RETHINKING THE ECOMMERCE OPPORTUNITY IN SOUTH AFRICA

How retailers can pivot to digital customers
ABOUT THE AUTHORS

John Watling
Managing Director, Accenture Retail

John Watling currently Leads Accenture’s Retail business in Africa. He is responsible for supporting clients as they take advantage of the digital innovations disrupting industries today, with digital commerce being one of the major drivers. John has played various strategic, operational and commercial leadership roles across a number of industries and businesses within Accenture.

Jonathan McCabe
Products Africa Management Consulting Lead

Jonathan McCabe is a Managing Director leading Management Consulting in Africa across Accenture’s consumer facing industries including Retail, Consumer Goods, Life Sciences, Travel and Industrial. Jonathan joined the Johannesburg office of Accenture from the U.S. in 2010 and focuses on driving Innovations that scale and designing next generation Route to Market capabilities.

Yusof Seedat
Thought Leadership Director, Accenture Research

Yusof leads Accenture’s strategic research geography business globally. His core focus is to help and guide Accenture and its clients to lead in the NEW by supporting strategic decision making with data and insights, as well as guiding market positioning through thought leadership. He has co-authored several thought leadership papers on business and social related topics which can be accessed on the Africa Observatory.
INTRODUCTION—
TRAPPED IN THE MALL

With little impact from online competition, traditional retailers in South Africa are putting most of their efforts into their core brick-and-mortar stores. On the surface it seems like a low-risk choice. Brick-and-mortar stores generate almost all retail revenues and profits, while online operations are expensive to maintain and often unprofitable. They also find it difficult to measure the return on investment of their online offerings.

What’s more, South Africans are still eagerly trekking to department stores and specialty shops at the local mall. According to a Visa survey, 63 percent of South Africans said they prefer to make purchases at a mall, and Urban Studies found that 76 percent of South Africans visit a mall at least once a week.

South African retailers are therefore taking a narrow approach to building eCommerce businesses. They are not investing in creating the full range of convenient and engaging online experiences that consumers are coming to expect and that pure-play eCommerce companies provide.

This will leave South African retailers feeling the pressures that retailers have felt in other parts of the world. Consider the U.S—the last few years have been very bad for retail. Globally traditional brick-and-mortar retailers, who long claimed immunity to disruption for relatively tiny web-based competitors, are being materially impacted.

Bankruptcy filings have set records; including familiar company names such as Sears, Radio Shack, the Limited, Sports Authority, Toys “R” Us and Payless ShoeSource. In 2017 alone, other venerable brands announced plans to close more than 3,500 store locations.

It wasn’t as if consumers had lost interest in shopping. They had simply gone elsewhere.
The obvious disruptor here is Amazon. The web commerce pioneer has quintupled its sales since 2010. By 2019, half of all U.S. households were subscribed to Amazon Prime. Overall, digital commerce represents nearly $400 billion in annual sales for the $3.5 trillion industry.

Yet, the fall of brick-and-mortar retail was hardly inevitable. In reality, the industry had over two decades to respond. In 1996, internet shopping was at best a gimmick, but it grew steadily, increasing about 15–25 percent each year. By 2016, web-based commerce accounted for nearly $100 billion in holiday sales. But even then, it was only 10 percent of the total.

Incumbent retailers first denied the risk online sites posed to their business, then tried to mimic them by adding “me too” websites. Fearing cannibalisation of their physical stores and offense to suppliers, however, the eCommerce offerings of established brands were always compromised, for example, by offering limited or clearance merchandise, or requiring in-store pickup and return. Prices rarely reflected the lower cost of online service.

What many traditional stores missed was that falling prices for technology and the spread of the internet were creating new opportunities, first and foremost to serve customers more efficiently and more personally. Retailers, however, had not given the right priority to technological innovation. Even the most basic customer services had been impacted by rounds of cost cutting that left customers feeling frustrated and ignored.

But then, where were consumers going to shop instead? Traditional retailers acted like their customers were trapped in the mall.

That is, until eCommerce companies cracked open the window and heard a thundering chorus of consumer dissatisfaction. Lower prices? Fine. Custom solutions? You got it. Self-service instead of no service? Done.

