

“Survival of the Brand”: Coping with Inflation

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Inflation rates in 2009 in East Africa were estimated at 20.5% in Kenya, 11.6% in Tanzania and 12.6% in Uganda (CIA – The World Factbook). Consumers are now buying fewer goods and services than they could with their money merely 6-12 months ago. This study set out to uncover consumers’ sentiments and adaptive behaviour in this inflationary environment, through quantitative interviews in Kenya, Uganda and Tanzania. The general feeling is that prices have risen in the past 6 months. This report details the different ways in which consumers react, as well as their brand loyalty in the face of increasing prices.

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1.0 Background

1.1 Kenya

Kenya has been hampered by corruption and by reliance upon several primary goods whose prices have remained low. The IMF halted lending loans in 2001 when the government failed to institute several anticorruption measures. Despite the return of strong rains in 2001, weak commodity prices, endemic corruption, and low investment limited Kenya's economic growth to 1.2%. Growth lagged at 1.1% in 2002 because of erratic rains, low investor confidence, meager donor support, and political infighting up to the elections. In the key December 2002 elections, Daniel Arap MOI's 24-year-old reign ended, and a new opposition government took on the formidable economic problems facing the nation. After some early progress in rooting out corruption and encouraging donor support, the KIBAKI government was rocked by high-level graft scandals in 2005 and 2006. In 2006, the World Bank and IMF delayed loans pending action by the government on corruption. The international financial institutions and donors have since resumed lending, despite little action on the government's part to deal with corruption. Post-election violence in early 2008, coupled with the effects of the global financial crisis on remittance and exports, reduced estimated GDP growth below 2% in 2008 and 2009 (CIA – The World Fact Book).

1.2 Tanzania

Tanzania is in the bottom ten percent of the world's economies in terms of per capita income. The economy depends heavily on agriculture, which accounts for more than 40% of GDP, provides 85% of exports, and employs 80% of the work force. Topography and climatic conditions, however, limit cultivated crops to only 4% of the land area. Industry traditionally featured the processing of agricultural products and light consumer goods. The World Bank, the IMF, and bilateral donors have provided funds to rehabilitate Tanzania's out-of-date economic infrastructure and to alleviate poverty. Long-term growth through 2005 featured a pickup in industrial production and a substantial increase in output of minerals led by gold. Recent banking reforms have helped increase private-sector growth and investment. Continued donor assistance and solid macroeconomic policies supported a positive growth rate, despite the world recession (CIA – The World Fact Book).

1.3 Uganda

Uganda has substantial natural resources, including fertile soils, regular rainfall, small deposits of copper, gold, and other minerals, and recently discovered oil. Uganda has never conducted a national minerals survey. Agriculture is the most important sector of the economy, employing over 80% of the work force. Coffee accounts for the bulk of export revenues. Since 1986, the government - with the support of foreign countries and international agencies - has acted to rehabilitate and stabilize the economy by undertaking currency reform, raising producer prices on export crops, increasing prices of petroleum

products, and improving civil service wages. The policy changes are especially aimed at dampening inflation and boosting production and export earnings. Since 1990 economic reforms ushered in an era of solid economic growth based on continued investment in infrastructure, improved incentives for production and exports, lower inflation, better domestic security, and the return of exiled Indian-Ugandan entrepreneurs. Growth continues to be solid, despite variability in the price of coffee, Uganda's principal export. In 2000, Uganda qualified for enhanced Highly Indebted Poor Countries (HIPC) debt relief worth \$1.3 billion and Paris Club debt relief worth \$145 million. These amounts combined with the original HIPC debt relief added up to about \$2 billion. The global economic downturn has hurt Uganda's exports; however, Uganda's GDP growth is still relatively strong due to past reforms and sound management of the downturn (CIA – The World Fact Book).

2.0 Introduction

This study was carried out to assess the impact of constantly rising prices on consumer behaviour in East Africa.

How loyal are consumers to brands in such an environment, and if they are not, at what percentage increase in price would they consider switching brands.

A similar study was carried out in South East Asia, and thus some comparisons have been drawn in certain sections of the report.

The questions asked were mainly on optimism/pessimism about the future, overall reaction to inflation in terms of acceptance, recent spending patterns, and brand loyalty despite rising prices.

