are themes that emerged and these are discussed under the relevant propositions.

The problem is to understand the existence of this middle class in the rural areas and small towns in South Africa, how they spend their income and whether they get adequately served in the areas where they live or visit. The retailers were interviewed to highlight the changing face of rural South Africa and also to get an understanding of the challenges they face in going into the rural areas and the small towns around South Africa.

In this chapter the results are analysed, looking at the literature presented in chapter 2, and the analysis is grouped under the different propositions that are presented in chapter 3.

### **6.1.1 There is a market in the rural areas and small towns that is currently not being served**

This clearly supports the assertion that a middle class in the rural areas is operative and also a middle class that visits these rural areas and small towns , middle class as defined by Schiffman & Kanuk (1997) using the levels of education, income levels and their occupations. The rise in Black middle class across South Africa was also highlighted by Mawer (2005) in her study which also came through in the data collected in Chapter 5.

It was established from the respondents that the market does exist in the rural areas but the question still remains as to how this market can be better served and the size of the market was highlighted in interviews as a concern. Most respondents do seek goods in their areas which they cannot find, and this is also affirmed by Ruhiiga (2000) who said that the rural dwellers shop in towns due to the unavailability of stock and low stock variety in most of their nearby general dealers. They have agreed they seek aspirational goods they see on television or in magazines, or when they travel to bigger cities.

In the interviews, it was clear that the middle class in the rural areas and small towns spend a lot of their income on durable and semi-durable goods and seek to buy from high end reputable retailers, which are not available in their close by towns. There was a similar finding by Hendriks & Lyne (2003) who found from the magnitude of expenditure elasticities that rural households are more likely to spend additional income on goods other than food.



The fact that these goods are not available is an inconvenience to this market, as highlighted by the respondents, but does not stop them from buying these goods. They go to the extent of travelling over 400 kilometres to source the goods they desire. This was established by Hendriks & Lyne (2003) in their findings that, due to the increased income of people in the rural areas, there is an increased need for commodities - causing leakages from their areas to nearby towns.

The retailers argued that even though there is a market in the rural areas and the small towns, the size of this market is too small. Some of the consumers, although aspiring to these goods, do not buy from the so called “expensive” shops but would rather go to the “cheaper” shops that sell goods resembling those kept in the “expensive” stores. The respondents did not agree with this arguing that the middle class wants to buy the genuine goods seen in the bigger cities and not the poor quality brought into their towns. The consumers voiced frustration by the fact that what will be available in their towns will be poor quality compared with what is available in the cities.

There seems to be a perception amongst the respondents that what is available in their towns is poor quality this could be a case of what is viewed to be the products that are scarce are of higher quality or value which is explained by consumer behaviour theories where scarcity of products increases the perceived value (Mittone & Savadori, 2009). So, because the products are not available in their areas, they perceive them as better quality and higher value.

The retailer respondents further explained there is something about the rural consumer behaviour that actually makes them enjoy buying from outside their areas as this makes them feel different. This is explained by the studies in consumer behaviour where shopping can be a source of entertainment experience (Moss, 2007). He argues that shopping has evolved into a combination of leisure and entertainment and gives a “magical and almost ethereal feelings” to the shopper which induces fantasy. Therefore, consumers shop in places where there is more entertainment or shopping experience than just acquiring a product or goods. It is evident there is a market in these areas and different strategies need to be employed to serve them, which could include the feeling of entertainment.

The respondents from rural areas want the stereotype that only poor people live in rural areas to be reconsidered. They argue that some live there, not because they cannot afford a life in the cities but because they enjoy the quality of life that the rural areas bring and can not be realised in the cities. There is a growing number of the Black middle class in South Africa, as argued by Mayer (2005), and some are evidently in the rural areas and seek recognition.

A growth in middle class brings a bigger demand for aspirational and luxury goods (Yeoman & McMahon, 2005). They argue that the behaviour of consumers when they have increased income levels is on ‘attainment of esteem and envy of fellow men’ hence the spending more on high end goods.