What distinguished the digital-first retailers wasn’t their innovative use of digital technology. It was a relentless focus on making shopping more personalised, convenient, fun, cost-effective, and even socially responsible.

As traditional retailers cut staff, dimmed the lights, and left aging inventory on the shelves, web-based sellers continued investing everything they had and more to transform online shopping into a richer experience than getting in the car, driving to the mall, looking for parking, and hoping the product you wanted was in stock and someone was available to take your money and complete the sales transaction³.

RETAILERS AROUND THE WORLD HAVE BEEN PUT OUT OF BUSINESS BY DIGITAL-FIRST RETAILERS. ARE SOUTH AFRICAN RETAILERS FALLING INTO THE SAME TRAP?
In South Africa, consumers have passed the tipping point with eCommerce. They’re ready for more—under the right circumstances. The opportunity to tap into this demand is there for the taking. For retailers, it’s time to pivot to the future.

For South African consumers, the shift from bricks-and-mortar shopping to online retail has been slow. Although half the population has access to the internet and mobile services, online sales account for a mere 1.4 percent of retail purchases.

But that is changing.

**Online sales will grow almost three times as fast as in-store sales in the period 2018–2023**
Driven by the rapid increase in smartphone use, we project that South African consumers will sharply increase their online shopping in the near future. According to research by Euromonitor International, online sales in South Africa will grow almost three times as fast as in-store sales in the period 2018–2023. The compound annual growth rate for online sales in that period will top 19 percent, while it will be less than 6 percent in physical stores (Figure 1).

For a number of reasons, South Africa’s retailers have focused investments on their stores rather than their online presence. While they do have online channels, most are underdeveloped, and consumers have been reluctant to engage. Trust in their security is fairly low, and the shopping experience itself underwhelming.

To turn this around, retailers need to rethink their digital strategy and technology to create a safe, secure, and engaging experience. In a rapidly evolving economy, these are the keys to staying relevant with demanding consumers.

**Figure 1: Retail growth: online beats in-store**

Over a five-year period, Euromonitor projects that South African retail should grow at steady rates both in stores and online; but online growth will be much more rapid.

Source: Accenture research analysis based on Euromonitor International data
Retailers in South Africa don’t have to reinvent the eCommerce wheel. Plenty of “digital first” companies have already shown the way forward with their customer focus.

Amazon, eBay, Apple, Zappos, Dell and others engaged deeply with customers, found out what they wanted and gave it to them. They added secure payments, recommendation engines, video and many other enhancements to their websites. Other customer-friendly approaches include free shipping, easy returns and same-day delivery. Behind the scenes, they built state-of-the-art warehouses and distribution networks. On the next frontier, we’ll find smart-home hubs and drone delivery.

But it’s not just these digital companies with lessons to share. South Africa’s retailers can also learn a lot from the experience of businesses that were once entirely bricks-and-mortar but have successfully adapted to a hybrid model.

Retail chains that have invested in online experiences as part of a comprehensive transformation to deliver better customer experiences have fared well. Walmart and U.S. home-improvement chain Lowe’s have both invested substantially to enhance the online customer experience. Their websites have the same easy, intuitive interfaces and copious product information found on leading eCommerce sites. Customers can order online and get merchandise delivered, or they can buy it online and pick up in-store. They can also order in-store for home delivery. In the UK, Tesco customers can order groceries by dictating their lists via the Google Home app.

Retailers that have not built a robust online/offline offering, particularly traditional department store chains, have struggled to unlock the value trapped within their core business (Figure 2).
The failure to adopt new technologies and new ways of doing business “traps” value

Retail giants that have been slower to pivot to eCommerce have underperformed compared to their peers

Pivoting to eCommerce?

**Walmart**
Since acquiring Jet.com in 2016, Walmart has been ramping up its eCommerce presence as it attempts to compete with Amazon. In May 2018, it bought a 77% stake in Indian eCommerce unicorn, Flipkart, for $16 billion.

**JCPenney**
JCPenney has struggled to weather the eCommerce challenge, cutting 5,000 jobs in 2017, and closing 138 stores. In 2018 it planned to cut further, underlying the challenge for brick-and-mortar retailers.

