A Research Study:

Analysis of current trends in e-commerce and possible strategies for SA Retailers

Submitted in fulfilment of the requirements of W&RSETA ILDP accredited by Gordon Institute of Business Studies (GIBS)

MEMBERS OF SYNDICATE 6:

- Bradley Nietskie
- Candice Naidoo
- Tshikalange Mulaudzi
- Ntombi Dludla
- Erick Mokgabudi
- Yusuf Mansoor
- Richard Motshabi
# Table of Contents

Opportunity statement...........................................................................................................................................3

Description & background to the opportunity and its importance............................................................................3

Aims of our Research..................................................................................................................................................3

Rationale..................................................................................................................................................................3

Literature Review .......................................................................................................................................................3

The Scope of our Research .......................................................................................................................................4

Scope of investigation ...............................................................................................................................................4

Our research aims to answer the following questions: ...............................................................................................4

Out of Scope .............................................................................................................................................................4

Methodology ............................................................................................................................................................4

What is E-Commerce and its value? ............................................................................................................................4

The Rate of Technology Change and its Impact ..........................................................................................................5

Changes in Consumer Trends .....................................................................................................................................6

South African retail and the impacts of e-commerce .................................................................................................10

Recommendations ......................................................................................................................................................11
Opportunity statement
The advancement of technology is significantly changing consumer behaviour and demands. This is driving retailers to employ e-commerce strategies. How should SA Retailers respond to current trends in e-commerce?

Description & background to the opportunity and its importance

Aims of our Research
We will deliver insight into the advancements in technology and its influence on consumer demands and behaviour. A view of consumer trends will be a vital key deliverable in order to understand the e-commerce strategies employed by retailers. The shifting consumer trends and responding retail e-commerce strategies will enable us to understand its impact on South African retail and make recommendations.

The aim of our research objectives are:

- To determine the value of e-commerce in the South African sector.
- To investigate current trends in technological advancements and usage.
- To explore possible strategies and approaches to online retailing.
- To determine and clearly articulate the disadvantages of not having an online shopping channel.

Rationale

E-commerce development in South Africa has lagged that of the developed economies. Some of the reasons are:

- The hype and massive consequent collapse of the initial dot com bubble had severely dented the confidence and perceived value that e-commerce business models could deliver. Post the “bursting of the bubble” the opposite effect was experienced where e-commerce businesses were often under estimated in direct opposition to possible over-valuing. This constrained the flow of investment.
- The substantially slower growth of internet availability in developing countries and the prohibitive cost of “high speed – broadband” internet service.
- The cost barrier of devices and infrastructure together with the lack of convergence and collaboration. Over the past 5-8 years there have been substantial shifts in many of the barriers listed above.

Literature Review

In a survey, represented below, with Retail executives, Accenture (Accenture survey of Retail Executives January 2010) shows the anticipated changes in the retail will be driven by consumers (54.4%) and technology (30.9%). They (Accenture Retail and IT Futures 2010) show that the acceleration of the development of mobile devices and its global growth has significantly shifted behaviour. Easily and cheaply available internet, the growth of web mobile devices and the explosion of social networking has contributed to the shift in consumer behaviour, according World Wide Worx (World Wide Worx Online Retail in SA 2010). Trendwatching.com (Trendwatching.com Innovation Extravaganza June 2011) explores the myriad new and innovative business models initiated by existing retailers and newcomers alike in a move to realize the potential made available through new touch points with the consumer. Aligned to this is advent of the individualism of consumers driven by social networking like Facebook according to Accenture (Accenture Enabling the Market of Me 2010). This individualism is about the increasing demand for flexible offering by retailers to cater for his/her individual needs. This idea is seen as the force behind retailers adopting multi channel strategies. According to the Aberdeen Group (Aberdeen Mobile Retail is a Reality: The increasing mobility of consumers has Retailers engaged, 2010) 57% of all retailers worldwide are seeking new channels to service.

[Graph showing percentage distribution]

Source: Accenture survey of Retail Executives January 2010
The Scope of our Research

There are various studies which attest to the exponential rate of growth in e-commerce and about the growth of multi-channel offerings by retailers although in South Africa it does seem to still be in its infancy.

Scope of investigation

Our research aims to answer the following questions:

- What value does b2c e-commerce offers?
- What are the various trends in e-commerce?
- What the key reasons are for implementing an e-commerce strategy?
- What opportunities exist for SA retailers?