In the Eastern Cape, the important shopping hubs are towns like East London, Umtata, King Williams Town and Queenstown, also observed in the study by Ruhiiga (2000). However, even these towns, from discussions with respondents from the Eastern Cape, do not have most of the current products that people in these areas aspire to own even though East London is classified as a metropolitan (SAARF, 2010) and Umtata as a city, and this is an oversight on the retailer side, this could also be perpetuated by the historical homeland classification of some of these towns, for example, Umtata was in the former Transkei and Mdantsane in the former Ciskei which were homelands and perceived to be outside of South Africa.

This is following the thinking trend by retailers and marketers that money is in the metropolitans and mini – metropolitans (Jha, 2003) and he disputes this by highlighting that marketers need to focus on disposable incomes where he sites an example of disposable income of a school teacher in the rural area versus in a city.

It was also recognised that people who reside in rural areas are aware of brands (Chipp & Corder, 2010) and also owing to their exposure to the media (SAARF, 2010). In SAARF, AMPS (2009 B), they show that a number of those who reside in rural areas and small towns are exposed to media. This raises their awareness of brands and what is currently available in the market and this was evident from the respondents.

A respondent, whose family lives in the rural areas, explained that they watch the fashion channels and also read fashion magazines, and so are aware of current trends. This proves there are a number of consumers in rural areas and small towns who are brand aware and aware of the current trends as explained by some of the respondents. Therefore, marketing channels must be developed to drive every product and service that consumers and business buyers purchase everywhere (Lee & Lee, 2009), this should include those in rural areas and small towns. The retailers raised a concern with the size of the rural and small town market and highlighted that serving a small market is not profitable. It is however argued that this has changed, the spending patterns of those in the rural areas and small towns is changing and reflects changes within the country itself and globally (Cleveland, 2007).

The standard of living in rural areas varies between different classes of people. The majority is the BOP population, but the middle class should not be ignored and there shouldn't be a generalisation about this market as also argued by Velayudhan & Sridhar (2009). It is said that "In market led economies it is imperative to determine what market exists (potential demand for products) and then produce for those markets" Thapisa (1994, p. 17).

### **6.1.2 The Middle Class share their income with those in rural areas thereby boosting their disposable income.**

Respondents living in cities agreed that they send money back to their families who live in the rural areas monthly. This increases the disposable income of consumers in the rural areas. Hendricks & Lyne (2003) conducted research that showed income increases in rural areas which causes rural dwellers to purchase more durable and semi-durable goods and most of these they cannot source within their towns and have to incur transportation costs in sourcing them, this was evident from the respondents.

It was also evident that those in urban areas send money back to those in rural areas and this was also found in a study on South African migrant workers by Bowles & Posel (2005) who found that all migrants that were sampled in the year 1993 and surveyed, sent remittances in the preceding year which was on average half their urban wage. Some of those in rural areas were found to depend on the migrant workers for their livelihood (Collinson, Tollman & Kahn, 2007).

In the Edcon Annual Report (2005) it was acknowledged there is an increase in the affluent Black consumer and more uptake of the typical middle class status goods by Black households. This is due to the normalisation of the society through Employment Equity policies and, as a consequence, there is an upward mobility and aspiration spending of the previously disadvantaged (Mawer, 2005).

Some respondents agreed that money they send is used to buy durable and semi-durable goods, but some also said that money sent to their retired mothers would be used for groceries and that they (the respondents) would have to buy household goods on their return during the holiday seasons.

### **6.1.3 The Black Middle Class migrates to the rural areas during certain seasons thereby increasing the size of the market.**

There was evidence of migration to the cities from the respondents, who agreed that this was to look for better employment and Collinson *et al.* (2007) had found that there is an influx of migrants who come from rural areas into cities owing to the decades of restrictive apartheid policies and these migrants, go back to the rural areas during the holiday seasons to be with their families. Migrants move to cities in pursuit of employment as this is limited in the rural areas (Collinson *et al.*, 2007).

It was evident from all consumer respondents who live in the cities that they visit the rural areas at least twice a year and stay, on average, two weeks because they still have family ties in the rural areas. This market highlighted a need to purchase certain goods however, owing to the unavailability of the goods they want to purchase, they usually buy from the cities before going to the rural areas.

