

ONLINE SHOPPING STEADY INCREASE BUT STILL FAR BEHIND

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By the end of 2017 retail sales in South Africa reached the R1 trillion mark for a calendar year. Online shopping increased to 1.8% of total retail spend up, from 1.2% in 2016. This increase in total spend online represents an increase of 22% year-on-year since 2016, or an extra R8 billion.

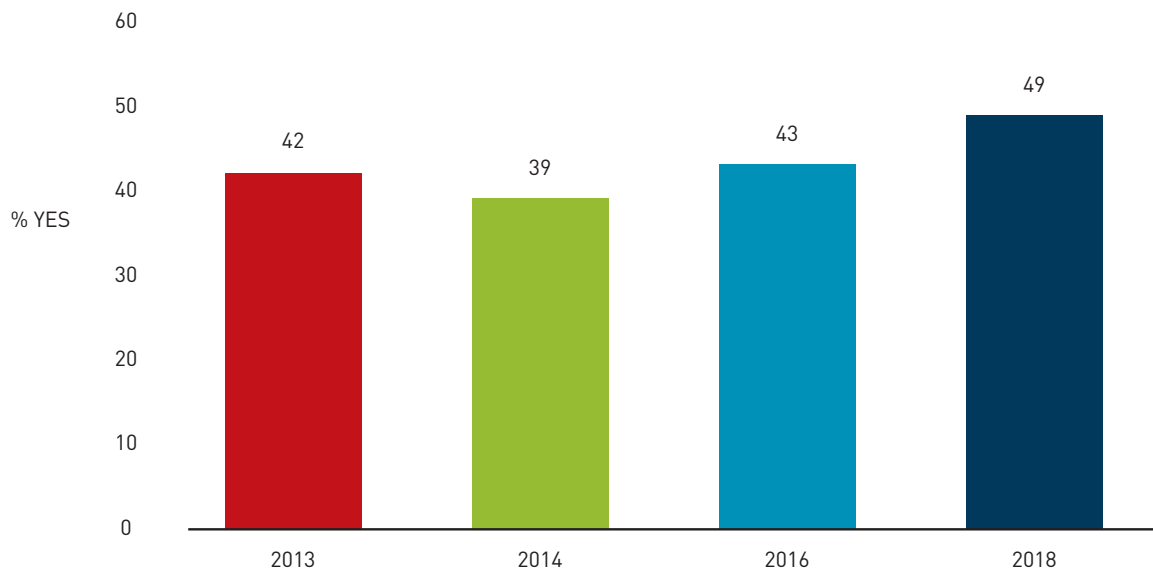
Online retail shopping in other countries is already very far advanced and 19% of all British retail spend is online, the Germans 17%, the French 14%, the Americans 10% and the Australians 7.2%. The South African online market is still lagging behind and great opportunities exist to grow this particular market.

The first retail online shopping report was conducted in 2013. The main focus of this report was to understand the current online shoppers and to show how their shopping behaviour has changed over five years. The report also focused on the non-online shoppers to try and understand their reasons for not shopping online, as well as their future propensity to do so. This is the fourth survey and the same methodology was used to ensure that there is enough consistency to make comparisons. In total, 600 interviews were conducted at 5 different Super Regional centres.

WHO ARE THESE ONLINE SHOPPERS AND WHAT IS THEIR ONLINE BEHAVIOUR?

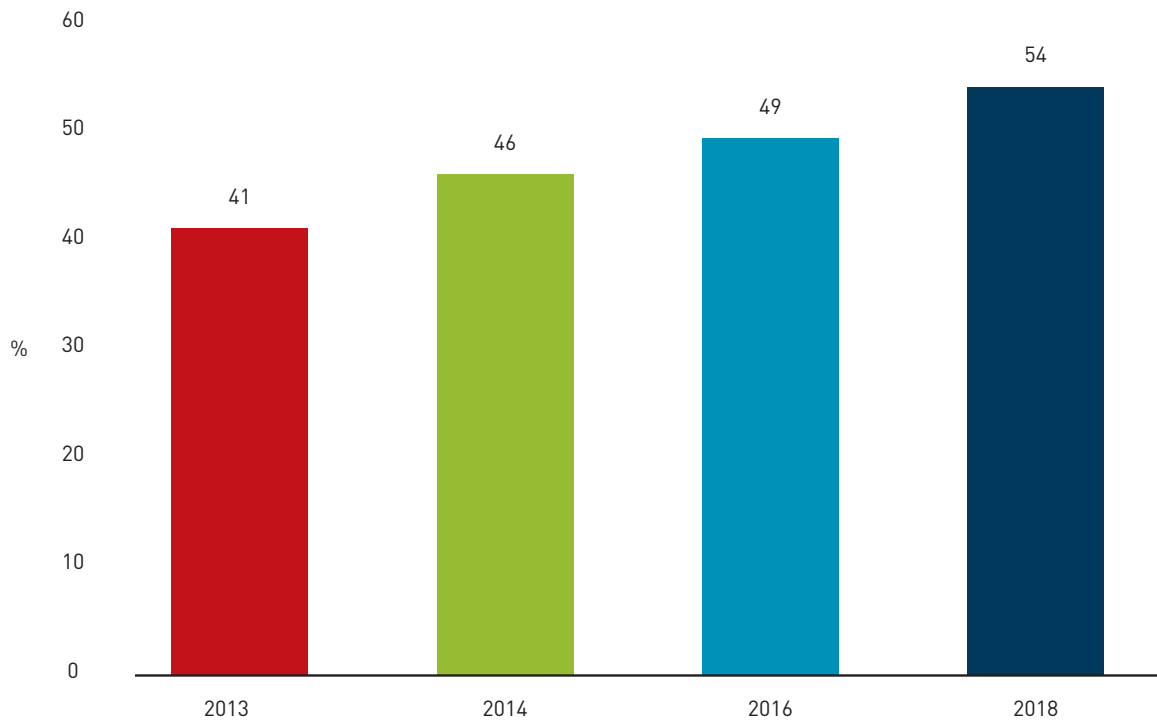
In 2013, 42% of the sample confirmed that they do buy retail products online. This has increased to 49% in 2018. More Millennials are already buying online compared to only 42% of the Baby Boomers. The biggest difference between online shoppers and non-online shoppers is their monthly salaries with online shoppers earning R35 000 per month, compared to R22 500 per month for non-online shoppers in this survey. Almost 60% of the online shoppers fall in LSM 10, while only 36% of non-online shoppers fall in LSM 10.

Graph 1 - DO YOU PURCHASE ANY RETAIL PRODUCTS ONLINE?



Not only has the proportion of online shoppers increased, but also the number of monthly transactions. Five years ago, only 41% conducted online transactions on a monthly or more regular basis, while nowadays 54% do monthly shopping online. These online shoppers do on average three transactions per month at a value of R1 350 per transaction. Millennials are more active online and do four to five transactions per month. Transactions are more, but the spend per basket is slightly lower at R1 280 per transaction.