Out of Scope

- We will not explore all technologies possibly used by retailers but instead provide a broad overview.
- We will exclude all other forms of e-commerce and focus on e-tailing and mobile.

Methodology

<table>
<thead>
<tr>
<th>Type</th>
<th>SOURCE</th>
<th>WHERE</th>
<th>HOW</th>
<th>Target</th>
<th>Who</th>
<th>WHEN</th>
</tr>
</thead>
</table>
| Desktop research | SETA database
Market research bodies (Markinor’s, etc)
Industry bodies (CGSA, RA, etc) | Information Centres
(International & Local, GIBS, etc) | Online | Numerous | Bradley, Candice, Tshicks | 14/07/2011 |
| Focus groups | Journal publications (HBR, etc)
Industry White Papers (Various) | Online sources
Consulting Groups Online |                |                  |                          |            |
|               | Selected Consumers across various LSM groups. | Cape Town, Durban, Johannesburg, and Pretoria | Invitation workshop | 4 Groups x 20 | Yusuf, Erick, Richard, Bradley, Ntombi | 21/07/2011 |
| Personal / Telephone interviews | Woolworths
IBM Consulting
Accenture Consulting | Cape Town, Toronto, New York, Washington and London | Invites and one-on-one interviews | 15 | All | 24/09/2011 |
| Industry white paper | Accenture Consulting
IBM Consulting
Bain Consulting
ATG - Online | Online Sources and Network sources | Personal requests and Online | 10 | Bradley, Tshicks | 14/07/2011 |
| Questionnaires | Retail Executives at Pick n Pay, Woolworths, Edgars, other local retailers and International Retailers | Cape Town, Durban, Johannesburg and Pretoria for SA based research and International retailers. | Personal Interviews and by email. | 30 | Ntombi, Erick, Richard and Candice | 14/07/2011 |

What is E-Commerce and its value?

Electronic commerce has many definitions from a broad range of sources. We will use the one provided by Turban, Leidner, McLean and Wetherbe (Information Technology for Management, 2006): “...describes the process of buying, selling, transferring, or exchanging products, services, or information via computer networks, including the Internet.” They list the various types (See addendum for list of definitions). With our focus on e-tailing and m-commerce we kick-off with a quote by
Peter Drucker (Drucker, 2002, pp. 3-4): “The truly revolutionary impact of the Internet Revolution is just beginning to be felt. But it is not “information” that fuels its impact. It is not “artificial intelligence.....It is something that practically no one foresaw or, indeed even talked about ten or fifteen years ago: e-commerce – that is, the explosive emergence of the Internet as a major, perhaps eventually the major, worldwide distribution channel for goods, for services....This is profoundly changing economics, markets and industry structure, products and services and their flow, consumer segmentation, consumer values and consumer behaviour, jobs and labour markets. But the impact may be even greater on societies and politics, and, above all, on the way we see the world and ourselves in it.” In IMAP’s Retail Global Report 2010, global retail sales fell by 3.7% to US$13.9bn while online retail sales grew by 14.5% to US$348.6bn in 2009. Online retail contributed 2.5% but significantly for the top 100 retailers, online contributed 6.6% (World Wide Worx, 2010:22). The model below shows sources of value (Accenture Interactive, 2010:7):

Through our interviews in SA, Canada and the UK we have seen various examples of value added by online which is supported by the model above:

1. Revenue Lever – Both pure online retailers and conventional retailers growing their sales through their online channel. Sales are grown through direct online sales as well as through online driving sales in physical stores.
2. Cost Lever – By engaging customers in an online community, new platforms for communication is created, potentially reducing the advertising spend on conventional media. Utilizing the digital channel, can also enable the increased automation and integration. Customer acquisition and service cost is reduced through utilizing an online presence to conduct customer relationship management.
3. Brand Experience – Retailers like Burberry, Coach, MAC and others are actively creating a Brand experience through their social media presence which has improved their Brand equity through awareness, differentiation and exposure.