All the respondents, from both populations of consumers, agreed there is an increase in population numbers, more especially over the Christmas period

giving rise to low stock levels in shops. It is evident that the stores in the rural areas and small towns still don't cater for the increasing market size trend. The retailers also agreed that there is an increase in spending in general over the Christmas period in all markets however, since the retailers interviewed do not operate in the rural and small towns, they do not share any insight in that market.

A seasonal demand can be a challenge for companies as highlighted by Ludwig *et al.* (2009) they also say that adaptations need to be done to cater for this and historical data can be used to predict the demand. An article from Finweek (2010) analysed the spending in the Christmas period of 2009 and this showed that despite the decline in spending in the urban malls, the rural malls were still pumping with the example of a mall in Limpopo that saw a growth in sales of 25%. This again highlights the growing spending in the rural and small town market.

#### **6.1.4 There is a potential of serving this middle class market seasonally.**

The marketers need to develop segmentation strategies to deal with consumer needs that vary seasonally as this is fundamental to profitability (Berkowitz, 1986). The results revealed that there is a seasonal increase of the middle class market in the rural areas and small towns, how they are served needs consideration and market understanding.

One consumer respondent highlighted that as he never expects to find the goods in his small town, he tended to buy these from the cities. It is evident

from this that a lot of advertising will be required to bring awareness should the retailers want to go to these areas. Berkowitz (1986) argued that advertising and promotion of seasonal goods is also seen to play a big role in raising consumer awareness and seasonality is seen as a surrogate measure of product usage, and during periods of peak activity, usage and consciousness of the product category are high.

A strategy that works in order to be profitable in a seasonal market was shown to be that which focuses mostly on dominant brands as they show the least seasonal changes, compared with new, unknown brands. Therefore, in a seasonal market, retailers need to focus on already known brands to minimise the risk of no sales (Berkowitz, 1986). Retailers can focus on the most recognisable brands (also highlighted by the consumer respondents) to ensure success when dealing with this market.

The retailers had a view that even though the consumers recognise their brands in the rural areas and small towns, they do not buy them because they are perceived as expensive and the consumers will buy goods that are similar to these from the cheaper stores.

The consumer respondents seem to buy the expensive goods however, they are buying them outside their small towns, and they argued that they also want the high quality goods that are available to the middle class that is in cities.



Some of the retailers argued that they have tried in the past to serve this market, however they had to close down due to extremely low sales being realised in these areas. This was interpreted by the retailers as due to the very low income levels in these areas.

Research has shown that the income levels have increased in these areas and the low sales could be explained again by the experience nature of shopping which makes the consumers want to go to bigger shopping centres to source the goods, as these also provide a better experience and entertainment. The perceived poor quality of these goods does not help matters either, so advertising to communicate the real offerings by the retailers will have to play a big role and offering better experience to consumers in these markets in order to attract them.

#### **6.1.5 Efficient Supply Chains are necessary to serve this market.**

Aithal & Vaswani (2005, p193), argued that “to tap into the rural market, distribution systems have been acknowledged as the most critical component and this is due to the low density of population and inaccessibility making the problem of servicing villages individually difficult and often uneconomical.”

The main concern raised by retailers was the size of the market in the rural areas and the small towns. Some had opened stores in the past which did not do well. In this paper, it is argued that the face of the rural market has changed,

and is changing drastically post - 1994 democratic elections and there is more disposable income because of the rise in the middle class status.

There is an observed increase of the middle class market, and also an increase seasonally as highlighted in the previous sections, which retailers could plan to serve at the right seasons using alternative supply chain models. These could include using mobile units to serve the market during the period of high demand, which are the Easter and the December periods.

There are different methods that can be employed to service a seasonal market, such as decentralisation of supply chains which increases responsibility in the smaller business units and improves losses and profits (Eckert & Hughes, 2010). Chen *et al.* (2001) further argue that in a decentralised system, the supplier charges a wholesale price and makes its own replenishment decisions, each of the retailers determines its retail price as its replenishment from the supplier and all parties maximise their own profits. The monitoring costs of a company – owned outlet rise with physical distance and that it is better to have franchises (Chang *et al.*, 2003). In this process, the retailers can maximise their profits in the rural market.