Graph 2 - ONLINE SHOPPERS BUYING MONTHLY OR MORE FREQUENTLY



There is still a large portion of quarterly shoppers (26%), those who only buy twice a year (11%), and 9% who only buy once a year. 60% of all the online shoppers indicated that their number of transactions has increased drastically over the last 2 years.

MORE SHOPPERS ARE SHOPPING ONLINE, THEY SHOP MORE OFTEN, THEIR NUMBER OF ONLINE TRANSACTIONS HAS INCREASED AND SO HAS THE AVERAGE AMOUNT SPENT ONLINE PER MONTH

HOW DO THE ONLINE SHOPPERS OPERATE?

In 2013, 58% of all online shopping transactions were conducted on a computer at home. A further 14% used a computer at work. Smartphones at that stage were only used by 14% of online shoppers. Over the last five years, smartphones have increased to 52% of all devices used.

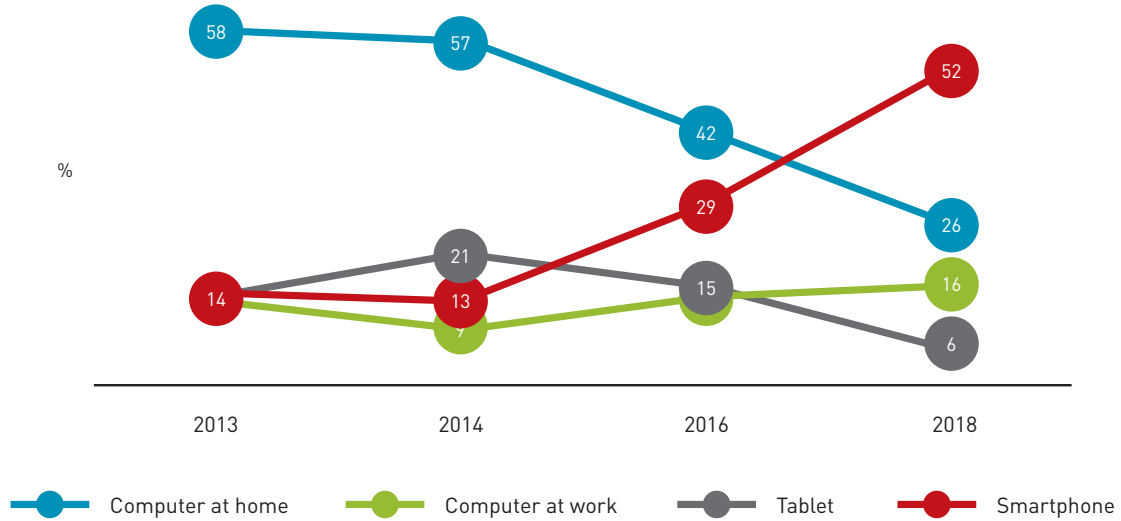
Two studies undertaken in the USA confirmed that time spent on smartphones has increased during the last couple of years. On average, 2 hours and 39 minutes are spent on smartphones per day. Most of this time spent is conducted via smartphone apps. This confirms the importance of smartphones now and even more so in future. (e-Marketer US Mobile Time Spent and Activities Statpack 2017, p3).



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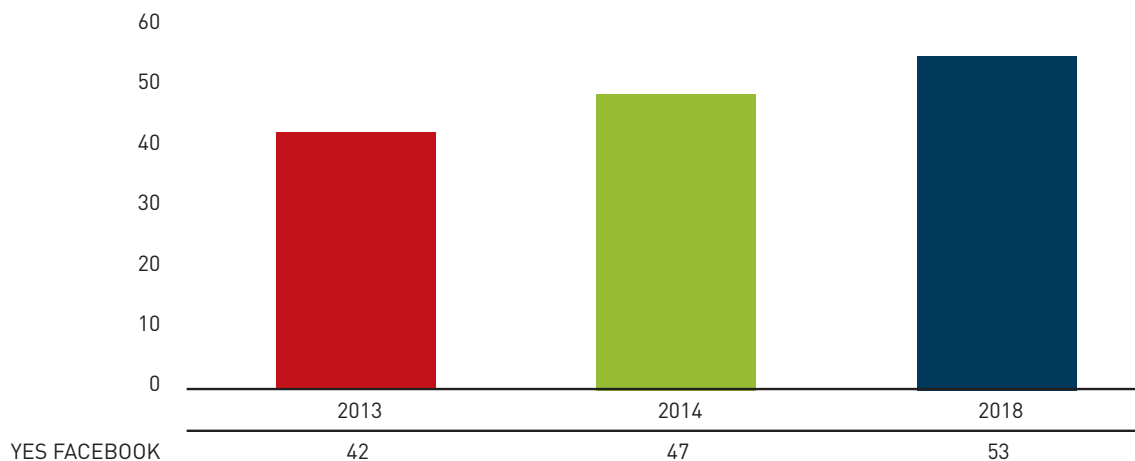
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Graph 3 - WHAT DEVICES DO YOU USE MOST OFTEN FOR ONLINE SHOPPING?



The role of social media is very important in the decision to buy online. 51% of all shoppers indicated that they have been influenced by social media. Of all the available social media, Facebook is by far the most important. The influence by Facebook has increased from 42% in 2013 to 53% in 2018. Baby Boomers represent the segment influenced most by Facebook.

Graph 4 - HAVE ANY SOCIAL MEDIA PLATFORMS INFLUENCED YOUR DECISION TO BUY A SPECIFIC RETAIL PRODUCT ONLINE?



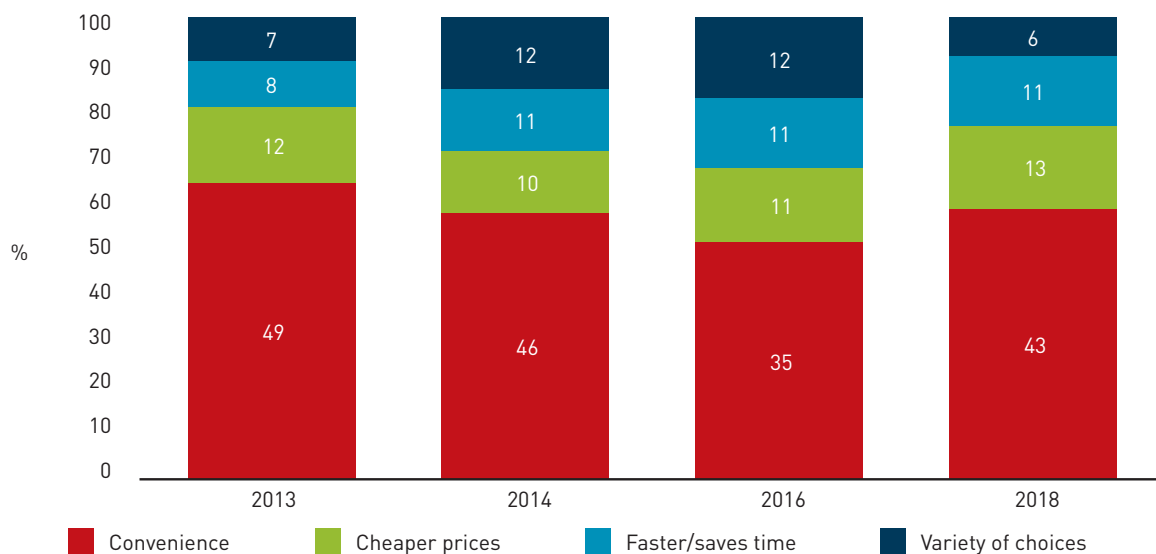
FACEBOOK? NO, NOT ANYMORE...!