Sample Interviewed:

A total of 2532 respondents were interviewed in Kenya, Uganda and Tanzania. The specific areas covered were Nairobi, Mombasa, Kampala, Dar es Salaam and Arusha.

A minimum of 75 respondents per category were interviewed, aged between 18 and 45. The sample was split across various levels of income, education and socio-economic groups in line with population splits.

Category respondents were only those people who admitted to having used a product within the category over the past 3 months.

Categories:

The product categories covered were:

- Alcoholic drinks
- Cigarettes/Tobacco
- Home care products
- Food and Non alcoholic drinks
- Fuels
- Personal care products
- Mobile and Fixed telecommunication products
- Condoms
- Malaria treatment products

3.0 General Consumer Sentiments

Figure 1: Opinion of prices vs. spending

Opinion of prices in the past 6 months (QR 2)

	Alcohol	Cigarettes	Home care products	Food and non-alcoholic drinks		Fuels	Personal care products	Mobile and fixed telecommunication products	Condoms	Malaria treatment products
Base: All purchased....in past 3 months	843	279	2081	2452		443	2262	2255	469	1398
It has significantly gone down	1%	2%	1%	1%		4%	1%	4%	3%	2%
It has somewhat gone down	3%	3%	4%	4%		16%	4%	13%	11%	9%
It has stayed the same	10%	26%	15%	7%		15%	17%	50%	48%	25%
It has somewhat gone up	43%	36%	43%	25%		29%	43%	17%	21%	30%
It has significantly gone up	37%	28%	34%	62%		31%	33%	13%	9%	31%
Don't Know	2%	4%	2%	1%		3%	2%	2%	4%	3%

What is your opinion of what has happened to the price of(READ OUT CATEGORY CODED AT R1) over the past 6 months?

Change in spending in the last 6 months (QA 4)

	Alcohol	Cigarettes	Home care products	Food	Non-alcoholic drinks	Fuels	Personal care products	Mobile and fixed telecommunication products	Condoms	Malaria treatment products
Base: Total sample	2532	2532	2532	2532	2532	2532	2532	2532	2532	2532
It has significantly gone down	2%	1%	2%	2%	2%	1%	1%	3%	2%	1%
It has somewhat gone down	3%	2%	6%	4%	7%	7%	7%	14%	6%	6%
It has stayed the same	6%	8%	13%	11%	17%	6%	20%	47%	23%	22%
It has somewhat gone up	18%	14%	39%	19%	46%	15%	41%	18%	8%	23%
It has significantly gone up	19%	10%	30%	61%	25%	20%	26%	11%	5%	23%
Not applicable	51%	65%	11%	2%	3%	50%	7%	7%	56%	25%

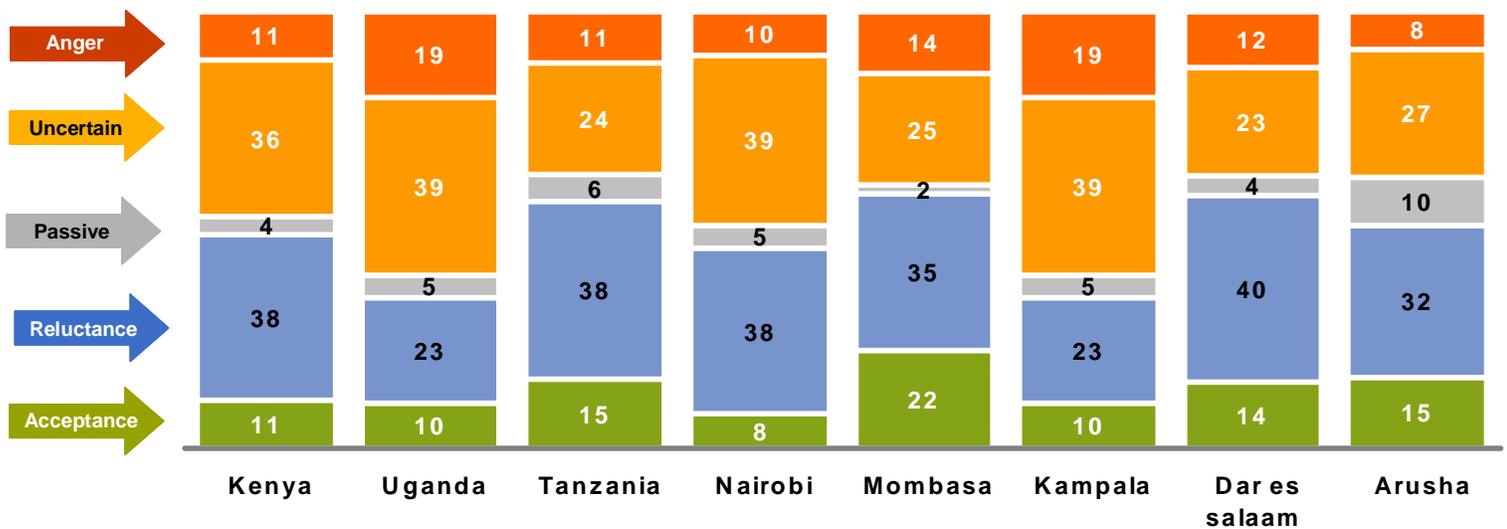
As you know prices of products and services around us are increasing. I have with me a list of items on which consumers like yourself, spend money. Please can you, by making use of the scale on the show card tell me how your spending has changed over last 6 months for each of the following items that I will read out to you one by one