**Lowe’s**
Lowe’s has taken the fight to its digital-native competitors. Its “Innovation Lab” forms the disruptive hub of the home improvements store. The Lab has introduced projects such as the “LoweBot” autonomous retail service robot.

**Sears**
Sears warned investors in 2017 that after a lengthy losing streak, its future is a concern. The upstart company of the 19th century has attempted to partner with Amazon in order to reinvigorate its business.
In South Africa, retailers should pursue both in-store and online retail strategies. Being behind the rest of the world in eCommerce provides South African retailers the opportunity to learn from global organisations and leapfrog to best in class. Integration between online and offline will make it easier to support the data exchanges and system interconnections that will be needed for the “omnichannel” experience—one that covers shopping in stores, online (the retailer’s own site plus many other sites), via mobile devices or through social media interactions—and will avoid costly rework later.

When eCommerce was taking root in advanced economies 10 to 15 years ago many retailers made the mistake of treating online operations as separate businesses. As a result, they tended to underinvest in online and sometimes treated eCommerce as a loss leaders rather than embracing the omni-channel future. As online retail has grown, many companies in advanced economies have had to go back and fix ineffective, half-hearted online initiatives. We know from other economies, such as India and China (Figure 3), that once momentum builds, eCommerce sales rise at an accelerating rate. Retailers that were not ready when the exponential growth hit were generally unable to catch up in the digital world.

Further, our analysis of broadband data cost relative to internet penetration and ecommerce sales (see About the Research), shows that countries with lower broadband data costs have higher penetration rates (+76% of the population) and enjoy stronger eCommerce sales, compared to those like South Africa where broadband costs are almost double compared to our sampled countries average at $3.5 per megabyte. However, data costs have been dropping in South Africa—albeit not fast enough—under increasing consumer pressures and government interventions such as the inquiry into mobile broadband services and fast-tracking licensing of broadband spectrum. All these are likely to fast track the reduction of data costs which will ultimately drive the trend we see globally⁶.

Once eCommerce growth hits the inflection point, it may be too late for brick-and-mortar chains to catch up.

Even though eCommerce represents a scant 1% percent of retail sales in South Africa, now is the time to invest. We know from other economies that once momentum builds, eCommerce sales rise at an accelerating rate.

Figure 3: eCommerce Growth by Selected Countries (Based to 100)
South Africans are increasingly becoming more “digitally savvy”—making digital technology part of every dimension of their lives. More than half of South Africa’s 58 million people have access to the internet with more than two thirds of them going online every day. This puts penetration far above the level of India, and almost as high as China. South Africa is a “mobile first” economy: most consumers go online for the first time via their mobile phones. Almost all (+90 percent) active internet users—those who go online every day—access the web and social media from their mobile phones. Buoyed by easy access to the internet and mobile services, South African customers are increasingly using smartphones and online platforms to socialise, shop and manage their money.

When Woolworths launched in-app shopping through its integrated lifestyle app, the company achieved a 34 percent growth in online sales (almost double the projected market growth of 19 percent) and a 77 percent increase in fashion, beauty and home online sales in the year ending June 2018. What’s the secret? Woolworths realised that mobile is the consumers’ channel of choice and is bound to lead the way towards an omnichannel retail experience.

Our research shows that from 2015 to 2018, the number of digitally savvy South Africans, those that make digital technology part of all dimensions in their life, grew to 12 percent (up from 10 percent) of the population. Fifty-eight percent of South Africans—up from 43 percent in 2015—are now “experimental” users; they strive to incorporate digital more broadly into their lives and are open to more digital experiences.

Together, the share of digitally savvy and digitally experimental South Africans grew from 53 percent of the population in 2015 to 70 percent in 2018. (See Figure 4 and “About the research”).

More than two thirds of internet users in South Africa access the internet every day.
South Africans have embraced the use of digital technologies at a rapid rate over the past five years.

Different customer, different intensity, different speed

Figure 4: A more digital South Africa

This trend towards increasing digitally savvy South Africans is projected to continue in the coming years.

By 2022, South Africa will have 25.5 million smartphone users\(^{10}\), 19 million Facebook users\(^{11}\), and recent figures released by leading retail banks show digital banking is growing fast. FNB reported annual growth in mobile banking app volumes of 65 percent, while Capitec has seen a 62 percent increase in the use of its banking app in six months\(^{12}\).