The supply chain also needs to take customer intimacy into account (Butner, 2010) and this will improve the understanding of the market by the companies and not only rely on suppliers. Cost containment is normally the highest ranked responsibility in supply chain hence when serving the rural market, this has to be thought of well and how to improve the efficiencies in order not to incur high

costs and low outputs (Butner, 2010). These costs include high fuel prices, and containment can be achieved by sharing transportation costs with other retailers (Butner, 2010).

For retailers to succeed in any new market into which they venture, it is critical they analyse and understand the market. Similar to multinationals entering new markets (Baoli & Si'en, 2008), understanding the local market is vital as success or failure generally relates to this. Therefore, analysis of the host market, and its distribution system, is needed before entering a market (Baoli & Si'en, 2008).

The interviews shared some insight of what the middle class consumers buy, how they feel about goods in their areas, those available and those not available. The retailers could tap into this to get a better understating of this market. The retailers seem to be stuck in their views of this market and whether they have gone back in the recent years to assess viability of this market could not be established, some have done in the past but not in the most recent past, with the rise of the so called "Black Diamonds". Black diamonds is a term that was coined by University of Cape Town's Unilever institute, that describes a new emerging group of Black South Africans that is affluent and spends on more expensive goods (Manzi, 2008).

The existence of a middle class market in the small towns around South Africa does not seem to be well researched and their frustrations and aspirations not well understood. In the results, they raised issues of ensuring that the middle

class does remain in these areas to foster growth and development of the rural and small town areas in order to curb the high unemployment and migration to the cities, hence better ways of serving this market are crucial. In order not to encourage them to move into cities where everything is easily available, a more liveable environment needs to be created.

One retailer argued that transporting goods causes damage, which increases expenses as they will need to carry out repairs. Most of these small towns like Vryheid, Grahamstown have well established infrastructures and therefore distributing to these markets should not be any challenge.

Rising customer needs is ranked as one of the highest supply chain challenges as it is difficult to accurately identify customer needs (Butner, 2010) and this implies that companies need to spend more time interacting and understanding their customers.

Smart supply chains simulation models by being interconnected with customers, suppliers, IT systems and the supply chain itself would allow companies to see the cost, service level, time and quality impacts of the alternatives being considered (Butner, 2010). These can also report fluctuations so that these are acted upon immediately.

Choosing the right distribution channel is crucial to the success or failure of a product (Pack, 2002), channels that were used by the failed retailers in the rural and small town market were not adequate. The distribution channel is

influenced by its environment; hence the companies need to understand the environment that they are getting into (Aithal & Vaswani, 2005). It is suggested that volatility in a firm's output environment contributes to greater channel integration and also complex diverse environments promote greater reliance on non integrated channels, therefore the retail system is created by its environment (Aithal & Vaswani, 2005). This then means that the economy's growth, demographic changes, communication and transport infrastructure will influence the distribution channel. Distribution strategies are employed by organisations when they want to respond to a particular action, or there's a market shift or product line addition and perceived opportunities in new market segment (Aithal & Vaswani, 2005), which is the case in the middle class market.

**6.1.6 Distribution costs can be lowered through co-operation and sharing of resources such as central depots to lower the logistics costs:**

Distribution costs can be lowered through co-operation and sharing of resources. To lower the costs of serving a seasonal market, other alternatives can be explored, which includes the costs of distribution. Gallagher *et al.* (2000) argued that distribution costs can be lowered through co-operation and sharing of resources such as central depots, which will lower the logistics costs. One of the retailers argued that to protect their designers and their brands, they do not collaborate with other retailers. They argued that they do not want to

oversaturate the market with their brands. This is a strategy that is used by some brands where the availability of a brand is limited to enhance value, where the market is not oversaturated with the brand (Frazier & Lassar, 1996). This collaboration can be in such a way that benefits both parties involved without any harm to the brands, but ensuring that strict contracts are signed.

