Who moved my Black Diamonds? – The Case for 14 LSMs

The media industry's apparent *laissez faire* attitude to the de facto evolution from 10 LSMs to the 14 LSM model released in AMPS 2008, is either a measure of its complete disenchantment with LSMs generally or of an irrational desire to cling onto a 10 segment model which has been increasingly disconnected from the reality of developments in the South African marketplace.

Aldous Huxley once observed that *the only thing we learn from history is that nobody has learned a thing from history*. In the *brave new world* that is the constantly evolving South African advertising marketplace, we need to revisit history in order to understand the significance of this latest development in the LSM model.

The realization in 1997, that the original 8 LSM model was no longer sensitive enough to differentiate the increasingly complex media and product consumption patterns of upper middle class and top end consumers, lead to the initial recalibration of the original LSM7 and LSM8 segments. These segments were split into LSM7 Low/ LSM7 High and LSM8 Low/ LSM8 High. In so doing, LSM7 and LSM8 were effectively reduced to an average of their constituent subsets. It is important to note that these classifications were not based on fundamentally new criteria, but a statistical re-iteration of the existing LSM criteria and as such, all they represented was a different shade on the same LSM spectrum.

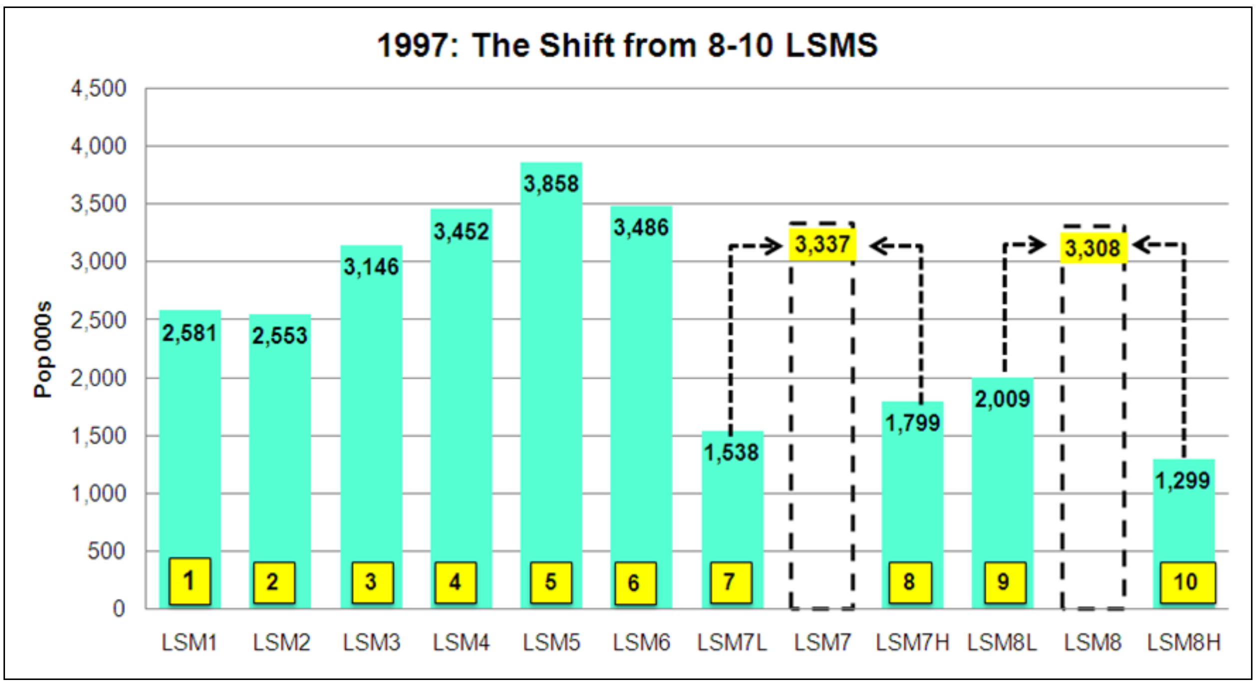

Figure1: The Shift from 8 to 10 LSM Segments

By 2001, along with other adjustments in the cluster variables that created the Universal LSM, the industry recognized that what had in effect been created in 1997 was a 10 LSM model and formally acknowledged this by simply renumbering the segments LSM 1-10 (Figure 1). Simple enough and the basis for the model the industry has utilized until AMPS 2007.

