New SEM socio-economic segmentation tool explained

Since the late 1980s, the go-to market segmentation tool for marketers has been LSMs (Living Standard Measure). But, as **Peter Langschmidt** explains, this no longer accurately reflects the South African consumer landscape and now a new SEM segmentation tool is on the way.

HOW MANY TIMES have marketers built communication strategies around LSM 8-10, thinking that they are in fact reaching the top end and wealthiest segments of the population? They've even instructed their media agencies that their products are aimed at LSM 5-7 consumers when targeting the emerging middle class.

The calculation is badly flawed

But the reality is that the LSM (Living Standard Measure) calculation is fatally flawed. You only need to look at the almost perfect bell-shaped population distribution it shows. If this were a true representation, we would have a massive middle class and an income distribution similar to Canada or Australia. But we don't – we're still suffering the after effects of 350 years of colonialism, 50 years of apartheid and eight years of corruption.

LSMs were perfect in the late 80s when the minority of households had electric stoves, microwaves, fridges, TVs, washing machines, etc. Now that the majority and, in most cases, over two-thirds of people have all these durables, this measure is meaningless because it measures only those listed durables and not people's daily lifestyles.

The Gini coefficient (sometimes expressed as a Gini ratio or a normalised Gini index) is a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the most commonly used measure of inequality. South Africa has one of the highest such coefficients in the world. In other words, we have a very unequal income distribution – many rich and many poor, with not too much in the middle.

MOVING FORWARD

The new SEM (Socio-Economic Measure), developed by well-known researcher Neil Higgs and his team at Kantar TNS, is a more accurate reflection of South African society in terms of how people live and is not dependent solely on durables, as the historical LSMs have been. The new SEM offers marketers a statistical and technical solution that depicts how our citizens are living, not only what they have in their homes.

To produce this segmentation tool, respondents are required to answer questions around four durables, where >>

Above and below: The LSM measurement system no longer accurately reflects the daily lifestyles of South Africans

Below: Now the poor live amongst the rich in the metro areas and, conversely, the rich farmers reside in poor rural areas they live and what kind of structure they live in. These variables are more varied, stable and meaningful than simply durables and technology. When LSMs were used for media planning it was crazy to have radio sets, TV sets and an M-Net decoder as variables, which resulted in significant bias towards certain media and stations.

By getting an M-Net decoder or another cellphone, households would move from, say, LSM 5 to LSM 6. The important point is that it didn't really mean that the household's lifestyle and income had really changed, whereas having an extra room in the household or a tiled floor or roof – versus a mud or tin one – would reflect a true change in lifestyle.

LSMs used to be updated every 2-3 years, but the last update was over six years ago in 2011, when the VCR and Hi-fi were replaced by air-conditioner and swimming pool as lifestyle variables. The LSM system also included technology items such as computers, DVDs and cellphones – which change even faster than durables. The rise of the Internet and streaming started replacing DVDs, which resulted in a further misreading of the market.

Also, given that the median age of whites is 39 and blacks 24, LSMs have been inherently racially biased as it takes about 15-20 years to accumulate all these durables and the white population have had an additional 15 years to do this. For example, LSM 9 and 10 – the top 16% of the market – was only 38% black, whereas the real top 16% of the market in terms of Household Income is 60% black. LSMs racial predisposition would thus skew advertising towards the white market.

PRACTICAL ADVANTAGES OF SEMS

In terms of practicality, the SEM has numerous advantages over LSMs. With 14 variables versus the 29 on LSMs, research questionnaires are shorter and easier to administer. SEMs are also more stable due to less reliance on these durables and technology, while more reliance is placed on household structures and community infrastructure, which tend to change more gradually.