This is supported by Jeff Bezos, the founder and CEO of Amazon.com, who believes that the success of online retail is due to: 1) Digital enabling limitless inventory 2) Digital boosting customer care 3) Digital allowing high margin, lowest price (StéphaneDistinguin, Amazon.com:the Hidden Empire, Faber Novel, May 2011)

The Rate of Technology Change and its Impact

The conversations, known as Shift Happens, started by Karl Fisch (thefischbowl.blogspot.com) are a typical example of the belief that technological change is driving exponential change in society. Some of the key technological changes are:

- The advent of nanotechnology has propelled chip development into the stratosphere which has led to faster, smarter, and infinitely smaller and less expensive machines.
- Data storage and computing power exponentially increasing in capacity whilst decreasing in cost has enabled us to move about with more mobile computing power than would have previously been dreamed possible.
• Advances in the battery technologies and software development such as the advent of 4th generation software dramatically increased the performance and effectiveness of programs which also supports the growth of mobile computing.
• New programming languages which are essentially hardware agnostic has fuelled this growth.

The key question is what is the next generation of advancement? Key concepts influencing this are mobile, convergence, wireless, cloud computing and the user as a contributor and collaborator. These developments have given rise to this era’s three most significant drivers:
1. Mobile computing
2. Broad-band internet
3. Social media
Consumers empowered by the powerful mobile devices such as smartphones and tablet computers communicate when they want, to whom they want and whenever they want and using whichever format they want (L. Freedman – Etailing Group 2011:2).

The 5 Most Significant Consumer Trends

1. Growth in e-tailing

In South Africa, a survey of online retailers showed that only 7%, predicted growth of by 40% or less in 2011, whilst 77% believed that their growth would be between 41-60% (World Wide Worx, Online Retail in SA 2011/2012). This is a critical indicator of confidence in the online retailer which is based on their belief and understanding of the growing trend toward e-tailing. The table below shows that Online retail sales in South Africa is small relative to the total retail sales, its growth rate is substantially higher (World Wide Worx, Online Retail in SA 2011,118).

<table>
<thead>
<tr>
<th>Year</th>
<th>Total retail (Rm)</th>
<th>Growth rate</th>
<th>Online retail (Rm)</th>
<th>Online retail growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>313,511</td>
<td>428</td>
<td>41,690</td>
<td>100</td>
</tr>
<tr>
<td>2005</td>
<td>345,466</td>
<td>10%</td>
<td>514</td>
<td>20%</td>
</tr>
<tr>
<td>2006</td>
<td>398,466</td>
<td>15%</td>
<td>688</td>
<td>30%</td>
</tr>
<tr>
<td>2007</td>
<td>447,788</td>
<td>11%</td>
<td>928</td>
<td>35%</td>
</tr>
<tr>
<td>2008</td>
<td>500,067</td>
<td>12%</td>
<td>1,200</td>
<td>35%</td>
</tr>
<tr>
<td>2009</td>
<td>524,352</td>
<td>5%</td>
<td>1,560</td>
<td>30%</td>
</tr>
<tr>
<td>2010</td>
<td>561,016</td>
<td>7%</td>
<td>2,028</td>
<td>30%</td>
</tr>
</tbody>
</table>

(World Wide Worx, Online Retail in SA 2011,118)

This trend toward e-tailing growth is seen more so internationally as shown in the table below:

<table>
<thead>
<tr>
<th>J.P Morgan’s Global e-commerce Revenue Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>-------</td>
</tr>
<tr>
<td>US</td>
</tr>
<tr>
<td>EU</td>
</tr>
<tr>
<td>As ia</td>
</tr>
<tr>
<td>ROW</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>YoY %</td>
</tr>
</tbody>
</table>


2. Buying Apparel and Groceries online

The earliest growth experienced in online sales was in the arena of CD’s, books, flight tickets and electronic equipment.
The graphic above supports the evidence of a growing trend toward online shopping of apparel and groceries.

3. Consumer shifts toward Mobile commerce

Studies show the growth of mobile commerce and their use as touch points and a consumer who seamlessly switches between them to transact. The popularity of the smartphones and tablets is a big driver of a shift in consumer behaviour.

Mobile Devices

Device Ownership & Type of Usage by Device


Mobile Payment – Driving Change in South Africa

- The mobile money space is filling with new offerings from: mobile operators, retailers, post offices, start-ups, eMoney banks, Paypal, Facebook, Nokia Money, Air miles, prepaid, etc
- Retailers are in a unique place to build closed-loop payment systems.