From 2001 to 2008 though, accelerated change in the South African market and society at large has essentially recreated the same set of circumstance that precipitated the 1997 split. The top end of the market and the burgeoning middle class can no longer be effectively segmented by a simplistic 10 LSM model.

In *Media Planning – Art or Science* this writer noted in 2005 that …

> *As South African society evolves, the SAARF Universal LSM has the ability to be extended beyond LSM10, to LSM11, LSM12, etc. and such groups will be added as time goes by. Similarly, as the lower end of the market experiences economic empowerment and the resultant upward social and economic mobility, so in theory the LSM1 group might fall away.*

The AMPS 2008 LSM splits have essentially realized that prediction. Analyses of AMPS reveals that whereas in 2001 LSM 1-3 constituted 39,5% of the adult population, by 2008 that had been eroded to 21,5%. Correspondingly, LSM 6-10 now constitutes 48,4% of adult population (up from 34,5% in 2001). These facts have presented a clear case for the further sensitization of the LSM model and much credit should be given to SAARF for making the upgrade.

Using the same basic principle from 1997, the split in AMPS 2008 of the LSM 7-10 segments creates an effective 14 LSM model (Figure 2). We can of course wait another 4 years to recognize this fact, talking in confusing "High and Low" jargon while we await the inevitable, or we acknowledge with immediate effect, that the Emperor does indeed have new clothes. And guess what? They are better than the old ones.

