# The South African Macro-Environment

CHAPTER

8

**Megan Swartz**

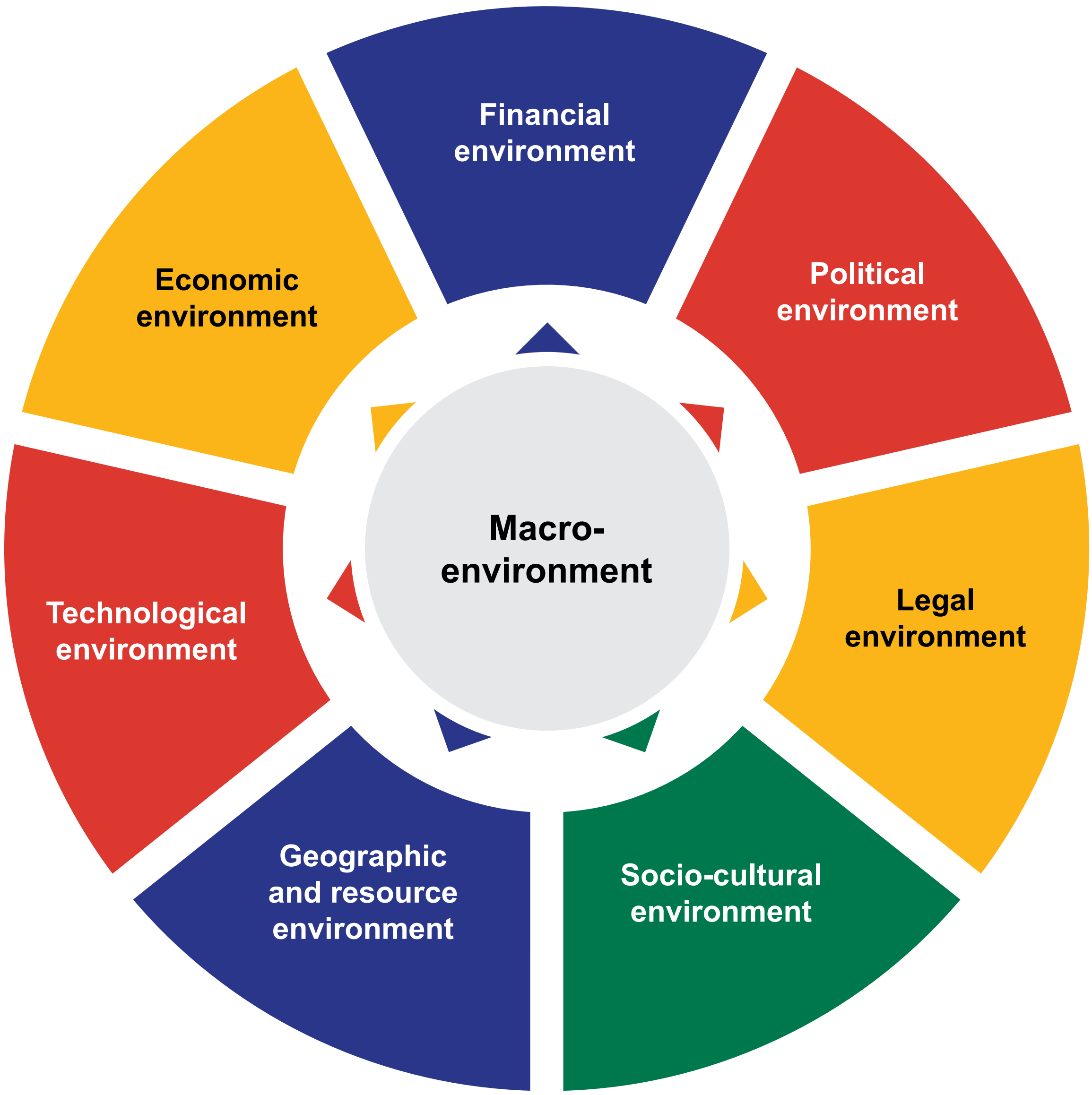
## Introduction

In this chapter, we survey the macro environment, which refers to the external factors that affect a marketer's decision-making and company performance strategies. The marketing micro-environment (Chapter 4) is a set of elements that are generally under some form of influence by the marketer (for example, suppliers). The macro-environment, however, consists of environmental elements that are out of the marketer's general day-to-day control (for example, the legal environment of a country). These macro environments may be influenceable from the marketer's perspective (for example, a single registered patent will make a small shift in the legal environment), but they are generally more likely to be forces that act on the company. While there are multiple definitions for what components make up the macro environment, this chapter focuses on seven environments: the economic environment, the financial environment, the political environment, the legal environment, the socio-cultural environment, the geographic and resource environment and the technological environment (see Figure 8.1).

Marketers need to have an understanding of the macro-environment in order to know how businesses perform and make decisions. This is so that they may assist these businesses in ultimately attracting a loyal customer base by way of developing winning marketing strategies.

The chapter begins with an overview of an economic environment, followed by an explanation of economic indicators and the recent features of South Africa's economic history. After a brief history of South Africa's economic environment, the chapter describes how the economic environment can influence the buying behaviour of consumers. Following on from this, a brief description of the South African financial environment is made. In keeping with South African relevance, the financial environment's influence on the buying behaviour of cash-strapped South African consumers is outlined. Thereafter, a similar pattern is adhered to when the political environment, legal environment, geographic and resource environment, socio-cultural environment and technological environment are covered, all within the context of South African consumers and consumer behaviour.