(Accenture Interactive, 2010:7)
Number of Global Mobile Payment Transaction Types in Millions

By 2015, shoppers around the world are expected to spend about $119 bn on goods and services purchased via mobile phones. This number represents about 8% of the total e-commerce market, according to ABI (Research.86). Mobile online shopping is reaching critical mass, says senior analyst Mark Becue. In the USA, mobile shopping rose from $396m in 2008 to $1.2bn in 2009. A more than threefold increase in one year indicates significant consumer interest.” These numbers, however, are dwarfed by mobile online shopping in Japan, which exceeded $10bn in 2009 (World Wide Worx, Online Retail in SA 2011,45).

In the past decade, the only serious category of business usage of mobile commerce in SA has been airtime purchase. With ringtone and phone wallpaper purchases, this category resulted in the market passing the R2-bn mark in sales in 2004, from R50m in 2000. Where making purchases in exchanging airtime for a logo for example, consumers do not realize the transaction has financial value (World Wide Worx, Online Retail in SA 2011,49). A study at the end of 2010 shows 52% of those using cellphone banking said they had purchased airtime via their phones. A minority claimed to have made regular purchases using their phones: a mere 11%. Only 9% of cellphone bankers claimed to have purchased pre-paid electricity via their cellphones, while 5% had used cellphone banking to make a once-off payment to a retail store (World Wide Worx, Online Retail in SA 2011,50). While people do not intend directly buying from their phones, 10% to 15% of the revenues from retail are expected to be influenced by mobile applications this year: amounting to as much as $340 billion in total retail sales across the USA, France, Germany, and the UK (World Wide Worx, Online Retail in SA 2011,51).

Our interviews with large retailers in the USA, Canada and the UK produced varied feedback in that the North American markets seems to show a slower adoption rate of mobile commerce than in Europe and the UK. Industry experts we met such as Google Canada, Microsoft and solutions provider, Buddy Media supported the idea that developing countries like SA have a unique opportunity to use Mobile commerce to leap frog the developed world, since it does not have the legacy of PC based internet access models to the extent that the developed countries do. Retailers in these countries should be more readily able to develop and drive growth in mobile without having to track through the full evolutionary cycle of e-commerce.

4. Multi-channel as a trend

Future Operating Model

The cross-channel challenges

To be truly cross-channel, says Verizon Business, retailers need to enable “buy and pick-up anywhere”, but pay once in one channel. Verizon says that within this broad integration challenge: “Retailers are finding themselves in the
information business. To be competitive, it’s important for them to know what motivates customers to buy and what creates loyalty so that targeted marketing campaigns can be developed. The best weapon retailers have is their own data. Ironically, capturing data across channels can help them better plan and target cross-channel strategies. They need to analyze merchandise performance. Gaining important insights in areas like product demand, price and promotion, category performance, and assortments, can help optimize product mix, forecast inventory swings, and even improve buying positions with vendors. To realize full value of this data, they need to have it consolidated, integrated, and accessible, however identifying, gathering, storing, and securing data requires a fair amount of overhead. IT investments are needed. Inventory management has always taken an inordinate amount of effort. Accurate visibility and forecasts help reduce stock-outs. Automating inventory and establishing visibility are just the first steps. Inventory systems must be integrated across channels to provide product consistency in quantities and in price and description. The greatest improvement comes when the supply chain is open and integrated with distributors, wholesalers, and suppliers” (Verizon Business, 2011).

Our interviews in the international markets showed a consistent focus on moving to multi-channel by large retailers. Although the designs and approaches vary in some form, the underlying principle of selling to customers through channels that they want to shop is prevalent. The common challenges both locally and internationally are to integrate customer data in a useable and value adding way and to build flexible supply chains.

**Multi-channel strategy**

![Multi-channel Retail Strategy](image)

(World Wide Worr, *Online Retail in SA* 2011,56)

McKinsey touts the multi-channel retail strategy known as triple-play, a combined approach that integrates retail store strategy with online and catalogue sales. They conclude: “Catalogues attract new customers, drive repeat business, and coordinate product lines; the Web offers convenience, product information, and quick updates for pricing or promotions; stores, by contrast, allow shoppers to handle and test goods before they buy them. The challenge for triple plays is to understand how customers use each channel, to match products to that channel’s economics, and to create a consistent customer experience across all of them. Add the contact centre, in a four-play strategy, as defined in this paper, and the customer is provided with instant access to personal assistance, while the store has an opportunity to both increase the size of the purchase and the level of customer satisfaction. While such four-way strategy is not tried and tested, and no data is available on its success, it represents emerging strategic best practice (McKinsey, 2011)”.