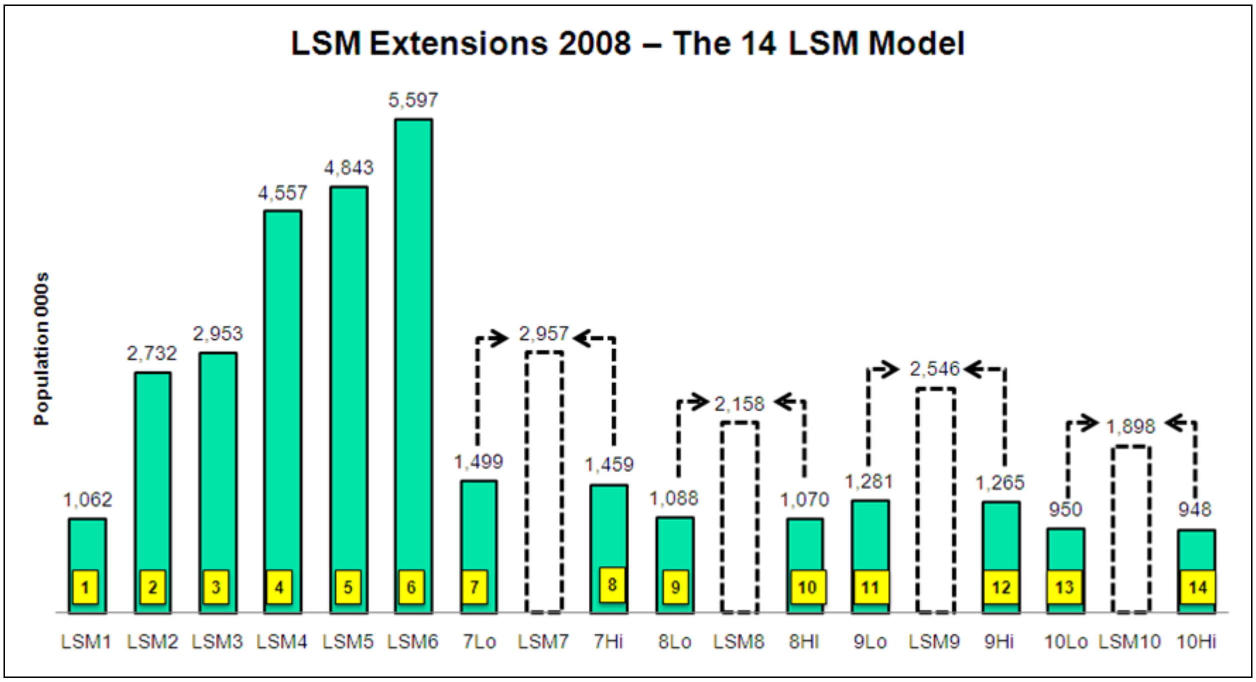

Figure2: The Shift from 10 to 14 LSM Segments

This is not to suggest that LSMs should be seen as some sort of panacea, an invitation to abandon the core criteria which would normally underpin the target market description. The media planner needs to develop target market definitions, making use of LSMs along with other criteria where appropriate, which are tailor-made to meet the specific needs of the brand. Despite this caution, LSMs have a great deal to offer the media planner ... provided they are used as the primary point of entry to the market, and not as the final target market descriptor itself.

At the extremes of the scale it is relatively easy to visualize the points of difference between segments, even on the old 10 LSM model. The difference between LSM1 and LSM10 is manifest and allows for fairly accurate predictive modeling by planners. Media consumption patterns differ vastly, as do retail shopping and brand consumption. Ask those same planners what the difference is between LSM7 High (New LSM8) and LSM8 Low (New LSM9), and explanations will become increasingly subjective and inaccurate.

How then do we make sense of the 14 LSMs contained in AMPS 2008?

It lies outside the scope of this submission to articulate the process of data analysis, but this writer submits a simple macro-segmentation cluster model which is based around a mid-point analysis that withstands substantial scrutiny from many angles. From a pragmatic planners perspective, scrutiny in this instance simply poses the question *does it differentiate media and product consumption and is it predictive?* The answer is both instances is … *Yes*!

In simple terms the model suggests the following clusters …

- Traditional Market: LSM 1-3 – 21,6% of population (ƒ 0,2)
- Transitional Market: LSM 4-5 – 30% of population (ƒ 0,4)
- Middle Class: LSM6 – 7Low – 22,7% of population (ƒ 0,9)
- Upper Middle Class: LSM7 High – 10 Low – 22,7% of population (ƒ 2,1)
- Elite: LSM10 High – 3% of population (ƒ 3,7)

It is also worth noting that the model avoids the use of “loaded” terms such as the increasingly outdated and probably offensive *emerging market.* The only term which might require some explanation is *transitional,* a horizontal reference to the geographical transition from a rural to urban lifestyle and the further economic transition from a subsistence lifestyle to active consumer of goods and services.