**Figure 8.1: The marketer's macro-environment**




# Economic environment

An economy is comprised of a set of institutions that facilitate the production, distribution and consumption of goods and services. The way in which resources are distributed among members of a society is determined by the economy that governs it. The economy influences the value of these goods and services, as well as the type of goods and services that can in turn be traded for them. How an economy is structured also governs how wealth is accumulated and to whom it is distributed within a market. This is where the everyday consumer plays a role, since consumers are one of the primary participants in the economy. The market for any commercial resource relies on consumer demand; in reaction to this demand, the supply of the resource is decided upon by the businesses that offer it. Thus, economies impact consumers because consumers' spending habits are altered by the changes that take place within them.

For example, in an economic downturn, consumers have less disposable income to spend, and prices tend to fall and create a recession. The economy and its markets therefore need to assess the behaviour of consumers in such a way as to maintain a balance between demand and supply of resources, in order to avoid economic extremities.

## Kinds of economies and economic indicators

There are four main types of economies: traditional, command, market, and mixed.

**Traditional economies** exist predominantly in rural and other economically developing areas and are often dominated by the use of land, especially in the context of farming. A surplus rarely occurs and consumers in such an economy play a defined role in the management of key resources. This is in contrast to a command economy, in which a centralised agency, such as a government, controls most of the economic system. In contrast, a **market economy** is an economic system in which production and prices are determined by unrestricted competition between privately owned businesses. A **mixed economy** is a blend of market and command economies.

When trying to forecast where an economy is headed, economists use two types of indicators. These are classified as 'leading' or 'lagging' indicators.

- **Leading indicators** change prior to prominent economic adjustments and can therefore be used to predict future economic trends, the changes of which are made most evident only after an economic pattern has been established. Examples of leading indicators include housing prices, the frequency at which new business start-ups emerge, and retail sales activity.

- **Lagging indicators** reflect past economic performance. Changes in a country's gross domestic product (GDP), unemployment rates and interest rates are examples of lagging indicators that may inform long-term trends.