About a third of each of the category users believe that pricing of products has significantly gone up in the past three months. Majority of the respondents within the food and non alcoholic beverage category however believe that prices have gone up (62%).

Most of the respondents interviewed (61%) feel that their spending on food has significantly gone up in the last 6 months. Nearly half of the respondents also feel that their spending on non-alcoholic beverages has somewhat gone up.

3.1 Reaction to Inflation

Figure 2: Consumers sentiments



Anger: “It makes me feel angry”
Uncertain: “It makes me feel uncertain about the future”
Passive: “I am not bothered by it”
Reluctance: “It is beyond my control so I have to accept it”
Accepting: “It is fine as long as my income increases faster than the price increase”

Kenyans and Tanzanians appear to be relatively more accepting of the rising cost of living than Ugandans, as Ugandans recorded the highest proportion of ‘angry’ respondents (19%).

Uncertainty about the future was relatively higher among respondents in Nairobi and Kampala (39%), while ‘acceptance’ was highest among respondents in Mombasa (22%).

3.2 Optimism and Pessimism

Figure 3: Quality of life in the past/next 12 months

Quality of life in past 12 months	East Africa						South East Asia					
	Total (2532)	18-24 years (757)	25-29 years (560)	30-34 years (404)	35-39 years (308)	40-45 years (503)	Total (1304)	20-24 years (292)	25-29 years (277)	30-34 years (241)	35-39 years (231)	40-45 years (263)
Deteriorated a lot	23%	20%	22%	25%	24%	27%	11%	9%	8%	11%	12%	15%
Deteriorated somewhat	25%	22%	26%	28%	29%	24%	32%	24%	31%	34%	35%	40%
Remained the same	20%	22%	21%	17%	17%	20%	37%	41%	40%	34%	35%	32%
Improved somewhat	26%	29%	25%	23%	24%	24%	16%	20%	18%	19%	15%	10%
Improved a lot	5%	5%	6%	6%	6%	4%	4%	6%	3%	2%	3%	3%

Source: A1 Comparing the quality of life today to the quality of your life 12 months ago, would you say your life has...?

Quality of life in next 12 months	East Africa						South East Asia					
	Total (2532)	18-24 years (757)	25-29 years (560)	30-34 years (404)	35-39 years (308)	40-45 years (503)	Total (1304)	20-24 years (292)	25-29 years (277)	30-34 years (241)	35-39 years (231)	40-45 years (263)
Will deteriorate a lot	16%	14%	14%	17%	17%	19%	11%	8%	8%	16%	13%	13%
Will deteriorate somewhat	11%	8%	13%	13%	14%	12%	22%	17%	26%	21%	24%	24%
Will remain the same	12%	12%	14%	14%	11%	11%	25%	28%	26%	22%	22%	24%
Will improve somewhat	34%	38%	34%	31%	33%	33%	30%	35%	30%	29%	29%	29%
Will improve a lot	19%	22%	18%	19%	19%	17%	9%	12%	9%	11%	7%	7%

Source: A2 Looking ahead, how do you expect the quality of your life to be 12 months from now? Would you say your life...?