In previous years, Instagram was not regarded as an important source of information. In 2018, 33% of all online shoppers indicated that Instagram played a very important role as an influencer. Substantially more millennials are nowadays influenced by the use of Instagram. Instagram is rolling out new features to entice users to buy through this platform (Garcia, K., eMarketer, May 4, 2018). Facebook bought the photo-sharing site in 2012 for \$1 billion. In spite of the fact that Instagram only has 400 million users which is almost one fifth of Facebook, it generates 15 times the level of engagement. Instagram is regarded as the world's most powerful platform. (Galloway, S., 2018, The Fall, The hidden DNA of Amazon, Apple, Facebook and Google, p111).

It is not location, location, location, but convenience, convenience, convenience!

The reasons why shoppers are buying online have remained consistent since 2013. Convenience still remains the most important reason why 43% of shoppers are buying online in 2018. The increase in usage of smartphones further enhanced the level of convenience. Cheaper prices were mentioned as the second most important reason why online shopping is conducted (13%). It is also faster and less time consuming to conduct transactions online. The variety of choices remains another important reason, but is less important than what it was in 2016.

Graph 5 - MAIN REASONS FOR SHOPPING ONLINE?



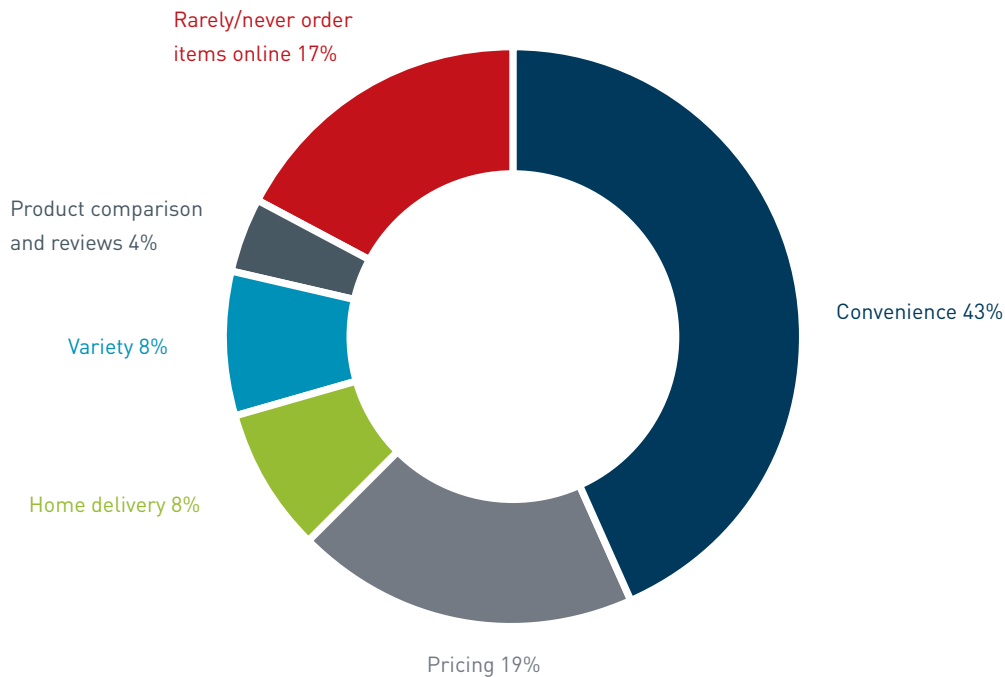


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The primary reasons for making digital purchases by US Internet Users (CivicScience.com, 22 March 2018, The 'Why' of Online, Shopping), are also convenience (43%), pricing (19%), variety (8%) and home delivery (8%). Millennials value price far more than older generations.

Graph 6 - PRIMARY REASON WHY US INTERNET USERS MAKE DIGITAL PURCHASES, MARCH 2018



Source: www.eMarketer.com

To improve convenience, Pick n Pay is also focussing on their fulfilment centres (distribution and warehousing) in the Western Cape and Gauteng. The click & collect element of online shopping is very important for Pick n Pay with a 20% year-on-year growth. Pick n Pay continues to invest in its digital platform with the emphasis on enhancing all levels of convenience.

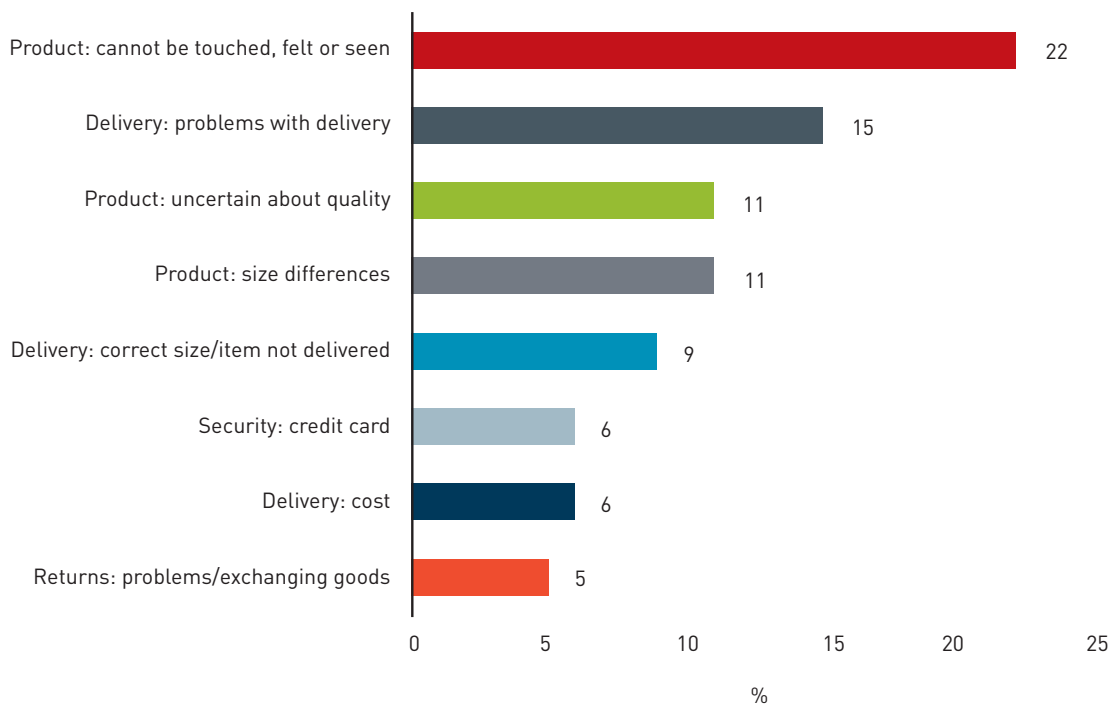
Online sales of luxury goods were slow to take off but are now gaining support rapidly, spurred by younger shoppers and the role played by convenience. Convenience is and will become more important in future as more and more delivery methods are available.