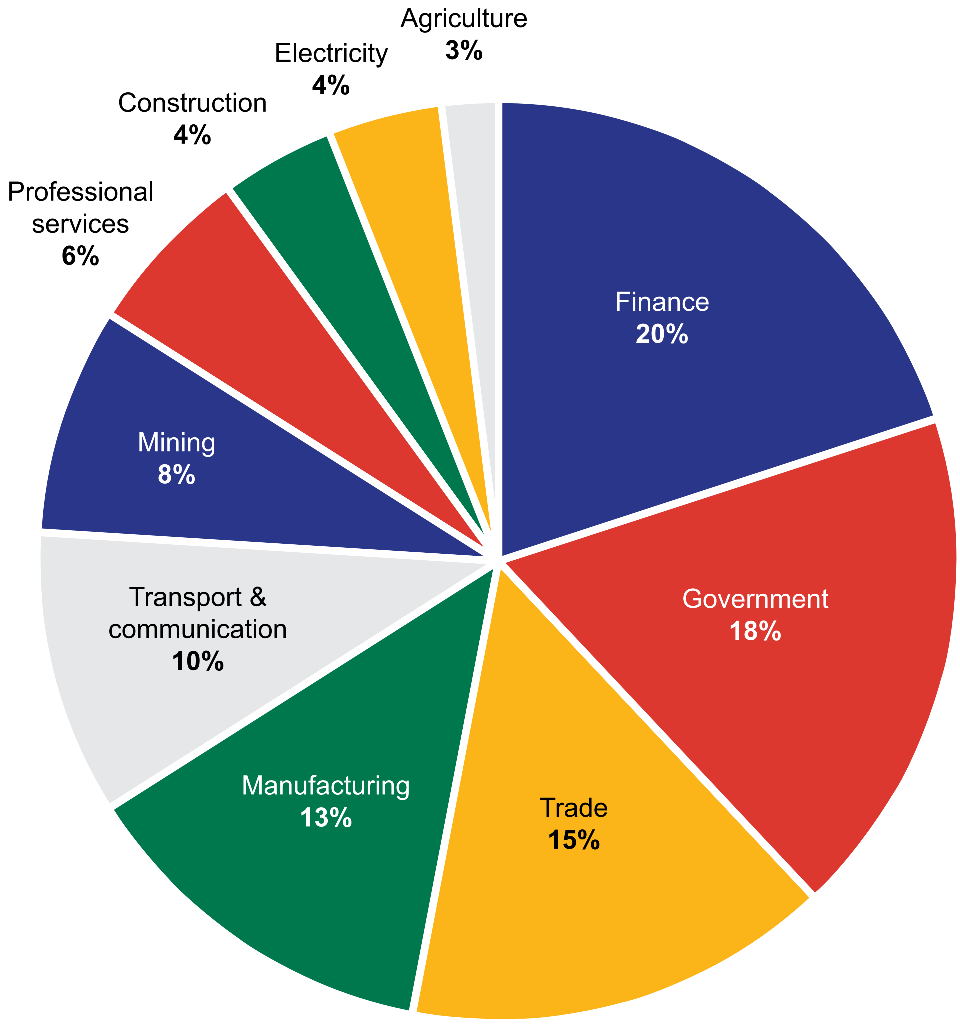
It is helpful to marketers to have an understanding of these leading and lagging indicators as this gives them an idea of where the economy is headed and therefore likely changes to consumer-spending patterns.

## Recent features of South Africa's economic environment

Among the key sectors that maintain and contribute to South Africa's GDP are manufacturing, financial services, wholesale and retail trade, mining, agriculture, tourism and transport (Figure 8.2).

Traditionally, South Africa's economy has been rooted in the primary sectors, which are industries that entail the extraction and production of raw materials, for example, mining. In recent decades, there has, however, been a structural shift with the economy increasingly dominated by the tertiary sector or service sector. This sector includes wholesale and retail trade and tourism. More recently, South Africa has been shifting towards a knowledge-based economy, with increased attention being focused on ecommerce, technology and financial services[1].

**Figure 8.2: Economic sectors that contribute to South Africa's GDP**




However, since the global financial crisis of 2008, the South African economy has struggled to grow. As a result, decision-makers are faced with massive challenges, which include massive unemployment and growing inequality.

## How does the economic environment influence the buying behaviour of consumers?

The economic environment affects consumer behaviour in a corresponding relationship centred around business cycles. These business cycles are considered in terms of business sectors in the economy, and consumers' money flows to different business sectors as the economy fluctuates between recessionary and growth states. During weakened economic periods, consumer spending drops. As the economy reaches a recovery, employment rises and consumer behaviour, for those with disposable income, can shift in favour of increased spending on items such as clothes, vehicles and technological gadgets. Choices in consumption therefore change as confidence in the economy changes. When consumers expect high returns on savings investments and greater disposable income levels, they may change their behaviour correspondingly so as to evade future debt and improve their standard of living, where possible.