More East Africa consumers felt that their quality of life has deteriorated in the past 12 months than the South East Asia consumers. They are however relatively more optimistic about the future.

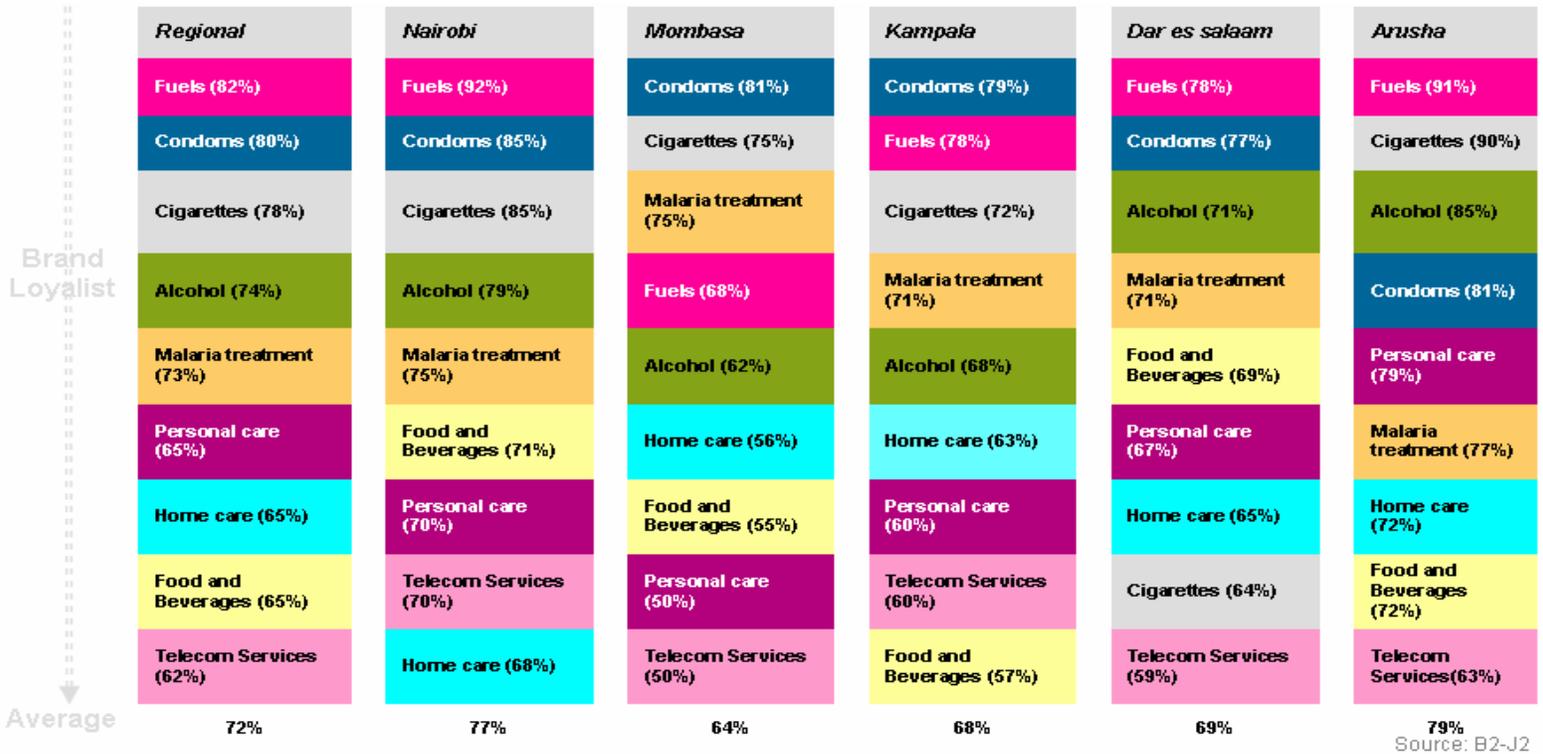
3.3 Brand Loyalty

Respondents were asked to imagine a situation in which prices of products in each category had gone up, and sum up their behaviour in either of these statements:

- I will continue to drink/smoke/use/buy the **same** brand & **same** quantity
- I will continue to drink/smoke/use/buy the **same** brand but a **lower** quantity
- I will switch to a **cheaper** brand but drink/smoke/use/buy the **same** quantity
- I will switch to a **cheaper** brand & also drink/smoke/use/buy a **lower** quantity

The figure below outlines those who agreed with the first two statements (continue to drink/smoke/use/buy the **same** brand).