They also argue that the distribution intensity may enhance the image of a brand, as the low distribution intensity is associated with a low number of retailers associated with a brand or even carry it, however this limits sales. This supports the studies on consumer behaviour on scarcity which enhances the perceived value of a product. Manufactures of high end quality goods only want to be associated with retailers whose internal operations and ability to sell and service high end goods is known and well established. This is a strategy that can be employed by the retailers in the small town and rural markets. The higher the brand is positioned in terms of quality, the lower is the level of distribution intensity (Frazier & Lassar, 1996). High distribution intensity promotes sales in the short term and this is a trade off that manufacturers need to consider.

Another distribution strategy that works in servicing more customers is the advanced sales strategy, in which the sales function is separated from the delivery function and ensures the goods being delivered match the orders that have already been placed by different customers (O'Neil & Bommer, 1988). Therefore, the selling process is done in advance, which improves the delivery process efficiencies as there are no goods that will be returned unsold.

This strategy can be used in the rural market by ensuring there is an active sales team that seeks to understand what the market wants in advance, before bringing the goods and ensures orders are placed in advance so there is lowered risk of no sales in bringing goods that consumers may not be interested in. The retailer respondents had not tried this strategy before and agreed that it could work in ensuring that, they only bring to this market what is needed and not what they perceive as needed based on other markets. They also highlighted that the small towns across the country show different elements and generalisation in these markets is what destroys the businesses.

It was also noted by Butner (2010) that one of the highest factors that hinder collaboration is organisational silos, and executives site that they are too busy to share information amongst each other.

In partnering with retailers, these relationships need to be monitored carefully, as retailers could commit to how they handle a particular brand and later the channel is not managed adequately (Frazier & Lassar, 1996). This relationship works better when the manufacturer and retailer ensure that the channel relationship works where there are support programs in place.

### **6.1.7 Additional Results**

The respondents raised concern that there is no motivation for the middle class to stay in the rural areas and the small towns due to poor services and the condition of infrastructure in some of these areas. Cross (2001) indicated that infrastructure has an effect on the rural to urban movement. In KwaZulu-Natal, infrastructure was the second ranked attractor for migration and this was ranked third to fourth in Eastern Cape (Cross, 2001), this again highlights the issues that were raised by the respondents. Income differentials were also highlighted as playing a key role in attracting people to the urban areas.

With development in the rural areas and also improved quality of life, the middle class will be encouraged to stay. The middle class is necessary for the development of the rural and small town areas and at the same time, the very development needs to be ensured in order to keep them there, ensuring that these towns are liveable.



## **7 CHAPTER 7: CONCLUSION**

### **7.1 INTRODUCTION**

This chapter aims to pull together and highlight the findings of the research pertaining to the motivation as stated in chapter 1 and the propositions of the research as stated in chapter 3. Recommendations to the retailers, municipalities in view of the additional results and recommendations for future research are also included.

### **7.2 Findings Summary and Conclusion**

It was found in this research that the middle class does exist in the rural areas and the small towns around South Africa. This middle class aspires to own goods that are owned by other middle class that is in the urban areas. The middle class in the rural areas and small towns would like to be recognised, treated and served the same as those in the urban areas. There is a rise of the black middle class in South Africa since the post apartheid era and this includes those that live in the rural areas and small towns.

This rise in the black middle class has influenced the spending patterns by this class as most are playing catch in trying to own the goods that they could never own before. They travel as far as 400 kilometres away from their towns in pursuit of the goods that they want, as they are exposed to these through media or travel. Due to the history of homelands in South Africa, a number of the Black middle class that are in the cities and metropolitans originally come from the rural areas and the small towns of South Africa, including those that

were formerly Transkei and Ciskei. They migrated in pursuit of better education, and, in turn, better jobs that can not be found where they originally come from. This middle class in the cities and metropolitans has an influence in the spending patterns of those who still live in the rural areas and small towns.

Those who migrated to the urban areas, and are working in those areas, share their income with those who are left in the rural areas and small towns as there are still family links. All the respondents said that they still have family members in the rural areas and small towns and those are the places that they still call home and not their current places in the urban areas, hence they go back every holiday season to spend time with their families back in the rural areas.