# Financial environment

The financial environment comprises public-sector enterprises, as well as monetary and fiscal institutions, both of which directly and indirectly affect financial systems. Furthermore, it includes markets such as forex markets, stock markets and bond markets, all of which play a role in accumulating finances and profits for companies (both public and private) and investors. Major players that form part of the financial environment thus include firms that offer goods and services to consumers, investors who contribute capital into other enterprises for financial return, and markets that enable these exchanges to happen.

## South Africa's financial environment

For most South Africans wanting to improve their financial status and well-being, it is rarely possible to take advantage of investment opportunities because of limited savings. This is particularly relevant when one considers that under Apartheid previously disadvantaged South Africans were excluded from financial markets. Inclusion in financial markets through investment is made more difficult when the concept of the intergenerational distribution of wealth is introduced. Wealthy South Africans are more likely to have access to inheritances that they can invest, whereas the poorer majority of South Africans typically have little to no surplus income to invest, let alone pass down to their children.

With limited resources and a history of financial exclusion, many South Africans have resorted to other forms of financial management such as stokvels and mashonisas.

- **Stokvels** are traditional savings societies in which members each contribute fixed monetary contributions to a common pool on a weekly, fortnightly or monthly basis in return for a lump-sum payment at a time in the future. This lump sum is received on a rotational basis among members.[2]

- **Mashonisas**, in contrast, are individuals in South African townships who informally provide loans to consumers in their community (also known as 'loan sharks').

## The financial environment's influence on the buying behaviour of cash-strapped South African consumers

Millions of poorer South Africans depend on government grants mostly in the form of child support grants and pensions. These are paid out at the same time, usually at the end of the month. This results in a consumer spending spike. Indeed, it is common for retailers to report a large portion of their sales occurring in the days after government grants are paid. By mid-month, many South African consumers struggle to make ends meet; they are often forced into borrowing from friends, family, neighbours, or mashonisas or banks in order to buy basics. Debt is a huge problem for many consumers. According to the National Credit Regulator, there are around 20 million credit-active consumers in South Africa, who have borrowed money from a financial institution, such as a bank, or a retailer. Around half have what called *impaired records*, which means they have fallen behind on repayments.

# Political environment

The political environment encompasses the decisions made by the government of a country which in turn fuels actions that affect businesses.

For example, when the government decreases taxes, the economy is stimulated, since consumers who are working and paying taxes have more disposable income on hand and their ability to purchase goods and services is improved. On the other hand, if the government decides to increase its spending, it will likely need to increase taxes. These taxes could be placed on businesses or individuals, which will ultimately mean they have less money to invest or spend. The political environment can thus help to stimulate or constrain the general running of a business.[3]

South Africa has a spirited multiparty political system, with representation by 13 parties in the National Assembly of Parliament. All citizens 18 years of age or older are eligible to vote in democratic elections held every five years. This has been the case since 199. Thus, South Africa is one of the youngest democratic countries in the world, following nations such as Myanmar, Burkina Faso and Tunisia.[4]

# Legal environment

The legal environment of an economy within a business context encumbers all the acts, regulations and precedent institutions that outline what business and firms can and cannot do. Therefore, the decisions made by the government pertaining to the operations of businesses create a legal environment when said decisions are dictated to the businesses as laws and regulation. These must be adhered too, lest businesses can afford facing legal repercussions. All firms and businesses should therefore have a comprehension of policies relating to the legal environment, since non-compliance result in fines and penalties.[5]

# Geographic and resource environment

The geographic and resource environment describes the ecological factors pertaining to the physical elements of the world we live in, for example, local and global climate change, pollution, consumer health, temperatures, and natural calamities and the direct implications thereof. From these ecological factors, we can deduce that, since they influence the environment, the marketing relevance thereof becomes increasingly more important when understanding industries such as tourism, farming, and agriculture.