CAN IT BE TRUSTED?

The reasons why online shopping is conducted has remained very consistent during the last 5 years while the disadvantages of online shopping are fluctuating, mainly associated with new product development, more online stores, and a need for better and faster delivery options. The fact that you cannot touch, see or feel a product still remains the most important disadvantage of online shopping. This was mentioned by 22% of the shoppers. Millennials are less concerned about the touch and feel mainly because of high levels of usage and also the influence of Instagram. The trust created by online platforms has also improved substantially.

The most important problems currently associated with online shopping are the slow delivery, and that the right product is not delivered. Although credit card security is much less important as a negative factor compared to 2013, it remains critical that a safe website and safe transaction are guaranteed. There are a number of examples of especially South African online retailers where fraud still occurs. As far as the products are concerned, there is also a problem with different size measurements being used by different retailers.

Graph 7 - WHAT ARE THE DISADVANTAGES OF ONLINE SHOPPING? RESPONSES IN 2018



CONVENIENCE IS THE MOST IMPORTANT FACTOR WHILE THE TOUCHING AND FEELING OF PRODUCTS REMAIN THE NEGATIVE ASPECT OF ONLINE SHOPPING





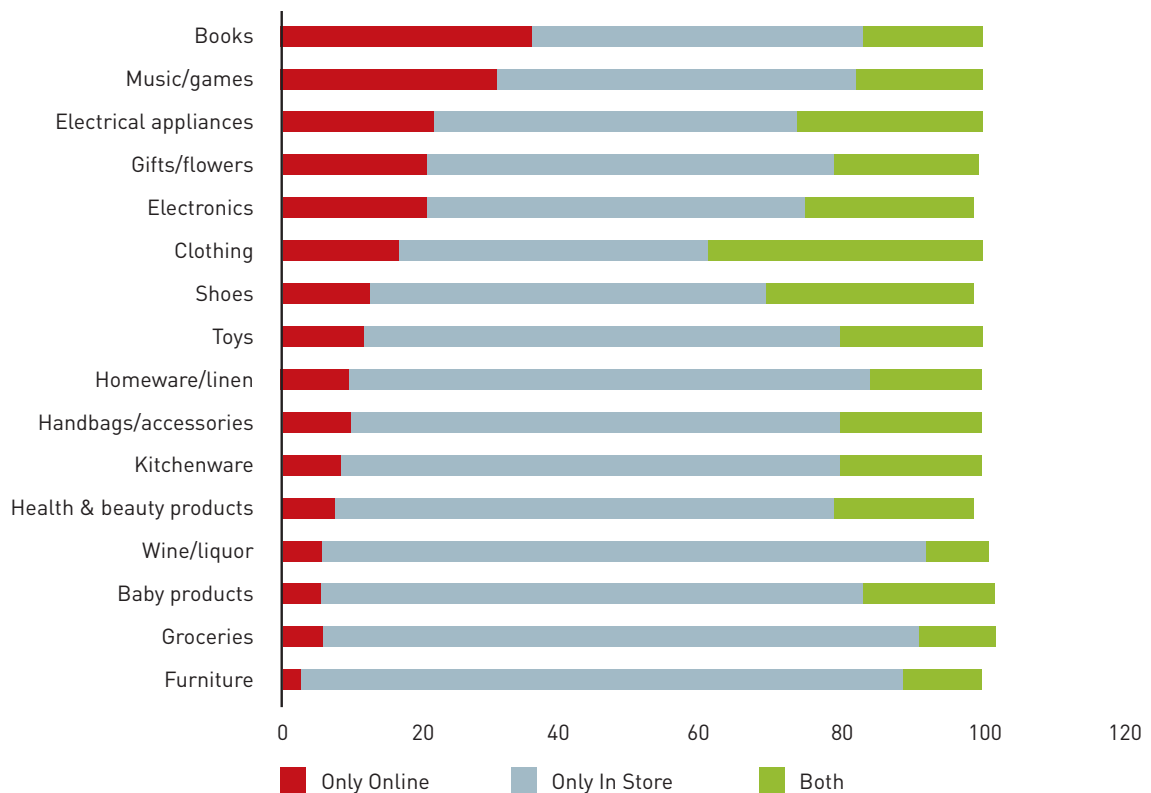
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CHANGES IN ONLINE SHOPPING

There will always be products that are easier to buy online, while others will mainly remain instore purchases. Furniture and groceries are still instore focussed. This is going to change in the next few years. Accelerated growth is expected for clothing, food and beverages as well as health and beauty products.

Graph 8 - PRODUCTS BOUGHT ONLINE, INSTORE OR BOTH IN 2018



Books, music and electrical appliances are still the products most frequently bought online. Subsequent to the first survey in 2013, the online purchasing of music and electronics has however decreased drastically. There are so many other platforms, like streaming services, to obtain music.

The buying of books online has remained on the same level as in 2013. This low growth in book sales online also forced Amazon to open up brick & mortar bookstores in 11 different cities across the USA. The question arises why Amazon needs bricks & mortar bookstores? It is not only linked to the selling of books, but also to other products like kindle and echo. The opening of bookstores by Amazon is the opposite to what is happening to Macy's, Sears and other departmental stores in the USA. Amazon realises the importance of a whole omni-channel strategy.

