

Grey money could be 40% of retail spend, research needed

'Grey money' is a feature in all developing economies, especially as more people move from rural areas to urban centres in search of employment and a better way of life.



© Avatar_023 - Fotolia.com

This informal economy is an intrinsic part of the greater economy, but is not recorded in official records, although there are estimates that this could be up to 30-40% of retail spending, with higher participation in food and lower participation in general merchandise and clothing, according to Rod Salmon, consumer and retail analyst at Barclays.

Foshizi, a mass market research and strategy agency supports the bank's views that there are two economies in South Africa, the formal economy and the informal or cash economy. Moreover, while it is difficult to quantify the size of the 'grey money' sector, cash purchasers represent a significant market. If only one examines the taxi industry, which transports more than 4.5 million people per day, creates 400,000 sustainable jobs and turns over an estimated R16.5 billion annual.

To better tap into this sector and use them for economic development, there is need to better understand their characteristics and tame these for the benefit of the country. Activities in this sector are unregulated and operate on individual or family ownership, ease of entry and reliance on locally available resources.

According to Lebo Motshegoa, MD of Foshizi, by not catering to the needs of those who earn and spend in cash, suppliers of both products and services may be missing out on the consumer spend of millions of people.

"There are two sources of informal income. In the first instance, there are people who run micro enterprises such as shebeens, spazas, takeaways and informal car washes, or who trade as hawkers. On the other hand, domestic workers, gardeners, nannies, taxi drivers and hairdressers who work in small salons may be employed, but are also paid in cash. All of these people therefore pay for goods and services in cash and the extent of their spend is significant."

"As a bank, the company recognises the existence of grey money, but there is very little that can be done without

involvement from the consumer. One of the efforts of the banks has been to introduce low cost banking so that more people can be within the system in some way," say Salmon.

Research vital

"One of the challenges in reaching this market is a lack of understanding about how people in the informal economy live, work, trade and buy," continues Motshegoa. "This is where in-depth qualitative research of the kind that we undertake has such an important role to play."

The company regularly conducts research into consumer behaviour in the informal sector. This reveals a completely different way of life to the average middle-class way of life experienced by company executives, planners and marketers.

For instance, grandmothers and female relatives are often the custodians of RDP houses and family properties in tribal trust areas, which cannot be sold. While many receive social income grants, these are insufficient to make ends meet and, as a result, they turn to some form of cash trade in order to earn additional income. Others receive supplementary income from relatives working in towns and cities but, as this is usually transferred in cash, it is not quantified.

"The net result is that people in the informal sector may have greater spending power than many imagine and it is just a matter of providing them with easy and accessible channels in order to tap into this," says Motshegoa.

"It is difficult to quantify, as there is both a disincentive for the consumers and businesses that operate in this 'informal' market to declare the transaction due to taxation and also due to the unsophisticated nature of the trading markets in which it operates," adds Salmon. "Only as the economy develops and formalises can more of the grey money be brought within the system, banking is a key factor in formalising the informal markets."

Retail examples

"Another example is evident in some of the products and payment channels offered by MultiChoice," says Motshegoa.

The company has recognised that, while not everyone can afford premium or top-level packages, many can afford entry-level packages priced at R29 or R99 a month. This is especially true in the informal sector, where consumers have TVs that have been handed down to them by family members. Therefore, MultiChoice has made it easy for subscribers in the cash economy to make their monthly payments, even providing facilities for them to do so through spaza shops. At the same time, people are also able to pay for their funeral covers at spaza shops through One Cell or Flash facilities.

Shoprite/Checkers is yet another example of an organisation that is successfully providing services for the informal sector. Amongst other things, the nationwide retailer offers product discounts to anyone who draws his or her monthly social grant from one of its in-store Money Market counters.

In order to benefit from the buying power in this sector, banks and retailers need to understand the lifestyles of cash buyers better and, based on this, need to develop products and services tailored to meet their needs. The primary benefit of doing this comes in tapping into the country's large cash market, but there is a secondary benefit too. As the economy formalises, consumers that have developed loyalties with providers of goods and services are likely to remain loyal as their spending increases.

For further information, go to www.foshizi.co.za.