5. **Social Media as a Trend**

Empowered to stay connected to multitudes of people, communities, groups or businesses, enabling them to assimilate, contribute, chat, share, collaborate, purchase and work, has influenced behaviour (L. Freedman – Etailing Group 2011). Facebook has more than 400 million users and in the USA their members spend an average of 14 minutes daily on the site (Accenture, Social Networks enabling the Market of Me 2010:3-4). Globally Facebook, which is by far the largest social media force, has 750 million members (2011: Mark Zuckerberg). Analysts and industry experts are now predicting that Facebook has the potential of becoming the de facto Internet of the future. In an interview of Buddy Media UK MD, we gleaned better insight into this idea, in that:

- The Internet lifecycle started with the *Availability of information* to the *Selling of goods and services* to the *Organization and orchestration of resources*, like *Google* and then to the *Personalization of online resources* around individuals needs – *Facebook!*
- Businesses are using Facebook to conduct Customer Relationship Management, engaging consumers into community like conversations about product, service and aspiration. This engagement is proving so powerful
that a significant rethink of the use of traditional “push” communication through traditional media sources, is
evident. An example of this is the premium retailer, Burberry, which has recently enjoyed a massive resurgence
in its popularity, is rated as one of the best business users of Facebook, by the Buddy Media MD. Interestingly,
Burberry received 6.5 million “Likes” on Facebook and the question is to what measure its advertising spend
with fashion magazine, Vogue, is still significant, since Vogue has a readership of 1.6 million people. The
diagram below shows the Top 10 Brands on Facebook and the graph shows the margin by which people access
those brands through Facebook instead of through search engine, Google.

South African retail and the impact of e-commerce

The SA consumer and the digital divide
We conducted a survey and held focus groups which had a sample population of 62 which cut across the Living Standards
Measure range (50% below R300k p.a and 50% above). In order to understand current shopping orientation, their level
of adoption of online retail, the perceptions and opinions regarding online and to identify any commonalities. Our findings
highlighted the following:

- People across all the LSM groups and across age, sex and race boundaries are adopting online retail in some
  form and measure. In many cases they were not even cognisant of the fact that they were.
- A high percentage (39%) transacts using their mobiles, slightly more than those who only use their PC’s.
- With the mobile purchases, airtime, ring tones, music and other mobile related products are popular.
- One of the most popular areas of spend (57%) was with airline tickets and event tickets, while hotel bookings
  ranked at 47%. This was most prevalent above the income level of R300k per annum.
- Groceries and apparel had the least optimistic response with many citing a lack of knowledge.
- The general consensus (85%) was that their experience was satisfactory, but with concern over security and
  privacy is shown by only 57% indicating comfort in this area.

When asking our focus groups for suggestions for the future, they said:

- They wanted to see more price comparison services available through online.
- They cited the need for more effective delivery services for goods.
- They also suggested that a focus on responsiveness to consumer complaints would go a long way towards
  developing trust. Together with this the need for more clarity and education on the benefits and the
  mechanics of online would also provide confidence.

Research findings
E-commerce is growing in South Africa. All our research shows retailers are responding to the consumer demand for an
online presence. In our interviews we met with Executives who were passionate about e-tailing:

- Those who were aware of its importance and exploring possible strategies
- Those that thought a presence for information was sufficient
Those who thought it was not significant in SA.

Looking at the largest and the most successful retailers in SA, most have a digital platform of some form and many are currently investing in improving it. See the following benchmarking:

<table>
<thead>
<tr>
<th>Website commentary</th>
<th>Traffic Rank in SA</th>
<th>Alexa.com Traffic Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Woolworths</strong>&lt;br&gt;www.woolworths.co.za</td>
<td>Medium Foods catalogue – Approx 3200 Limited C&amp;GM</td>
<td>322</td>
</tr>
<tr>
<td><strong>Pick n Pay</strong>&lt;br&gt;www.pickleonline.co.za</td>
<td>Big catalogue, across groceries, GM, stationery, wine, Gifts. More than ten-thousand products.</td>
<td>452</td>
</tr>
<tr>
<td><strong>Edgars</strong>&lt;br&gt;www.edgars.co.za websites</td>
<td>Limited catalogue. A few skus in every category (clothing, beauty, Boardman’s, gift cards). Approx 400 products.</td>
<td>465</td>
</tr>
<tr>
<td><strong>Shoprite Checkers</strong>&lt;br&gt;www.shoprite.co.za&lt;br&gt;www.checkers.co.za</td>
<td>Product browse only. What’s on promotion. Links to customer service (money market) Checkers linked to Hyper catalogue</td>
<td>734</td>
</tr>
<tr>
<td><strong>Truworths</strong>&lt;br&gt;www.truworths.co.za</td>
<td>Very small catalogue. A few skus in every category. Approx 100 products</td>
<td>2161</td>
</tr>
<tr>
<td><strong>Mr Price</strong>&lt;br&gt;www.mrprice.co.za&lt;br&gt;www.mrpricehome.co.za&lt;br&gt;www.mrpricenews.co.za</td>
<td>Product browse only. What’s on promotion. Gift registry on <a href="http://www.mrpricehome.co.za">www.mrpricehome.co.za</a></td>
<td>2913</td>
</tr>
<tr>
<td><strong>Foschini</strong>&lt;br&gt;www.foschini.co.za</td>
<td>Brand awareness and design briefs for the season. Product browse only. Small catalogue</td>
<td>3676</td>
</tr>
</tbody>
</table>

| Kalahari.net | www.kalahari.net | DVD’s, cd’s books, technology etc | 34 | 7,536 |
| BidorBuy | www.bidorbuy.co.za | Online auction | 20 | 3,278 |
| Weylandts | www.weylandts.co.za | Home and outdoor retailer | 1938 | 230,403 |

### E-commerce Barriers

In the opening passages of this paper we discuss the various reasons for the slow uptake of the online retail channel and digital business as a whole. Through our interviews with key industry executives we found the following to be barriers in South Africa:

**E-Commerce seen as an IT initiative:** In the views of some of the key executives the idea that e-commerce is an IT initiative was quite prevalent. That idea together with the Chief Information Officer’s role in many organisations is often not weighted sufficiently relative to the directors of product areas. In businesses where e-commerce is doing well, the product areas are driving it as an alternative channel to sell product and the CIO a key role in influencing strategy. Although there are various approaches it is advisable to ensure that it does reside in a product area and that the IT department are partner to deliver the correct solution and architecture.

**SA consumers are not ready:** A widely held view is that due to the socio-economic challenges faced by SA, there are too small a percentage of the population who has access to computers and internet. This has largely been shifted through the growth of the smartphone, high speed mobile internet and the development of mobile applications for commerce. There is also a belief that South African consumers will not readily pay delivery charges and that many are either without credit cards or not trusting their use in online systems. Key to bear in mind here is the massive growth in SA’s middle class, which in 2008 before the global financial crisis was said to be growing by 12, 000 people per month.

**The High Start-up Cost:** A common concern among the executives was the cost of starting out in online retail. In further investigation a common thread emerged which might point to the source of this concern. That is the lack of knowledge of e-commerce which has caused many of these retailers to engage overseas vendors or consultants to investigate the opportunity. These vendors often return expensive proposals from a capital investment perspective but also in ongoing support and maintenance from an off-shore location. In our scanning of the SA e-commerce solutions provider landscape we found that SA in fact has a plethora of internationally recognized online solution providers. Some of these key facts are that companies like Kalahari.net is completely built and supported in SA.

An SA based company called Fundamo specializes in Mobile application development and was recently acquired by
VISA. Venture capitalists like Johan Ruppert and Mark Shuttleworth are currently investing millions in funding into technology start-ups focused on online and mobile technology. A good start for any retailer would be to employ a Head of e-commerce who has experience in implementing solutions and the successful management of an online business. International business cases and the few successful local ones show that the business cases have sufficient benefits to ensure good return on investment.

**SA does not have sufficient skills:** There was a concern regarding the scarcity of skills in SA in the IT and particularly in the e-commerce arena. This is mainly a genuine concern and businesses need to commit by investing in supporting the training of additional resources in this arena.

**Starting out is risky:** A fairly common concern is that a retailer might invest a fair deal on capital and effort only to have either too few benefits delivered or have the venture fail. Public failure could lead to the erosion of customer service and brand equity. There are many alternatives here to reduce some of this risk. Collaborations are probably the surest way in which to share risk and introduce an external partner. These can take the form of collaborations with implementation partners, current online businesses, with fulfillment and delivery partners or even partnerships with hosting companies.