Figure 4: Brand loyalty spectrum



Please imagine a situation in which the prices of all have gone up significantly. Please can you look at the statements on the show card and tell me which one would best sum up your behaviour

Top 2 boxes: Brand maintainers in spite of rising prices in the category

With the exception of Mombasa, the fuels category enjoys high brand loyalty across all the regions. Cigarette smokers are also relatively loyal in all the regions except for Dar es Salaam.

Loyalty levels of consumers of Alcohol and Malaria treatment products were above market average.

Consumers of Telecom services on the other hand appear to have low loyalty levels (below the market average). Other categories with relatively low loyalty levels include Food and beverages, Personal care and Home care products.

4.0 Detailed Category Understanding

4.1 Home care Products (Base: 2081)

In the home care category, a large proportion of respondents would adapt to price increase by cutting down on the variety of products they use (70%) or by reducing the

quantity used per occasion (69%). However, only 46% would buy house brands or supermarket labels rather than premium brands and labels. In terms of brand quantity trade off, only 23% would switch to cheaper brands while almost a half of respondents would continue to buy the same brand but fewer products. The most preferred marketing activity for home care product users is discounted price for buying more than one product at the same time (34%). This sentiment was strongest in Mombasa (43%).

A 21%-40% increase from current price would cause nearly a quarter of home care product users to start considering making a change in usage and buying behaviour. This percentage is highest in Nairobi (32%) relative to the other regions.

4.2 Alcohol (Base: 843)

The most preferred coping strategies in the category are reducing the number of times one goes out (66%) and reducing overall alcohol consumption (64%). Seventy one percent also said that they would reduce the amount of drinks purchased for others. Those who would look for alternative drinks were relatively fewer as only 21% said they would consume more unbranded generic, locally/home brewed or distilled products.

The most preferred marketing activity is discounted prices when buying more than one drink at the same time. Eighteen percent of consumers in Nairobi would prefer a loyalty program that benefits them in the long run. This percentage is higher relative to the other cities.

Twenty seven percent of alcohol consumers would start considering making a change in usage and buying behaviour at an 81%+ increase from current price. A further 24% would consider making a change at an increase of 21-40% from current price.

4.3 Cigarettes (Base: 279)

The main coping strategy for most cigarette smokers is cutting down on the number of cigarettes smoked in a day (74%) while 42% would consider stopping to smoke altogether. Fifty seven percent would buy in bulk so that it comes at a cheaper price per stick. This sentiment was stronger in Mombasa (70%) and Kampala (68%).

The most preferred marketing activity is discounted price when purchasing more than one stick at the same time.

At an 81%+ increase from the current price, 35% of East African smokers interviewed would start to consider making a change in their current consumption and purchase behaviour. Twenty percent would start considering making a change at 41-60% increase.

4.4 Malaria treatment products (Base: 1398)

Sixty four percent of malaria treatment product users would cope by buying government subsidized medicines. This proportion is highest in Kampala (73%) but lowest in Arusha (49%).

In terms of Brand quantity trade off, almost half of the users interviewed will maintain the same brand and quantity despite price increase. Twenty five percent however will buy the same brand but a smaller dosage at a time, while twenty percent would switch to a cheaper brand but buy the same dosage.

The most popular marketing activity is a discounted price when buying the same brand over a period of time, followed by an attractive free gift when buying the brand, especially in Kampala.

4.5 Food & Beverages (Base: 2452)

The top most coping strategies in this category are all related to reducing the frequency of eating out:

- Seventy one percent would reduce the number of times they eat at fast food restaurants
- Another 71% would eat out less and cook more
- Seventy percent would choose less expensive restaurants when eating out

Other preferred strategies include:

- Paying attention to the amount purchased to avoid buying too much (77%)
- Taking time to compare prices (75%)
- Buying food in bulk (73%)
- Making the effort to go to discount stores/markets (71%)

In terms of Brand quantity trade off, nearly half of the consumers would continue buying the same brand but fewer products while 23% would switch to a cheaper brand and buy the same number of products.