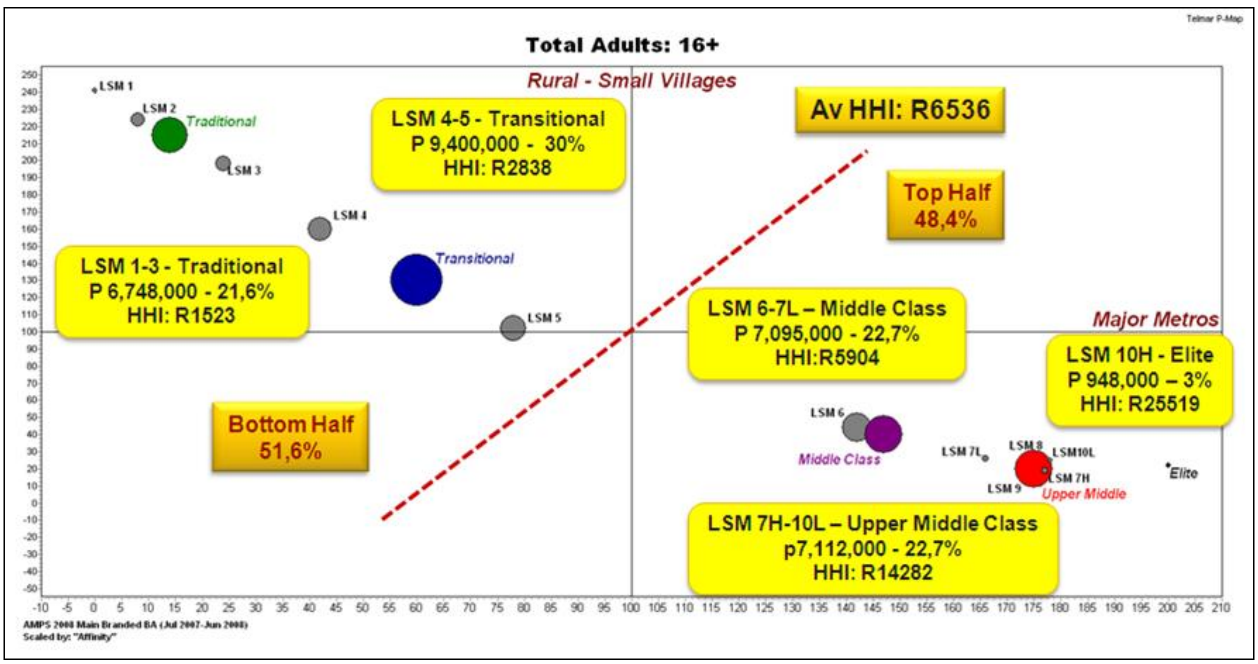

Figure 3: The Muller LSM Cluster Model

Few would contest the anecdotal evidence suggesting that AMPS probably under-reports household income (HHI), and definitely under-reports at the top end of the market. In absolute terms AMPS income levels might be questionable, but claimed household income data still provides us with a very reliable means of relative horizontal segmentation. Average household income (HHI) in AMPS 2008 is R6,536 and the Middle Class segment (HHI LSM 6 – R5,386; LSM 7L - R7,837) straddles this level to create a midpoint axis around which the model hinges. Further, if we calculate the power ratios for each of these segments (i.e. the ratio of population size to gross segment household income) we can see that the *Middle Class* has an almost 1:1 value ratio (ƒ 0,9). As such this represents a bona fide midpoint for the AMPS market in terms of potential household buying power.

So, what about the most loaded term of all … so called *Black Diamonds*?

Watching various luminaries around the country claiming to have "discovered" *Black Diamonds* is a little bit like reading history at school in the 60s. When reality finally dawns, it comes as quite a revelation to realise that David Livingstone did not in fact discover Victoria Falls.

There is a huge difference between giving something a new name and discovering it. One can't help wondering what Dr Livingstone might have called the magnificent spectacle had he bothered to consult the local residents and to this point, one can't help wondering whether the industry, in creating the term *Black Diamonds*, has bothered to consult with the very people it has chosen to name. History will judge but this writer is already digging a hole in the terminology graveyard right next to the resting place of *Emerging Market*.

The first significant efforts to identify black consumers as a homogenous consumer community, with massive buying power, can probably be traced to SAAN (South African Associated Newspaper now reincarnated broadly speaking as Avusa), who introduced the concept of *new consumers* to the marketplace, and to the resultant *AMPS 1981 New Consumer Report*. In essence this model sought to group all metropolitan blacks together as a single market but the simplicity of its approach and more importantly, the general unpreparedness of South Africa marketers, doomed it to failure.

So the search for the *New Consumer Grail* is almost 3 decades old, and whilst all the interesting insights that have been created around *Black Diamonds* have renergised the search, planners in South Africa are still no better off in terms of finding a working, commonly accepted, definition of this market segment in AMPS. Describing their attitudes to love, life and everything in between may be very insightful but telling me, as a planner, precisely where to find them is unquestionably more valuable.

The question then is, can the new 14 LSM model and the *Muller Cluster Model* help to clarify this point?

Let's assume diamonds, of whatever hue, are items of significantly above-average value. Simplistically then we can eliminate the *Traditional* and *Transitional* market segments (LSM 1-5) as having below average buying power and also the Middle Class (LSM6 – LSM7 Low/ New LSM7) for their average buying power. Call them Cubic Zirconias if they must have a gemological name.

Black consumers in the *Elite* market segment (LSM10 High/ New LSM14) have an average household income of R29,037 which is even higher than that of their white counterparts (R24, 875) from the same segment. The *Elite* segment represent only a very small proportion of the population but their extreme wealth and conspicuous consumption makes them more valuable in isolation than simple diamonds, even though collectively they contribute only 13% of gross marketplace value. Let's call them something uniquely African. Tanzanites.