It was highlighted by the retailers that the middle class market in the rural and small town areas is relatively small and can not be economically served however, due to this movement back to the rural areas and small towns during the holiday seasons, mainly Easter and December, the size increases of this market increases. There is also a prevalence of second home owners who live in cities and own homes in the small towns which also grows this market of middle and higher income earners in these towns seasonally.

This market can be served at different periods, when the size of the market is bigger, using alternative routes from the traditional methods. Due to this influx back to the small towns during the holiday periods, the respondents said that the shops run out of goods as if they still have not figured out that this influx is an annual occurrence, which means they are never prepared for it.

The rural and small town market can be economically served using seasonal demand and supply models to ensure that the right forecasting is employed and the supply chain costs remain low during the seasons of increased market size. Hence the supply chains must be flexible enough to change with demand fluctuations, while ensuring the market is adequately served. It is suggested that seasonal markets can be serviced with effective capacity planning.

South Africa offers suppliers a wide variety of methods to distribute and sell their products. These include using an agent or distributor; selling through established wholesalers or dealers; selling directly to department stores or other retailers or establishing a branch or subsidiary with its own sales force (Icon Group, 2000). These methods can be tapped into to ensure efficient supply to the areas that are currently not being served.

In addressing the retailer concerns, different distribution channels can be employed which are the lower end of the value chain, which facilitates the delivery of finished products to the end consumer. Aithal & Vaswani (2005) argue their primary role is to bridge temporal and spatial gaps between supply and demand and to facilitate exchange of goods and services, which is necessary to serve the rural market and extends to the seasonal market.

Distribution costs were raised as one of the issues that impact on profitability of the rural and small town markets however these can be reduced by the collaborative efforts of retailers in these markets.

Availability of goods could also attract tourists in these areas as they could go there knowing that they will not struggle to access some of the goods that can be termed basic by the urban lifestyle standards, as highlighted by the respondents, the unavailability of goods in these areas is de-motivating and does not promote good quality of life.

The middle class in the rural areas is concerned about the pace of development in their areas, they say this pushes away the middle class that could otherwise help to develop these areas. They are particularly disturbed by the level of service delivery that is so poor and could discourage those that still want to live in these areas.

### **7.3 Recommendations**

This research was an exploratory study on the middle class that is in the rural areas and small towns around South Africa and how they can be adequately served. There has been limited study done to understand this class in areas outside of the cities in South Africa and this study hopes to add to the debate. Recommendations are then detailed to the retailers that seek to expand into these areas and the role that could be played by the municipalities in encouraging economic activity which will lead to development in their areas and could slow down the rural-urban migration.

### 7.3.1 Retailers

This study recommends the following to the retailers who are not operating in the rural and small town market and seek to expand into these areas:

- An in-depth study of the changes in the country post apartheid which influences the buying patterns of the consumers in the rural and small town areas.
- Retailers can focus in the known shopping hubs that have been identified, i.e. East London, Umtata, King Williams Town and Queenstown in the Eastern Cape.
- Assessing the spending power of the new middle class and what they aspire to own.
- In order to survive a seasonal market, retailers need to focus on well known and dominant brands.
- To raise awareness of what is offered in the rural and small town market, they need to focus on advertising and promotion of these goods.
- Review of their distribution systems that could make serving the rural and small town areas more profitable, these could include transshipment model.
- Ensuring that the shopping experience in these areas is enhanced to include the entertainment experience that the consumers want and better understanding of co-consumptions.
- Retailers need to foster customer intimacy and spend more time interacting with the customers to get a better understanding.
- They need to form interconnected networks of suppliers to encourage ease of doing business.

- Retailers can use franchises to encourage businesses where better profits can be achieved in the rural markets.
- In ensuring good supply in a seasonal market, forecasting methods and multi-period planning is essential which includes chase strategies which looks at pinch-point analysis to filter demand and supply peaks.