The most preferred marketing activity is discounted prices for buying more than one product at the same time.

4.6 Fuel (Base 443)

Seventy three percent of fuel consumers would cope with inflation by planning their trips effectively to reduce the amount of trips made, while 63% would take time to compare prices at different Petrol stations.

Sixty five percent would reduce their daily fuel consumption while only 30% would fill up with smaller amounts each time they fill up. Slightly more than half would consider buying a more fuel efficient car next time they buy one, while 46% would consider using public transport. There were more consumers considering public means in Mombasa (63%) and Nairobi (61%) than in the Kampala, Dar and Arusha.

In terms of Brand quantity trade off, 37% will continue to buy the same brand and same amount of fuel despite rising prices, while almost half (46%) will continue to buy the same brand but less fuel. The option of switching to a different brand is especially minimal in Nairobi. However reducing the quantity of the same brand was highest in Nairobi (60%).

Among the different marketing activities, consumers prefer discounted prices when filling at the same petrol company over time.

A 21-40% price increase will induce a change in transport behaviour among nearly a third of consumers in Nairobi and Mombasa. Approximately a quarter of consumers in Kampala however will consider making a change in transport behaviour at a price increase of 11-20%.

4.7 Personal Care (Base: 2262)

In coping with price increase, majority of consumers in this category (86%) would buy products that last longer. Eighty six percent would equally make sure to use only the required amounts to avoid wastage.

Seventy five percent would take time to compare prices prior to purchasing. A significant number (79%) would buy products with multi purpose use while 75% would go to discount stores. Seventy four percent would do some research on what products are efficient in achieving the level of care they are after.

In terms of brand quantity trade off, only 20% would continue to buy the same brand and same number of products despite increasing prices. This proportion was lowest in Mombasa (11%) and highest in Arusha (43%).

Nearly half of the category users interviewed would maintain the same brand but would buy fewer products, while 24% would switch to a cheaper brand but maintain the quantity.

The most preferred marketing activity is discounted prices for buying more than one product at the same time.

About a third of Nairobi and Mombasa consumers in this category will begin to consider making changes in their current purchase behaviour if the prices increase by 21-40%.

4.8 Telecom Services (Base: 2255)

The top most coping strategies in coping with inflation in this category are reducing the number of calls made (76%), shortening length of calls made (74%) and reducing the calls made to other networks (73%).

Majority of the consumers said they would change to a network provider that is used by a wider network of friends and family (72%).

In terms of Brand quantity trade off, 46% of the users would continue to use the same provider but spend less time on the phone. Only 16% would continue to use the same provider and spend the same amount of time on the phone.

The most preferred marketing activity is offering free talk/messaging time to brand users. In Nairobi however, consumers would also prefer a loyalty program that benefits them in the long run.

4.9 Condoms (Base: 469)

Majority of users in this category would opt for government subsidized brands (64%) as a way of coping with inflation.

In terms of Brand quantity trade off, more than a third of the category users (38%) will continue to buy the same brand and have the same amount of sex despite increasing prices of condoms

Consumers would appreciate discounted prices for buying more than one packet at the same time as a marketing initiative.

Most of the category users (60%) will only start to consider making a change in their current usage and buying behaviour if the current price of condoms goes up by 81% or more.

5.0 Summary

The consumers interviewed generally felt that prices in the past 6 months have either significantly gone up or somewhat gone up.

Kenyans and Tanzanians were relatively more accepting of the rising cost of living than Ugandans, while uncertainty about the future appears to be higher in Nairobi and Kampala.

Most of the consumers of the different category products would adapt to increasing prices by reducing variety of products used, the quantity used, and the frequency of purchase/use.

Cigarette smokers would also cope by buying in bulk/bigger packs while malaria treatment product users as well as condom users would opt for government subsidized products.

The fuel and cigarette category enjoy high brand loyalty across most of the regions, while consumers of Telecom services appear to have low loyalty levels (below the market average).