The list of SEM variables and advantages are shown below:

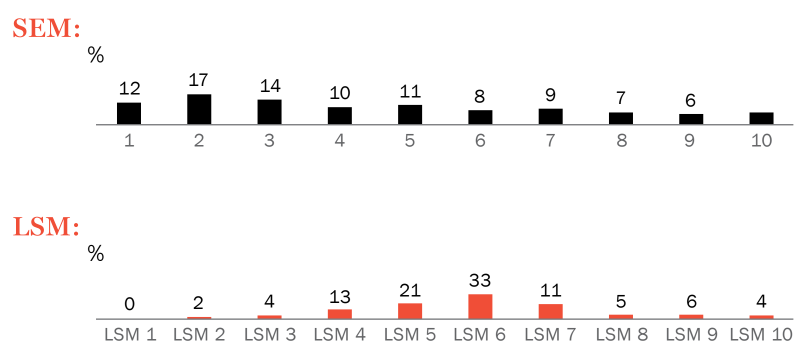
FINAL VARIABLES:

- Post Office nearby
- Police station nearby
- Built-in kitchen sink
- Home secuity service
- Motor car
- Deep freezer which is free standing
- Microwave oven
- Floor polisher or vacuum cleaner
- Washing machine
- Floor material
- Water source
- Type of toilet
- Roof material
- Number of sleeping rooms

- Focus on structural items
- Low reliance on durables
- No reliance on technology items
- Short and easy to use

The graph below compares the SEM household distribution with that of the LSM from the Establishment Survey (ES).

LSM VS SEM PROFILE OF SOUTH AFRICAN HOUSEHOLDS



Source: Establishment Survey – 6 months Jul-Dec 2016

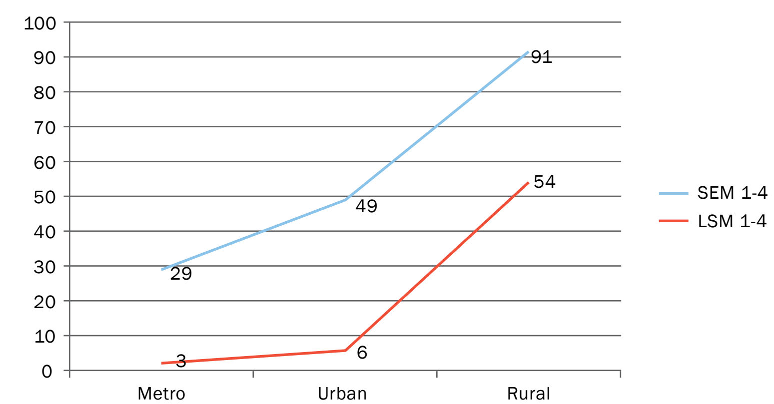
As can be seen above, the SEM is a far more accurate representation of our country and matches census data. LSMs have only 6%, or 1 in 17 houses, in the bottom LSM 1-3 group, whereas SEM's have 44%, or 1 in 2.3 households, that are struggling. In terms of the all-important LSM 8-10 group, which receives over 70% of advertising spend, the SEM also outperforms the LSM, with 19% of household's versus 14% for the LSM. The LSM distribution matches durables and cellphones in the home, not lifestyle, income or any other indicator from any other study.

SEMs make logical sense. Since the demise of the Group Areas Act (which forced different races to live in separate areas) over 23 years ago, there is no more policed movement. The poor live amongst the rich in the metro areas and, conversely, the rich farmers reside in poor rural areas.

According to LSMs, only 3% of metro dwellers are in the lower four groups, while SEMs show almost 10 times more poor people! Any marketer driving through the shacks-lined streets of any urban area in South Africa would have to believe the SEMs over the LSMs.

SEMs show a greater percentage of poor South Africans

GEOGRAPHIC PROFILE OF LSMS VS SEMS:



Establishment Survey Jul-Dec 2016

SEM's also offer way more flexibility. Should the 10 SEM segments not match a brand or product target market, they have been designed on a 100-point percentage scale. Therefore, instead of being forced to use, say, SEM 5-7, marketers can define their market in actual percentage terms. So it could be defined as >=53. Or between 62 and 83%. Or split into quarters, thirds or any grouping required.

You can map and plot your course from LSMs to SEMs and calibrate the two on the Establishment Survey. But LSMs are so outdated, biased and misrepresentative that it will probably be better for marketers to re-orientate, reboot their thinking and start anew with SEMs – the map of the actual SA consumer typography. SEMs provide marketers with a far more balanced and real targeting tool when it comes to income, lifestyle, race, geography and much more.

> *SEM is a more accurate view*

Although it may take some time for marketers to adjust to the new SEMs, it has been confirmed that LSMs will run in parallel with the SEM model for a period of two years until 2018.