Natural disaster cycles such as monsoons or hurricanes, for example, increase the risk of operating in one region all year round, which leads to irregular business sales patterns. Similarly, the physical condition of a country's infrastructure can cause high costs to an organisation needing to operate efficiently and in turn reduce profit margins. A business therefore needs to ensure that the production of the good or service they wish to provide is compatible with the environment in which it operates, so that the risk of losing both sales and a loyal customer base is minimised.

## South Africa's geographic environment

South Africa's expanse of land comprises a surface area of 1 219 602 square kilometres, which is about eight times smaller than North America. Its physical features vary from bushveld, forests, grasslands and mountain peaks, to wetlands and wide beaches.

South Africa is well endowed when it comes to minerals and also possesses ideal conditions for livestock farming and the growing of fruit and vegetables. South Africa is the second-largest producer of palladium, zirconium, ilmenite and rutile and the second-largest exporter of gold in the world. It is also the world's third-biggest exporter of coal and a leading manufacturer of platinum. Additionally, other chief exports include sugar, wool and corn, and the country's top fruit exports are oranges, grapes, apples, lemon, mandarins, pears, and grapefruit seeds.

## Why is the geographic environment relevant to business?

Upon initial thought, it might seem like environmental factors have no real relationship with the operations of a business. On the contrary, however, they can affect numerous business aspects: consumer willingness to buy, resource availability, brand reputation, employee efficiency and equipment efficiency, to name a few.[6]

## Environmental regulation in South Africa

Issues of past poorly regulated economic activities have shown detrimental effects on the natural environments, as seen today. Furthermore, globalisation has meant that the actions of one organisation in one country can have repercussions that are felt outside of its borders. As with any other environmental factor relating to the performance of a business, both direct and indirect, one would also assess changes in, for example, climate cycles and the effect it could have on your business's performance. It is worth noting that such an ecological factor has both social and economic consequences. For example, choosing to operate in an area that experiences unpredictable or cyclical weather patterns means that you are most likely only able to satisfy the needs and wants of your target market periodically. Your business would then only generate sufficient revenue in phases and you run the risk of losing consumers to competitors that had the forethought to operate in a region with year-long favourable conditions. The cost of maintaining your business's assets and inventories during down seasons may also outweigh the benefit of the sales you make during the up seasons. In terms of social effects, one should further consider how well the citizens of the region in which you chose to place your business approve of how you have erected your buildings, particularly if said citizens are green-conscious.[7]

# Socio-cultural environment

*Socio-culture* commonly describes an environment in terms of the values held and behaviours conducted by the population of that environment. Socio-culture therefore refers to the population itself by referencing the social and cultural norms of the people that comprise it, with special attention being paid to common traditions, habits, patterns and beliefs. The term is most frequently used in marketing contexts to describe the key behavioural drivers of consumer decision-making in a society[8].

Since understanding consumer decision-making is vital in ascertaining how well the performance of a product or service will fair in an open market, it follows that understanding socio-culture factors is key for business as well. This is because, when a company is deciding on a particular target population to focus the advertising efforts of its product or service on, knowing how willing the potential consumer group will be to accepting it will determine how well the sale of the product or services fairs. How well the consumers react is largely determined by the prevalent socio-culture norms that they follow[9].

## Types of socio-cultural factors

The list of socio-culture factors influencing consumer behaviour is long, and includes aspects like consumer lifestyle, culture, social class, family size and education. Within a South African context, however, a first port of call would be to consider ethnicity, age, disposable income and education. Perhaps the most used variable to differentiate South African consumers is income. With 46% of South African's bringing home less than R1000 per month, choosing to advertise luxury items to consumers residing in underprivileged areas would not be a sound decision[10]. Rather, directing the advertisement of necessity items aimed at attaining basic human comfort (food, water, shelter, clothing, etc) would be a more informed decision.

## How does socio-culture impact marketing in South Africa?

Since a business cannot operate in a bubble if it wishes to succeed, societal changes can influence how the target consumer's attitudes shift over time. Socio-cultural factors include attitudes, political ideologies, and beliefs, and – while a business would not need to entirely overhaul its mission statement or values – it would be wise to assume the responsibility of adapting to these socio-cultural changes so as to remain relevant to your buyers and to perform better than your competitors.