In the photos below, an Amazon Books that opened in one of Seattle’s most important shopping centres as well as a lone standing fresh pickup facility (August 2017):

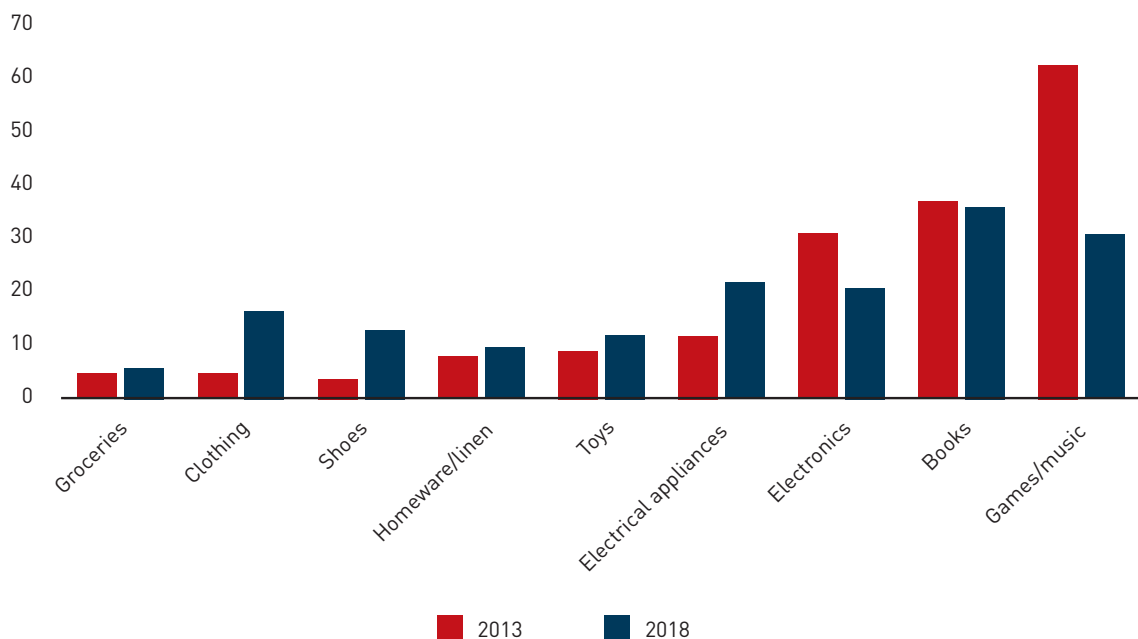


The purchasing of shoes online increased from 4% to 13% and clothing from 5% to 17%. One of the most important reasons for this increase is the availability of more online platforms and most retailers being online.

The buying of groceries is still low, but growing. Only 6% respondents of the 2018 Survey buy their groceries online. This is in line with the 3% of food and beverage sales in the US that will occur online this year. Groceries are Amazon’s fastest growing category with an expected increase of 40%. Other retailers like Walmart are expected to also see very good online growth.

Amazon bought more than 400 Whole Foods Market stores to drive grocery instore sales and to assist with online delivery. Amazon has been offering a ‘free’ two-hour delivery for Whole Foods Market orders. They have plans for a nationwide roll-out by end of 2018 (Garcia,K., July 23 2018; Groceries are Amazon’s fastest growing category). This was a loud and clear signal that the online retailer was invading the traditional supermarket space as well. The most important increase in online shopping between 2013 and 2018 is for electrical and household appliances, toys, homeware and linen, shoes and clothing.

Graph 9 - PRODUCTS BOUGHT ONLINE 2013 VS 2018










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Amazon will capture ±49% of the USA online shopping market during 2018. In spite of this high growth in America, the online platforms in South Africa clearly showed a number of clear trends. Takealot has increased from 30% support as an online platform in 2016 to 35% in 2018. Takealot is the clear leader in the local e-commerce market, with an estimated share of plus minus 15%. Naspers says, "Takealot has expanded its reach outside its core categories through Superbalist, its fashion and homeware business, and Mr D Food, South Africa's leading food-delivery service" (Moneyweb, 19 June 2018).

The support for Amazon by South African online shoppers has decreased from 53% in 2014 to 13% in 2018. One of the big concerns at the moment is the delivery cost and import duties that make the Amazon products very expensive in South Africa. There is a clear indication that more online products are bought locally. It is however expected that Amazon will open distribution and warehouse facilities (fulfilment centres) in South Africa. This will create more and stronger localised competition (see infographics). The other online platforms have shown the following changes:

	2016	VERSUS	2018
	13%	=	13%
	6%	>	9%
	9%	<	5%
	7%	<	5%
	9%	<	4%

Naspers-owned units, Media24 and Takealot, indicated that they would merge online fashion retailers Spree and Superbalist, effective from 1 July 2018. Media24 will hold 51% of the merged entity, with Takealot 49%. Takealot will run the combined business, as it currently does with Superbalist (Hilton Tarrant, 19 June 2018; Moneyweb).

Both Spree and Superbalist are showing good growth in access of 70% in terms of visitor, order and revenue growth, but are still making a trading loss. Online shoppers are mainly satisfied with their online experience at platforms like Takealot, Amazon and Spree. The satisfaction rating in 2016 was as high as 82% which has increased in 2018 to 83%.

The other online platforms all showed a decrease in support over the last two years. This market will, like Amazon in the US, be dominated by a few large players here in South Africa.



TAKEALOT IS BECOMING STRONGER IN THE SOUTH AFRICAN MARKET AS ONE COMBINED ONLINE PLATFORM. AMAZON IS LOSING MARKET SHARE MAINLY BECAUSE OF IMPORT TAX AND PRICES

MANY MORE SOUTH AFRICAN RETAILERS ARE SELLING ONLINE

A large number of South African retailers are already offering online shopping facilities. Some stores are showing good year-on-year increases in the number of online shoppers supporting their facilities, while other are showing major decreases. The two outstanding online retailers in South Africa are Woolworths Clothing and Woolworths Food, both showing good increases since 2016 (see graph below). In the current year, online food sales at Woolworths grew by 21.7% and clothing and general merchandise online sales by 98.7% (WHL 2017 p 45). Online shopping remains a key area of focus for Woolworths and the challenge is to deliver consistent good shopping experiences for both instore and online shopping.

The growth of online business is also changing Woolworths' approach to real estate and is very focussed on getting the right balance between bricks-and-mortar and online offering. Woolworths will pull back on store real estate over the next three to five years, as online grows to an estimated 20% of sales (WHL 2017, p 33).

According to Woolworths, they have also implemented a number of key strategies to digitally connect with their customers. This includes the launch of their integrated mobile app including seamless integration with media content, enhanced search and product information, and the ability to shop online via the app. Woolworths also implemented free WIFI in over 150 stores which provides the platform to communicate digitally with their customers while they shop in their stores (WHL 2017, p 33).



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Makro remained a popular online store while stores like Dis-Chem, Clicks and Cotton On have shown good increases. The Dis-Chem online platform was introduced in 2013 and currently 100% of their stores offer a click & collect option.

Exclusive Books is the one store showing major decreases in online shopping from 28% support in 2014 to 2% in 2018. Online shopping at Edgars, CNA, Mr Price Clothing and Mr Price Home as well as PicknPay showed decreases compared to 2016.