If you or your clients believe in a fairy-tale income distribution that goes against all census and Stats SA data, then by all means feel free to continue using LSMs. But if you believe otherwise, then you must use SEMs. ■

Peter Langschmidt has spent over 35 years in research, advertising, media and marketing. He runs a customer intimacy and research consultancy called Echo that specialises in work with organisations such as Naspers, Kagiso, PRC (Publisher Research Council) and the IAB (Interactive Advertising Bureau). The PRC has been integral to the development of the new SEM segmentation system.

LSMs, SEMs AND THE OXEN PULLING YOUR FERRARI

As marketers debate the merits of SEM replacing LSM, ad industry veteran **Gordon Muller** suggests that perhaps both are simply irrelevant?

For some marketers, the demise of AMPS – the All Media Products Survey delivered for over 30 years by the South African Audience Research Foundation (SAARF) – is the end of an era; for others, it is the beginning of a new age in marketing and media research. Either way, there is almost universal recognition that changes in market dynamics and media consumption need to be reflected in new research perspectives and conventions.

The newly released Establishment Survey (ES) still provides marketers with the option of using 10 LSM segments – for the moment anyway. ES-LSM uses the same variables as were previously used to define AMPS-LSM, but the ES sampling framework provides a very different picture of the distribution of those households. Indeed, ES-LSM 6 now represents 26,8% of monthly household income value, which is significantly higher than the 15,2% in AMPS.

The Socio-Economic Measure (SEM) model, which ES offers as an alternative to LSM, is essentially a continuum, rather than a pre-packaged segmentation tool. But if ES-LSM changes the lens, then SEM is quite simply a different microscope.

With SEM, the overall number of differentiating variables has been reduced and there is a strong focus on structural items, a relatively lower reliance on durables, and no reliance on technology items. These variables may well provide for more stable picture of a household's status than LSM. But, for the vast majority of marketers, it is consumers who make purchase decisions, and consumers who make media-consumption decisions.

So, if you have previously been using LSM and you're going to transition from AMPS to ES, then it is vital that you recalibrate your segmentation parameters. An AMPS-LSM is not an ES-LSM; and an LSM is definitely not an SEM.

Ultimately though, in a communication age defined by agile big-data driven insights, engagement and hyper-personalisation, debating the merits of LSM v SEM is like deciding how many oxen you should use to pull your Ferrari. Perhaps the most sensible response to the new Establishment Survey LSM and SEM models is simply not to use them for brand segmentation at all?

› *SEM is a new microscope*

Why is that? Basically, beyond theoretical macro-economic segmentation, SEM is totally unusable for market segmentation and detailed media-consumption analysis at the coal-face. The best segmentation tool remains product/category and branded information; this was included in AMPS, but has been removed from the Establishment Survey.

Everything a marketer needs to know is contained in a chart with two axes: 'Rate of consumption in category' and 'Use my brand; don't use my brand'. Segmentation models such as LSM and SEM are merely surrogates for this information and they only take on value when they are used for purposes of buying media exposure.

Marketers, in the form of the Marketing Association of South Africa, are driving an initiative to generate a new Product and Brand database for this very reason. Marketers and agencies have finally realised that – other than its role in weighting TAMS (Television All Media Survey), RAMS (Radio All Media Survey) and PAMS (Print All Media Survey) – the wider Establishment Survey (and, by extension, the new SEM segmentation model) offers no granular insights for brand campaign planning. This is the real story behind the ES story.

Editor's Note: Audience measurement in South Africa and the future direction of the South African Advertising Research Foundation (SAARF) – as it morphs into a new body called the Marketing Research Foundation – is a complex topic. In a future edition of the magazine we will be asking appropriate industry experts to help us delve into this aspect in some depth. For this edition, however, we have chosen to focus on the LSM vs SEM debate as it is highly topical.

In an advertising career spanning four decades, **Gordon Muller** has held senior management or board positions at ad agencies McCann-Erickson, Bates, Ogilvy, Saatchi & Saatchi and OMD South Africa. He now runs his own media consultancy, GSM Quadrant. In 2011 he received the *Financial Mail* Adfocus Lifetime Achievement Award.

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