Questions of socio-cultural factors linked to heritage and identity are not straightforward. In a country such as South Africa, there exists more than one type of heritage, which cannot necessarily be distinguished in terms of distinct identities. They are diverse and dynamic! It is highly inadvisable to categorise different South Africans according to race alone; intersectional distinctions of gender and ethnicity are making it increasingly important to be aware of how and what they choose to identify as. This is most relevant if advertisers do not wish to offend anyone and inadvertently tarnish the reputation of a brand.

In South Africa, the idea of defining its citizens according to culture and race carries with it some controversy. Contention around such definitions is primarily due to historical Apartheid policies which aimed to segregate along racial lines. Thus, any current attempt to define South Africans in terms of race alone may be unintentionally accompanied by unpleasant connotations of past categorisation. That being said, South Africa is wonderfully diverse in values and practices and so a business would stand a greater chance of success by defining consumers along these lines and then targeting them accordingly.[11]

Culture is important in understanding the needs and behaviours of consumers. Throughout their life, an individual will be affected by the people that form their cultural environment. In South Africa this environment shapes consumer preferences, habits and expectations. Culture is crucial for a marketer to consider in devising brand strategy.

## Technological environment

Technology is the application of scientific knowledge for practical purposes, especially in industry. Within the context of consumer marketing, technology relates to those innovations that impact the operations of both marketers and consumers. Technology influences the way businesses supply, distribute and advertise products and services. Innovation also impacts research and development, automation, and the perceptions of consumers.

Technology influences decisions pertinent to entering a new industry and launching a new product. For example, disruptive and rapid technological advances in one industry could impact the general brand competitiveness. In photography, for example, photographic specialist brands like Kodak and AGFA were replaced by consumer technology brands like Sony and then eventually by major mobile phone brands like Apple and Samsung. The shift from film to digital and then phone integration completely changes the brand landscape in a period of just two decades. The internet has created similar disruptions in many industries like film (Netflix), hospitality (Airbnb) and retail (Takealot). Marketers have also attempted to use technology to build stronger bonds with consumers through the use of personal data in order to devise personalised marketing messages. This use of personal data has been met with mixed responses from consumers.

Questions that would then be useful to ask for businesses wishing to remain relevant within the ever-changing technological spheres are:[12]

- What technological advancements and innovations are eminent?
- How will this new technology affect our operations?
- How can we adapt to these without losing relevance?

## How does the technological environment influence the buying behaviour of consumers?

Technology has changed consumers and their buying behaviour and businesses need to revamp marketing strategies to keep up with them. One aspect of consumers' behaviour that needs to be considered is that of their expectations. Consumer behaviour is most easily influenced by smartphones and other internet-enabled devices. Thus, in a way, everything that is implied by these devices – fast service, prompt response, personability, and continuous communication – is automatically expected to be adhered to should a business wish to keep up with expectations.

Consumer desire has changed in the sense that they have become aware of the power they hold; online business means that, should a query not be tended to regardless of the time of day, they can simply access a different and similar provider that is more responsive. This consumer conduct needs to be known and adapted to if a business wishes to remain in operation, especially with the countless platforms available on which to express their disdain at poor administration and service, mistaken or not. Consumers also want access to all content related to a product or service of interest. They find partial fulfilment in knowing all there is to know, in being educated on alternatives, inherent product or service value, quality and much more.[13]

Consumers' attention spans, however, with all the content overload provided from so many internet access points, are decreasing. There is too much content for consumers to assess, and so while they do wish to remain informed, they also need to have their attention arrested quickly. A business needs to then retain that attention for long enough to present an offer and then induce an easy sale.

Consumer behaviour concerned with feelings of trust, too, has changed. With countless product and service alternatives available to them, courtesy of the way in which any person can affordably start up a company online, a consumer's decision to buy will rely on their degree of likability and trust in the brand of the product or service. Consumers develop trust in a brand by assessing the strength of online reputation, online presence, social proof of quality and person-to-person word of mouth. Maintaining positive reviews and ratings is thus another important aspect to consider when adapting to changing consumer behaviours. There is a fine line, however, between the positive and negative impacts of this technological environment we find ourselves in.