Mr Price Online successfully replaced and replatformed their online support system in 2017. Their total RSA e-commerce sales grew by 12.5% and 31.9% in MRP Apparel during the first part of 2018. Mr Price, however, has continued to strengthen its omnichannel experience, as evidenced by its online sales growth of 31.9%. MRP Home has 379 000 Facebook fans and 39 000 Instagram followers (Mr Price Group, 2018 Annual Integrated Report, p. 20).



In 2013 **47%** of customers



browsed online before



shopping in store.

In 2018 **64%** of customers

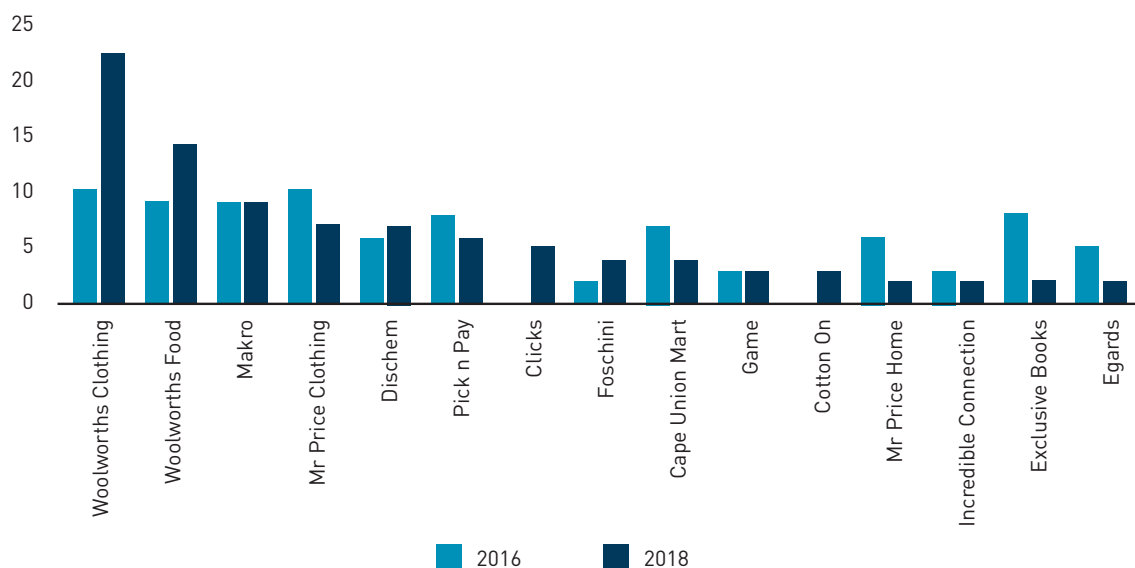


browsed online before



shopping in store.

Graph 10 - RETAILERS ONLINE SUPPORT 2016 VS 2018



The online shoppers rated the retailer store online experience slightly lower than the major online platforms. The rating of 79% also reflects a high level of satisfaction. Delivery and credit card security remain the biggest concerns.

DELIVERY BECOMING THE KEY TO SUCCESS

Online shopping is also a very strong originator of down-steaming job opportunities. In 2018, 66% of the online shoppers indicated that their online deliveries are done at home and 28% at work. 87% of these deliveries are done by courier. The courier business has shown very good growth over the last couple of years, mainly driven by the increase in online shopping. The courier companies have become very competitive especially on price, speed of delivery and their own sophisticated online systems.

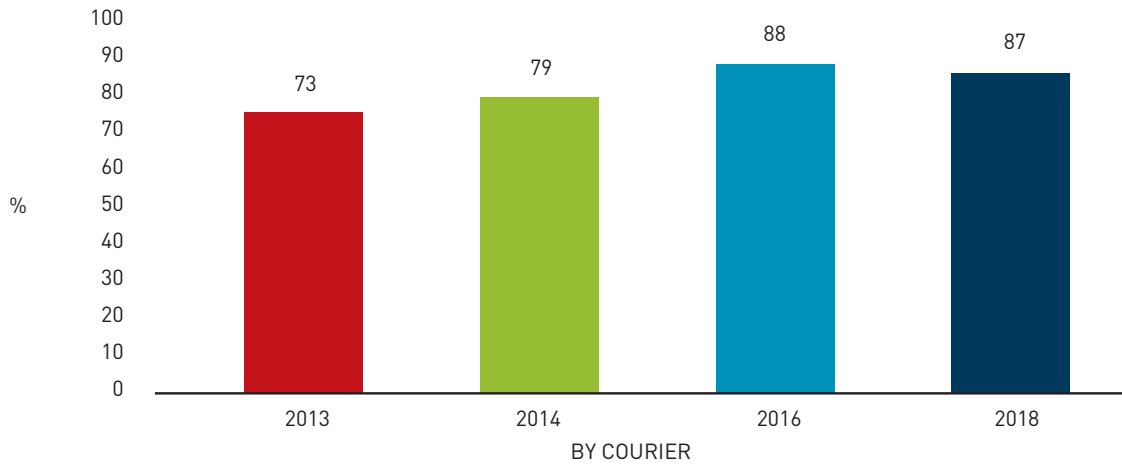
There has been a shift from a Business-to-Business (B2B) market to a Business-to-Customer (B2C) market where customers are exercising more control over how, when and where their parcels are delivered. This is due to the growth in e-commerce, customer centric start-ups and the introduction of automation and alternative high-tech delivery models (Courier Activities in South Africa 2017, Cision, PR Newsletter, November 09 2017).



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Graph 11 - HOW DO YOU USUALLY RECEIVE THE PRODUCTS BOUGHT ONLINE?



There are many more delivery options available. A large proportion of online shoppers will pick up the product from the store (Click & Collect). This creates additional buying opportunities. Click and Collect is not yet popular in South Africa because only 2% receive their online shopping through this method.

Deliveries to work also entail an important opportunity for delivery in the USA. New delivery methods are investigated including Pavement Pick-ups, the delivery of products to specific lockers and drone delivery. Amazon is investigating and planning to allow online purchases to be dropped off in the boot of customers' cars. This plan is already available in 37 cities for two makes of cars namely Volvo and General Motors. Walmart and Amazon launched new delivery initiatives worldwide, mainly to expand the fulfilment options and to speed up delivery to customers.