South Africa’s digital world is expanding rapidly and those South African retailers that are ready will profit from the coming wave of eCommerce expansion.
Digitally savvy consumers expect the companies they deal with to be relevant. Retailers have to compete on more than the traditional criteria of convenience, quality and price. They must understand their customers’ preferences, anticipate their needs and provide an excellent experience every time.

Many of these increasingly plugged-in South Africans will turn online for retail purchases. Great news—but it comes with a caveat for retailers. Online shoppers are what we call “non-stop shoppers”; they are never done evaluating their options—even after a purchase. And companies have to adjust to that reality (Figure 5).

Even when they are not considering an immediate purchase, today’s non-stop digital shoppers constantly visit online stores and manufacturer websites. They turn to social media sites to see what others are saying about brands and products. Based on our survey of South African consumers, 56 percent of internet users say that when they buy online, their choices are influenced by social media. This non-stop assessment is very different from traditional customer behaviour, when loyalty programmes encouraged repeat business and discouraged re-evaluation.

56% of South African internet users say that when they do buy online, their choices are influenced by social media
With online shopping, evaluation (and re-evaluation) is at the core rather than loyalty.

Customer journeys are increasingly centred on evaluation, not purchase.

In the past, customers have been swayed from re-evaluating their options by loyalty programmes that incentivise them to purchase

Today’s technology-enabled customers can continuously re-evaluate their options, choosing a provider that is most relevant to them in the moment

IN A DIGITAL COMMERCE ERA COMPANIES MUST CONSTANTLY WIN AT THE POINT OF RE-EVALUATION

Figure 5. Shop till you drop

The continuous evaluation cycle has ratcheted up consumer expectations for online stores and vendor sites. Digitally savvy consumers are highly focused on the quality of their online experiences. They expect 24/7 availability, instant responses and ease of use.

Companies that don’t deliver such experiences risk losing customers. Accenture’s 2017 research on the hyper-relevance era found that South African companies lost ZAR 663 billion (U.S. $51 billion) in that year alone in potential revenue owing to customers switching to competitors, and two thirds of switching was caused by a lack of relevance.

South African retailers are still largely focusing on their brick-and-mortar stores: it’s their comfort zone and it’s easier to measure the return on investment. They still view online sales as isolated transactions and do not realise how the two worlds—physical and digital—could influence and bolster one another. Many organisations are reluctant to make significant investments in eCommerce because they fear it may influence store purchases. However, consumers expect secure, consistent and engaging online experiences—and providing an excellent digital experience could lead to more in-store sales.
The biggest challenges holding back online shopping today include limited trust in online payment systems, lack of consistency, limited choices and poor delivery experiences which include cost of delivery. A recent Accenture survey found that sixty-nine percent of consumers say that the inability to access information or buy a product using multiple channels is frustrating, while two thirds of online buyers say that lack of consistency and limited choice in payment methods is a source of frustration. Customers want to see the same pictures and data on all digital channels; inconsistencies will cause consumers to hesitate.

Delivery services are popular among South African consumers with delivery experiences and cost ranking as important factors when considering to shop online. An Urban Studies survey found that 87% of consumers received their products via courier in 2018 and customers called out delivery issues such as non-delivery, incorrect items and delivery costs as a disadvantage of shopping online. Almost a third of customers recommend free shipping and faster delivery options as methods to improve their online shopping experience.

Customers also seek improvements in the post-purchase phase. In 2018, nearly two thirds of South African shoppers said they expect to be offered online options for post-purchase service and support, no matter where they purchase their items. When a customer has a problem that can be solved online, it’s a relief not to have to make the trip to the store.

Nearly two thirds of online buyers say that lack of consistency and limited choice in payment methods is a source of frustration.
SOUTH AFRICAN RETAIL MUST PIVOT TO THIS DIGITAL FUTURE

In todays tough economic climate retail executives in South Africa will be concerned about the costs of scaling their digital business. However, the experiences of retailers around the world demonstrates that treating eCommerce as an after thought can change the fate of the strongest brands.