**Consumers will not adopt:** Here the concern is about the perceived reluctance of the SA consumer to adopt technology as a buying medium. Here retailers should consider that the cost of developing and implementing a mobile application which offers a limited catalogue could potentially revolutionize their businesses. This application could be used to push promotions to consumers. These applications should be provided free to consumers and should be strongly pointed. There is hardly anyone who is not currently using their mobile phones for more than making calls. Some of the SA banks are a prime example such as First National Bank which is offering free mobile applications, a free Voice over Internet protocol calling application, sells broadband internet and various other services. Through free applications it is stimulating and developing its digital market which is a similar model retailers can follow.

**Informal housing and rural areas will inhibit delivery service:** One of the socio-economic challenges is that a massive majority of South Africans live in informal settlements and in rural areas lacking normal infrastructure. This currently inhibits delivery of goods door-to-door and even business to business. Looking at some alternative models such as that of some retailers in Canada where they are also challenged by delivering into sparsely populated distant areas, we have seen them utilize Post offices, Dry cleaners, Courier depots and other intermediaries who have a presence in the areas as pick-up or collection points. A key learning is that retailers can learn from the Route to market choices and structures of other businesses. Another example of this is how SABMiller the beer giant, sends people into these informal settlements to find liquor outlets, map them, capture their way points and geo-map them for deliveries. Some of these outlets will simply remain stockists while other will become distribution points to create simplified distribution structures.
RECOMMENDATIONS
How should we do E-Commerce?

Through our study of International and local best practice we propose that the following as an approach to a successful online venture:

1. Develop a Multi-Channel Retail Strategy
   - **Customer Centricity through an approach that allows a customer to shop whatever way they want**
     - Measurement of offline sales
     - Shoppers who shop in all 3 channels (web, store, mobile) spend more than if they just shopped in one channel
   - **Consistency & Choice**
     - Challenge facing multi-channel retailers is keeping consistent messaging
     - Online has to resemble the endless aisle; long-tail product strategy is critical for multi-channel retailers
   - **Integration to a point**
     - Not all channels have to operate the same; keeping some uniqueness or distinctiveness is vital to channel success
     - In store specials, after hours sales, customer appreciation, etc.

It is key for the business to include in its multi-channel strategy how it will use customer insights from its various touch points across all channels, in order to align the value proposition, to synchronize marketing and optimize the operating model as depicted below:
2. **Develop a full Digital Strategy**

   a. First understand the opportunity. For this normal market analysis can be undertaken to estimate target customer, market size, market attractiveness, etc.

   b. Decide early on a multi-channel strategy in order to ensure that when you architect the systems you architect in the flexibility to scale and reconfigure your offering as you mature digital.

   c. Ensure that you are fully aware of the key consumer and technology trends in order to support your early choices.

   d. If you opt for a Social media presence, then ensure that this decision is well supported because social media needs to be actively managed and supported.

   e. All experts are predicting that Mobile commerce is likely the one area that African retailers have to leapfrog the first world countries. It’s key to include a real “devices as touch points” approach to ensure mobile and web is catered for.

   f. Be clear about your investment decision with regards to the startup of digital. The costs are normally high when purchasing hardware, building the security, building the redundancy, building the back-end/back-office and the front end, whilst there is the option of running your digital presence in the virtual cloud. In essence this refutes the need for high Capital spend at start up, but you should always ensure that you understand the risks and costs associated, such as:

      i. Understand that your critical data will be in the possession of your service provider. How is this secured? Is this in line with the data security and governance charter of your board?

      ii. What redundancies are guaranteed? What service levels are promised? What recourse do you have?

      iii. What are the cost structures? Is it a cost per transaction or a commission per sale?

      iv. Understand the questions above and be clear about the total cost versus risk and benefits. Also understand if this is your long term or short term approach.

      v. Architect with the end in mind. Ensure that you can implement as modular as possible and ensure flexibility and scalability.