One of the main recommendations made by the online shoppers in 2018 regarding how to improve online shopping, was to:



offer free delivery (28%)



offer faster delivery services



have more retail stores online

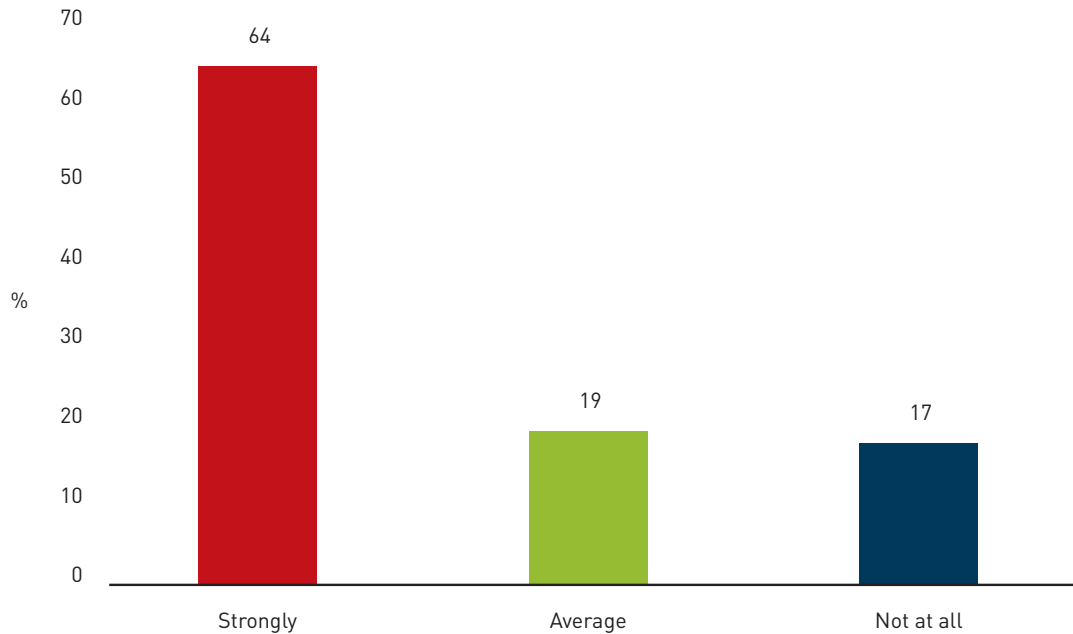


offer more specials and discounts

HOW IMPORTANT IS AN ONLINE REVIEW TO YOU?

Online reviews are becoming a very important aspect of the decision whether or not to buy online. Amazon is one of the most trusted companies based on the number of reviews followed by Google. 64% of the online shoppers in the 2018 survey indicated that they are strongly influenced by online reviews. Only 17% indicated that they are not at all influenced by online reviews. Online users in the hospitality industry already pay a lot of attention to reviews on TripAdvisor and Booking.com. The future of retail marketing will definitely be influenced by online reviews and the visual effects created by Instagram.

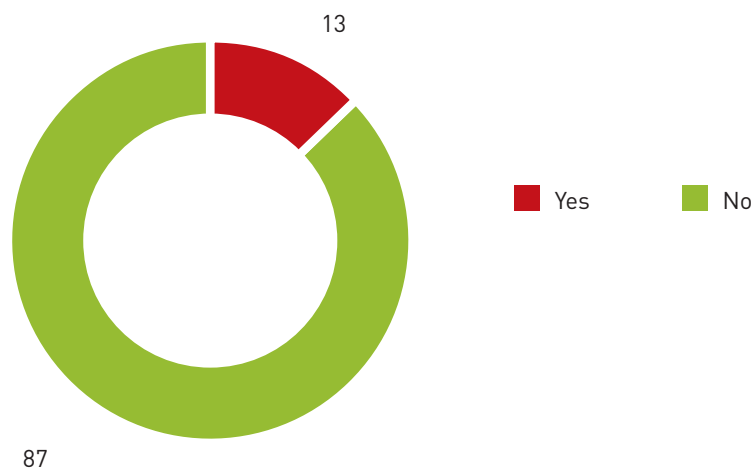
Graph 12 - HOW STRONGLY ARE YOU INFLUENCED TO BUY RETAIL PRODUCTS BASED ON REVIEWS?



SOME OF THE LATEST NEW TRENDS

The use of voice control technologies is growing around the globe. Only 13% of all respondents currently make use of voice control or speech facilities to get information or buy products online. 30% of US Internet users have used a voice assistant to look for a product or to purchase products (Garcia, Krista, June 1 2018). Voice commerce holds promise, yet shoppers are sceptical. South Africa is still far behind. It is expected that with the increase in artificial intelligence and machine language, voice control will increase drastically over the next 5 years.

Graph 13 - DID YOU MAKE USE OF VOICE CONTROL/SPEECH FACILITIES LIKE ALEXA OR SIRI (%)



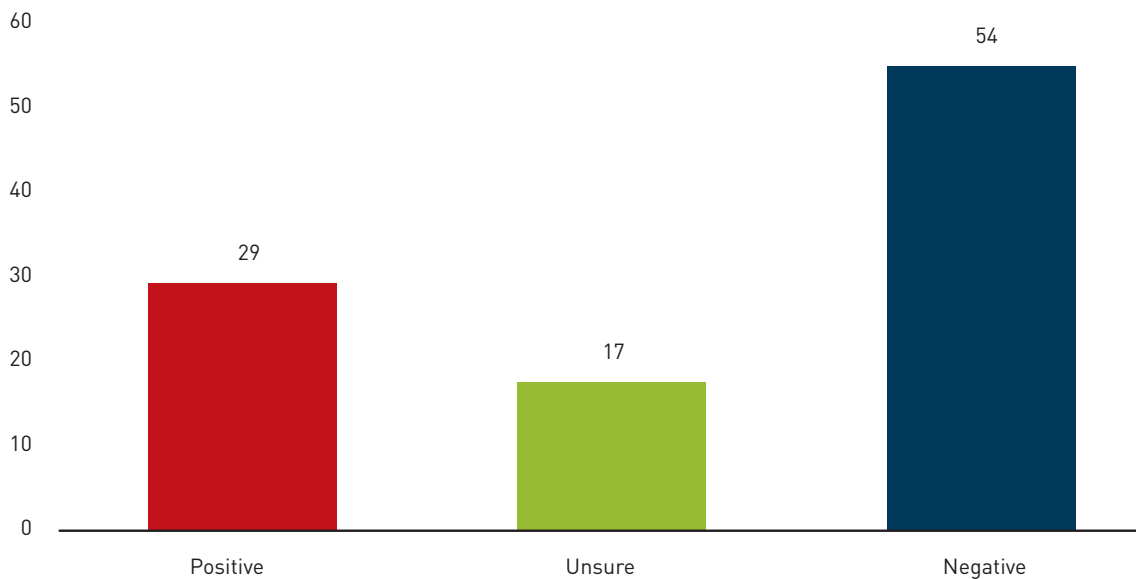


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Robots and machine assistance are likely to be introduced to shopping centres at some point in time. Quite interesting that 29% of the respondents interviewed in this 2018 survey indicated that they are positive about a robot assistant, 17% is still unsure, while 54% is negative about a robot assistant.