Below are three steps we recommend to retailers wishing to scale their digital process and online business:

1. **Integrate eCommerce with legacy business**

Pursuing new business opportunities does not have to come at the expense of the legacy business and top performing companies focus on tapping into this potential to cross-sell between the eCommerce and legacy businesses. These leaders also consider the potential to leverage new eCommerce business in order to reshape the culture of the legacy business. They see omni-channel as the future and explicitly look for ways to update their legacy businesses and find synergies between the old and the new. With careful planning, retailers can reduce the costs and risks of scaling up new technology-based businesses even as they integrate with legacy systems. One way to do this is by introducing the agile ways of new business into the core business to improve performance and update culture. Top-performing chains have built technology platforms that support rapid trials and testing.

UK chains Tesco\(^\text{15}\) and Kingfisher\(^\text{16}\) have built digital hubs to develop, incubate, and implement innovative digital solutions.

Expanding into new eCommerce businesses also depends on a strong appetite for collaboration, particularly when seeking synergies to build on the strengths of a legacy business. Most notably, leaders know how to leverage the power of external networks, such as collaborative partnerships and joint ventures to accelerate development. In the U.S., the Kroger’s grocery chain partnered with eCommerce platform Ocado\(^\text{17}\), and in South Africa, NetFlorist partnered with Lindt to offer free chocolate with its flowers on Valentine’s Day\(^\text{18}\).

Retailers should not hesitate to cherry pick the best ideas that they see in online pure plays or that are bubbling up in the retail technology ecosystem.
Retailers need robust digital infrastructure to build efficient in-store as well as online shopping operations. Advanced technology such as data analytics and the Internet of Things (IoT) can speed up supply chains, reduce waste, avoid running out of stock and help customers find a missing item online. The journey from warehouse to store can be shortened, while the response to demand shifts can be accelerated. The new infrastructure must also address data security and privacy protections to ensure customers can trust the online store.

Retailers can build in-house, acquire or form partnerships to get the right technology. UK retailer Marks & Spencer is investing in retail technology start-ups as part of its effort to grow online to 33 percent of sales by 2022. In South Africa, online retailer Takealot purchased Mr Delivery to gain the ability to offer customers online delivery tracking.

Others have created 3D models of their stores to help control activities like stock depth, budgets, marketing plans and replenishing stock flow. Anyone in the team can use these models to test the store layout long before it is built.

Building the right data assets will be essential. South African retailers have an opportunity to use in-store customer data to discover new ways to improve the customer experience online and drive up sales. Few chains have taken advantage of this unique data source, which can provide insights that are unavailable to online-only retailers.
The future of brands will be defined increasingly by the quality, depth and relevance of the customer experience.

Yuppiechef uses its digital tools to enhance the customer experience with a touch of familiarity. Every purchase (gift or not) from Yuppiechef includes a personalised handwritten card adding a personal touch to the digital experience making it more enjoyable.

Trust is a critical factor for a good online customer experience. Alibaba built trust with Chinese shoppers with the Alipay “e-wallet”—a secure payment system that promised shoppers 100 percent reimbursement for fraudulent purchases. In South Africa, online fashion pure-play retailer Superbalist allows shoppers to make secure payments via SnapScan, which allows them to pay without sharing credit or debit card details.

Retailers can raise the quality of in-store experiences with a brilliant omnichannel strategy—one that offers an integrated customer experience through multiple physical and digital channels. Scan-and-go and smartphone-based payment systems, for example, eliminate the frustrations of checkout lines. An omnichannel approach could include innovations such as in-store GPS navigation, instant in-store custom offers and other elements that mimic—or go beyond—the online experience. Behind the scenes, IoT inventory management, data analytics and robotics can help keep store shelves stocked. Walmart, for example, is using robots to restock and adjust merchandise on shelves.

Click-and-collect is another opportunity for traditional retailers to please customers considering the challenges they face around delivery. Ordering in-store for home delivery is another crowd-pleaser, which plays to the strengths of large retail chains that can display a wide array of merchandise. As part of a five-year effort to deliver excellent customer experience, UK home-improvement chain Kingfisher is upgrading its website, streamlining checkout, and improving its click-and-collect programme by letting customers pick up purchases from a selection of online sellers at Kingfisher stores.