By process of elimination, all that remains is the Upper Middle Class segment. 23% of total population accounting for over 50% of total market value. That's a pretty valuable contribution. Black consumers represent 36% of this massive economic powerhouse and if the industry is insistent on giving them the name *Black Diamonds* then so be it. The *Muller Cluster Model* hasn't discovered them (they've always been there), nor has it named them but it does provide a reasonable set of map co-ordinates which can show planners where to find them.

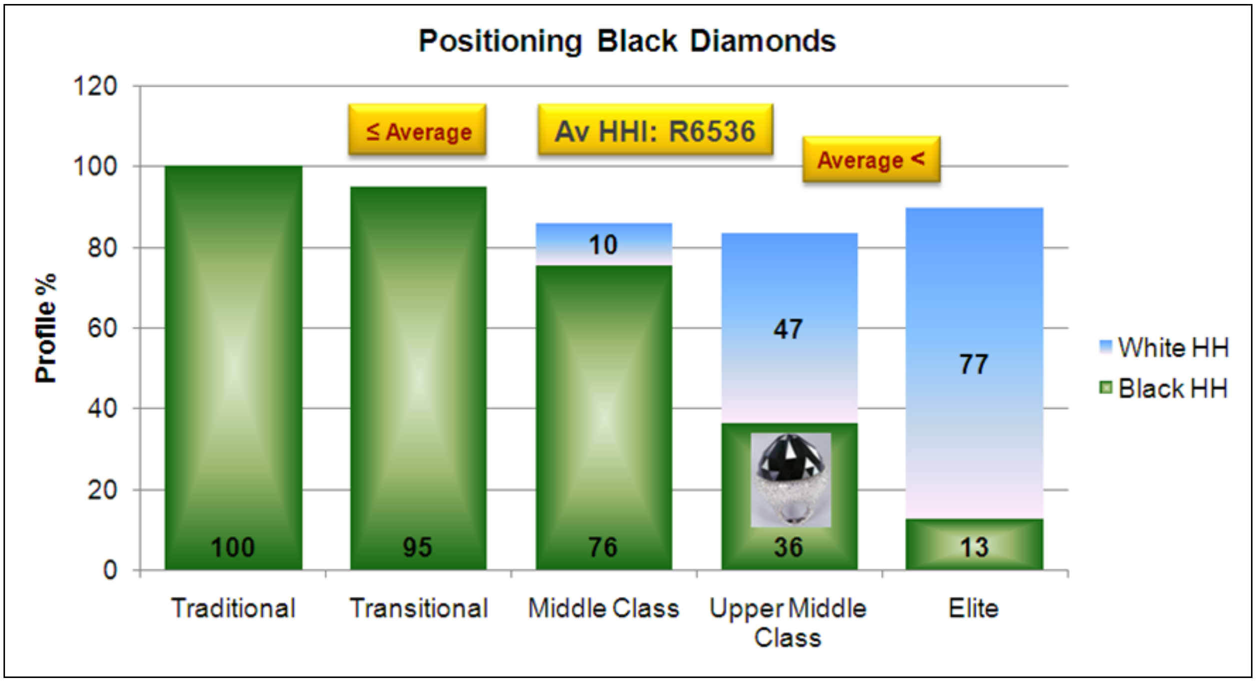

Figure 4: Black Upper Middle Class – Defining Black Diamonds

Is the *Muller Cluster Model* definitive? By no means, but it's a good place to start making sense of the data by using language and concepts that we can all understand. Is the model statistically reliable at the 95% level of probability? Probably not! But consumers are not waiting around for statisticians to polish the numbers and in any event the only statistical proof that clients require in 2009, is feet through the door.

Debate the model. Change it. Refine it. Create your own. Just don't ignore the simple fact that the only way to make sense of, and extract value from, the 14 LSMs in AMPS 2008 is to create clusters that are sensitive predictors of product and media consumption for clients. There is an old media adage which says *there is gold in them thar AMPS but you have to dig for it*! The new 14 LSM model gives the planner the opportunity to do just that. One can of course continue to use the 10 LSM model but then again one can also refer to the Blue Bulls as Northern Transvaal.

This is no fairytale. The emperor really does have new clothes and he's been wearing them for two months already! Let's mine the data and see how well we can make them fit.

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