The Key idea out of the above is enabling your business to go digital with the systems architecture which will enable the business’ multi-channel strategy through enabling the many customer touch points and managing the customer data integration.
3. Develop a Distribution/Fulfillment Strategy

a. A key success factor we observed was the level of integration of the online channel with the other channels in the Supply Chain.

b. Many businesses are moving from “stand-alone” fulfillment to a matrix fulfillment strategy. This includes:
   1. Pick and Pack in store
   2. Pick and Pack in DC, ship to customer
   3. Pick and Pack in DC, ship to store
   4. Pick and Pack at Supplier, ship to customer (Drop Shipping)
   5. Pick and Pack at Supplier, ship to store.

c. In order to architect the correct distribution channel a thorough Route to Customer design should be undertaken. This will offer a key understanding of the costs and complexity in the various channels and of the various parties involve. It is critical to ensure the margins and retail selling price is protected.
It is essential that all costs are modelled in order to understand the cost-benefit relationship of each distribution service.
4. Develop an E-Commerce Core Competence

It is key for retailers to understand that a core competence is required to drive the following:

A. Traffic
(Customer Marketing)
⇒ Search marketing investment
  • Move from Cost per Click to Cost per Acquisition
⇒ Community development
⇒ Behavioural retargeting
  • Retarget non purchasing customers after they leave the site
⇒ Search engine optimization
⇒ Remnant/display and purchasing
⇒ Shopping site expansion
⇒ E-mail expansion
  • Focus on relevance to the consumer
⇒ Contesting
⇒ Affiliate Marketing

B. Average Ticket
(Site Relevance)
⇒ Cross/up-selling
  • Automated suggestions of relevant product
⇒ Shopping cart improvements
⇒ Category display, product discovery
  • Home page and category page rebuilds to feature depth and breadth of assortment
⇒ Site relevancy and re-targeting

⇒ Buying guide program
  • Content for consumers to explore and understand complex product purchase

Conversion (Presentation/Search)
⇒ Product content improvements
  • Providing the information needed for a consumer to make the buying decision
⇒ Site tweaks and testing
  • Agile development model that allows for many smaller changes
⇒ Product review improvements
  • Re-launch user review program
⇒ Product Q & A
  • Introduce forums for consumers to ask questions on products and categories
⇒ Search result refinements
⇒ Navigational improvement

Multiple business functions need to be aligned to achieve online high-performance
Social Media and User Generated Content

- Social media like Facebook, Twitter, Wikis continue to drive further and further into the norm. We have interviewed businesses who attest to the power of Social Media in improving customer service and improving the return on Advertising spend. This requires active management and a specific competence.
- World-wide events are credited for bringing people together, Facebook and Twitter in the spring 2011 changed Egypt’s political landscape
- Forget the ROI equation when it comes to social media when you start; think of it as branding or marketing
- UGC is super important – it can differentiate your products from others; you also build that vital community everyone is looking for.

The key thought for all retailers is:
We have shown in our research that consumers are online and if a retailer is not engaging them and/or selling to them, someone else is or will. Online defeats geographical borders, lengthens the shopping aisle and reduces consumer’s switching costs. Accenture conducted a study into what the future of retail looks like and this view emphasizes the need for action to retailers to assume a digital presence. The below is Accenture’s View of Retail 2020.
Conclusion: What if Nothing is Done

Firstly, let’s look at the objectives of this paper again:

- To determine the value of e-commerce in the South African retail sector.
  - With the value levers of Revenue, Cost and Brand Experience explored, the key is to understand that with online growing, your competitors will benefit from leveraging these.

- To investigate current trends and technological advancement and usage.
  - Growth in Online Sales
  - Growth in Mobile Commerce
  - Growth in Grocery and Apparel retail online
  - Social Media as a new platform for Commerce

- To explore a possible strategy and approach to online retailing.
  - Develop a Multi Channel Strategy
  - Develop a Digital Strategy
  - Develop a Flexible Fulfillment Strategy
  - Develop an E-Commerce Core Competence

- To determine and clearly articulate the disadvantages of not having an online shopping channel.
  - E-commerce is borderless, unconstrained by inventory or time and it is scalable. The opportunity cost of not going online is the lost value through the same value levers.
  - Increasingly South Africans are online: If you are not engaging them, a competitor is.

There is a quote which our Group compiled which succinctly leaves our parting thought:

“I shop at your store, I spend time online daily, I’m already buying online...On Facebook some of my friends recommend products...click click...I buy...I post about my purchase...click click they buy...I might.....still shop at your store.”