### **7.3.2 Municipalities**

In order to ensure that there is continuous development in the rural and small town areas, municipalities and local governments need to ensure that they keep the middle class there as this class has the skills and is imperative in the development. They need to:

- Ensure ease of doing business for those retailers who seek to expand into these areas and therefore improve the quality of life.
- Improve infrastructure and services in these areas so as to attract more businesses.
- Assist with developing of complexes that integrate shopping and entertainment of their locals.
- Ensure security is upgraded so as to encourage the retailers who want to develop businesses in these areas.

#### 7.4 Recommendations for future research

This study was a qualitative study where only ten respondents from the rural and small towns were interviewed with another ten that visit these areas, and eight retailers. This can not be generalised to the entire population of middle class and retailers. It is then recommended that:

- A quantitative study be conducted to analyse further the middle class in the rural and small towns.
- A study must be conducted in different rural and small town areas as these areas are different and generalisation can not be done to predict those in the areas that were not studied.
- A different age group must be included as this study focused on the age group between 25 – 45 years however, the respondents were mainly in the mid 30 age group, study of the group between 45 – 55 years could show a different result.
- The study was only done on the Black middle class and extension to other races could bring a different perspective.
- The study can include retailers that are operating in the rural and small town markets to gain their perspective.

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## 9 APPENDIX A: RURAL CONSUMER INTERVIEW GUIDE

Participation in this research is voluntary and the participant can withdraw at any time. All the data and information gathered will be kept confidential. By participating in this interview you indicate your voluntary participation in this research. If you have any concerns, please do not hesitate to inform the interviewer.

- Do you receive any extra income from someone who works outside your area?
- Are those who work outside the area professionals?
- Which city do they work in?
- How often do they come to visit?
- What are the durable and non-durable goods that you spend your income on?
- Do you easily get access to these and, if not, where do you source them?
- What can you not get in your area and why can you not get it?
- What makes it hard to source these items?
- Do you incur transport costs in sourcing these items?
- Tell me about the retailers that you would like to see in your area.
- What are the goods/products that you wish were easily accessible?
- In your view, what are the aspirational brands, and do you have access to these?

## 10 APPENDIX B: NON - RURAL CONSUMER INTERVIEW GUIDE

Participation in this research is voluntary and the participant can withdraw at any time. All the data and information will be kept confidential. By participating in this interview you indicate your voluntary participation in this research. If you have any concerns, please do not hesitate to inform the interviewer.

- How often do you visit the rural areas?
- Do you have family that live in the rural areas or do you go there on holidays?
- What can you not get in your area and why can you not get it?
- What makes it hard to source these items?
- Do you incur transport costs in sourcing these items?
- Tell me about the retailers that you would like to see in the areas you visit.
- What are the goods/products that you wish were easily accessible?

## 11 APPENDIX C: RETAILER INTERVIEW GUIDE

Participation in this research is voluntary and the participant can withdraw at any time. All the data and information will be kept confidential. By participating in this interview you indicate your voluntary participation in this research. If you have any concerns, please do not hesitate to inform the interviewer.

- Does your organisation operate in the rural areas? If not, why?
- What are the main challenges that are faced in different market areas?  
More specifically in reaching the rural market?
- How do you think these can be solved or how have you overcome these?
- Do you see the existence of a viable market in the rural areas?
- Are you aware that the size of this market increases at certain seasons of the year?
- Are there different strategies that can be used for the urban versus the rural areas?
- Would you be interested in forming partnerships in serving a seasonal market?
- Do you think profits can be achieved in the rural market and, if not, how do you think this can be turned around?



## 12 APPENDIX D: INTERVIEW SCHEDULE

Type	Number
Black Middle Class in the Rural Area – Female	5
Black Middle Class that visits the Rural Areas – Female	5
Black Middle Class in the Rural Area – Male	5
Black Middle Class that visits the Rural Areas – Male	5
Retailers not operating in the Rural Areas	8

Interviews were scheduled and secured with the above sample starting with the consumer interviews. Information was drawn from the consumer interviews of the retailers they wish to have in their areas .The consumers identified retailers regarding goods they purchase or wish to purchase.

Retailer interviews were then scheduled following the consumer interviews, as more information came from the insights drawn from consumer interviews.