SA retailers are learning the value of a good delivery service. Makro customers can collect online purchases from its “click-and-collect lockers” at selected service stations and McDonald’s restaurants. Zando customers can choose between three-hour, next-day and express delivery, and it even delivers after hours. The online retailer also accepts payment on delivery—in line with its customer-first philosophy—and strives to continuously improve its customer experience.
Companies need to find creative ways to address customer delivery costs. Yuppiechef delivers to the customer at no extra charge (for orders above R400 or for pick up at PostNet stores\textsuperscript{27})—they consider delivery as a marketing expense\textsuperscript{28}. Customers can also opt to order online and collect from its store.

The biggest opportunity for traditional retailers lies in creating smooth online/offline shopping experiences. The offline and online worlds are blurring, with online-native retailers opening brick-and-mortar stores globally. But traditional retailers can win at this game. The overall goal should be to make it easy for customers to shop when, where and how they want.

Yuppiechef is an excellent example of how to use multiple channels to engage customers. For example, shoppers can use their smart devices to scan QR codes on every price tag in store to read reviews of products online. Yuppiechef also built a mobile point-of-sales solution that plugs directly into the online system of its physical stores. Now, customers at checkout can choose between taking their purchases home or having it delivered—making for a seamless physical and online experience\textsuperscript{29}.

TIME TO PIVOT TO THE FUTURE

As our digital world rapidly expands like never before, South African retailers are presented with a mammoth opportunity to learn from the successes and failures of local and global eCommerce pioneers. In the era of hyper-relevance, can they tap into consumer demands, grab the opportunity presented to them and pivot to the future?

At Accenture, we believe that by combining the powers of traditional and digital retail, building modern digital infrastructure, and improving customer trust and experience, South African retailers will finally be able to pivot to digital consumers—and pave the way to the next way of digital commerce.

South African retailers must pivot to the future to thrive, or maybe even just to survive...
ABOUT THE RESEARCH

This report combines multiples streams of proprietary research which included a survey of 29,530 end-user consumers in 35 different countries including South Africa. It provides insights into changing consumer behaviour, attitudes and expectations impacting companies’ customer strategies across digital and analogue channels. Majority of respondents from South Africa that took part in the survey indicated they earn above R100 000 per annum.

For the broadband data cost analysis, we took a sample of 25 countries and tested the causation and correlations between various related indicators to derive insights.

In addition the research draws on several use cases based on Accenture’s extensive experience in working with global retailers and supplemented by case study analysis as well as literature reviews.
REFERENCES:

1 https://www.iafrikan.com/2017/12/20/visa-ecommerce-report-shows-that-south-africans-are-going-online-this-festive-season/
4 Euromonitor Database
5 https://www.icasa.org.za/pages/inquiry-into-mobile-broadband-services
7 https://www.internetworldstats.com/stats1.htm
12 https://techcentral.co.za/banking-apps-boom-as-usage-skyrockets/84176/
15 https://www.tescolabs.com/about/
18 http://www.yush-on-the-blog.co.za/2019/02/07/hello-valentines-day/
20 https://www.takealot.com/about/mrd
21 https://uxdesign.cc/ux-case-study-heuristic-analysis-of-yuppiechef-com-c92098052ce4
22 https://superbalist.com/landing/somanywaystopay
23 https://global.factiva.com/ha/default.aspx#/?&_suid=15632680113000232817700984786873
24 https://www.kingfishershopping.co.uk/shopping/click-and-collect.html
27 https://www.yuppiechef.com/help.htm?action=article&id=181&name=Delivery-Charges
ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world’s largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With 459,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.

ABOUT ACCENTURE RESEARCH

Accenture Research shapes trends and creates data driven insights about the most pressing issues global organizations face. Combining the power of innovative research techniques with a deep understanding of our clients’ industries, our team of 300 researchers and analysts spans 20 countries and publishes hundreds of reports, articles and points of view every year. Our thought-provoking research — supported by proprietary data and partnerships with leading organizations, such as MIT and Harvard — guides our innovations and allows us to transform theories and fresh ideas into real-world solutions for our clients. For more information, visit www.accenture.com/research