## Negative impact of technology

Technology undoubtedly fuels efficiency, and yet it is important to ensure that the negative social impact of technology does not outweigh the positive efficiency benefits. Job automation, for example, may lower distribution, manufacturing and process costs, but it may also mean job losses for those persons who had not been given the opportunity to advance their skills but can do the menial tasks that have been automated, in exchange for remuneration to at least ensure a comfortable standard of living.[14]

Internet connectivity, as previously mentioned, may extend a business's reach to more consumers, but it also entails less frequent need or desire to engage in traditional forms of communication. This in turn can negatively impact the running of telephone service providers, paper and ink companies, survey conductors, etc. While data was previously manually stored in cabinet systems, technology has now enabled the access and storage of this data much more easily, but it also means that breaching of this data is a possibility among hackers wanting to abuse people's and businesses' personal and system information. Staying cognisant of the negative effects of technology in business can help them plan for how to handle any issues that may result in communication delays, breakdowns and poor social reputation.[15]

# Conclusion

In this chapter, we looked at seven macro-environments which affect a business or firm's decision-making, performance strategies and development. We looked at the economic environment, financial environment, political environment, legal environment, geographic and resource environment, socio-culture environment and technological environment.

1 Beck, T., Maimbo, S., Faye, I. & Triki, T., 2011, *Financing Africa; Through the Crisis and Beyond*, The World Bank, Washington DC.
2 Lengolo, P., 2019, *Stokvels: How They Can Make Your Money Work For You*, Penguin Books, Cape Town.
3 Gitman, L., McDaniel, C., Shah, A., Reece, M., Koffel, L., Talsma,B, & Hyatt, J., 2018, *Introduction to Business*, Rice University, Houston.
4 Jou, W., 2016, '*Ideological Radicalism and Democratic Experience in New Democracies*', Democratization, 23(4), 592-612, viewed 10 July 2020, from https://www-tandfonline-com.ezproxy.uct.ac.za/doi/pdf/10.1080/13510347.2014.993386?needAccess=true
5 Mohr, P., 2015, *Economics for South African Students*, Van Schaik Publishers, Pretoria.
6 Robertson, H., 2015, *Pestle Analysis for Business*. Createspace, South Carolina.
7 Ng, A.K.Y., Wang, T., Yang, Z., Li, K.X. & Jiang, C., 2018, '*How is Business Adapting to Climate Change Impacts Appropriately*? Insight from the Commercial Port Sector', Journal of Business Ethics, viewed 1 January 2019, from http://researchonline.ljmu.ac.uk/id/eprint/8307/3/How%20is%20Business%20Adapting%20to%20Climate%20Change%20Impacts%20Appropriately%20Insight%20from%20the%20Commercial%20Port%20Sector.pdf.
8 Calitz, E., Black, P. & Steenekamp, T., 2015, *Public Economics*, Oxford University Press Southern Africa, Cape Town.
9 Nayeem, A. 2012. *Cultural Influences on Consumer Behaviour*. Swinburne University of Technology, Australia: Canadian Center of Science and Education.
10 Orthofer. A., 2016, '*Wealth Inequality in South Africa: Evidence from Survey and Tax Data Working Paper 15*', REDI3x3, viewed 10 July 2020 from http://www.redi3x3.org/sites/default/files/Orthofer%202016%20REDI3x3%20Working%20Paper%2015%20-%20Wealth%20inequality.pdf
11 Swatuk, L., 2018, *Bridging the Rift: The New South Africa In Africa*, New York.
12 Attaran, M., 2019, *Exploring the Relationship between Information Technology and Business Process Reengineering*, Elsevier, Amsterdam.
13 Mohr, P., 2015, *Economics for South African Students*, Van Schaik Publishers, Pretoria.
14 Robbins, S.P., Judge, T.A., Odendaal, A. & Roodt, G., 2009, *Organisational Behaviours: Global and Southern African Perspectives*, Pearson Education South African, Cape Town.
15 Naresh, M., 2006, *Marketing Research; An Applied Orientation*, Pearson, New Jersey.