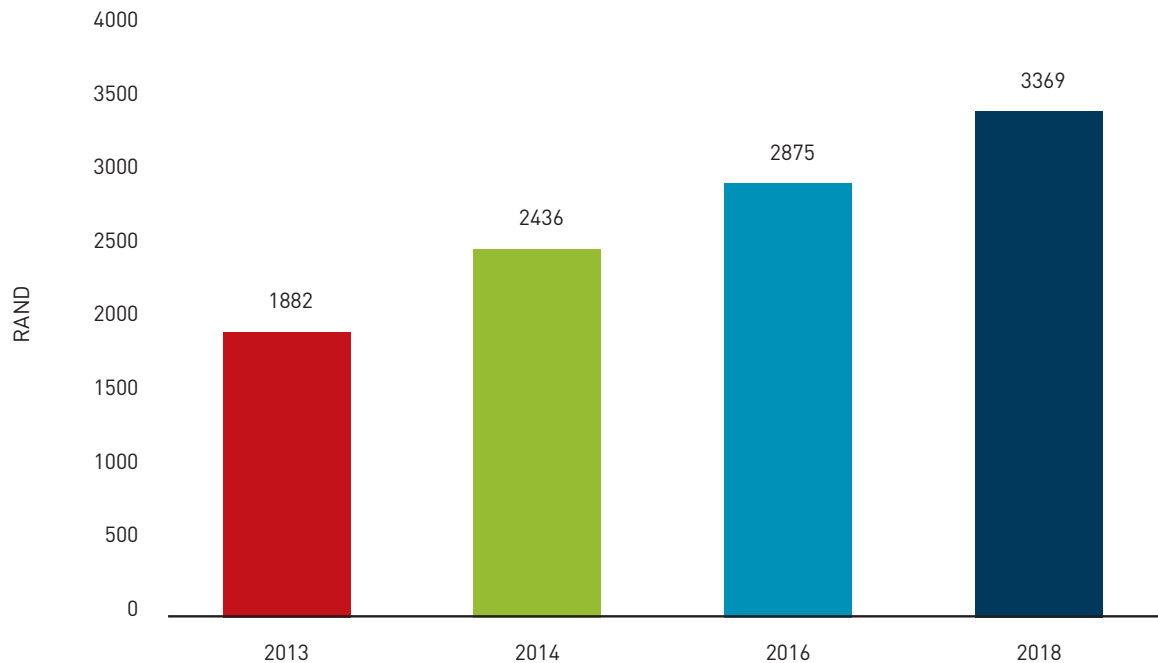
Graph 14 - HOW WOULD YOU FEEL ABOUT BEING ASSISTED IN A STORE BY A "ROBOT" INSTEAD OF A HUMAN IN FUTURE? (%)



MONEY MONEY MONEY

The number of online shoppers has increased. The number of transactions per month has increased and most important of all, the amount spend on online shopping has almost doubled from R1 900 in 2013 to almost R3 400 spent online per customer per month. This represents an increase of more than 12% per annum.

Graph 15 - AMOUNT SPENT ONLINE PER MONTH (RAND) 2013 TO 2018



One of the most important changes since the first survey conducted in 2013, is the fact that of all the online shoppers:



Customers only doing shopping online decreased from 27% in 2013 to 14% in 2018. This must be seen as a major shift confirming that both instore and online shopping will depend on a very well planned omnichannel retail strategy.

WHAT IS THE MARKET POTENTIAL FOR ONLINE SHOPPING IN SOUTH AFRICA OVER THE NEXT FIVE YEARS?

This very same question was asked in the 2013 survey. At that stage online shopping in South Africa contributed to 0.8% of the total retail sales. That represented a total retail online spend of R6 billion. In 2013 it was estimated



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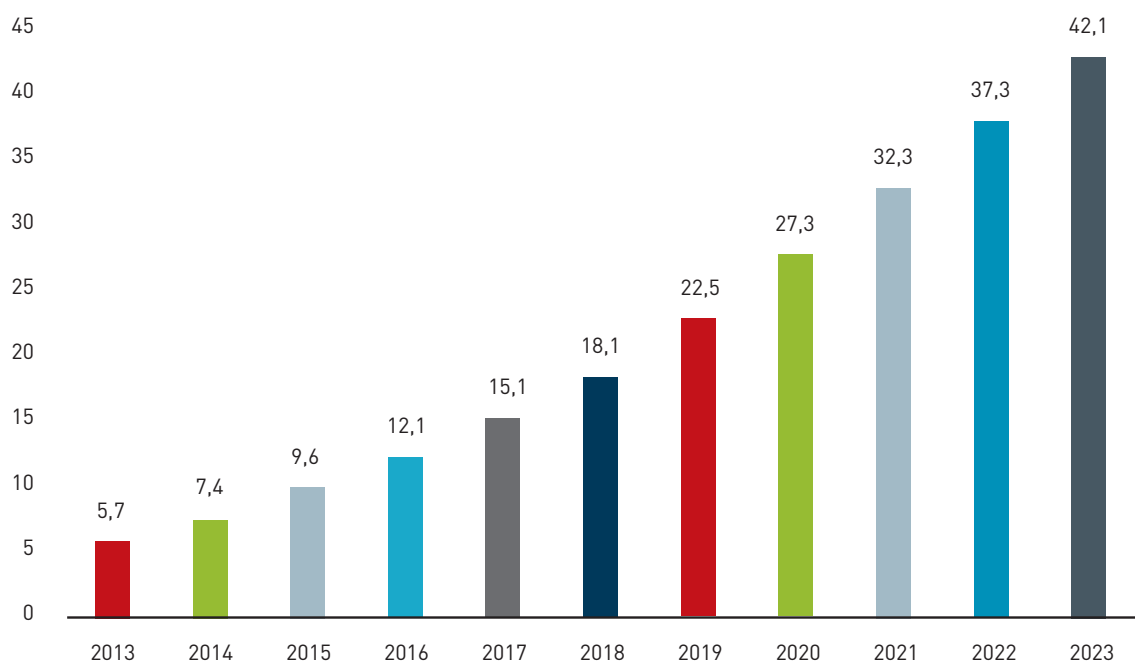
that the spend online will increase to R18 billion by 2018. Based on the latest calculations, online spending is currently at an estimated R18 billion and the online share has increased to 1.8%. Most of the other countries mentioned above already have an online spending of well above 10%, with the UK as high as 19%.

It was estimated in 2013 that online shopping will grow at least at 30% during the next couple of years. Future estimated growth in online shopping is between 10% and 18% per annum during the next five years until 2023. Future growth will mainly depend on the conversion of non-users to become online shoppers. Currently, 51% of respondents to the 2018 survey do not yet buy online. The key reasons are still the fact that they enjoy shopping in a shopping centre. These shoppers are uncertain of the quality of the products, wrong sizes and products delivered. 14% are still unsure about credit card usage and security. Fraud remains a reality and is negative for online shopping. In 2013, 20% of the non-users of online shopping indicated that they cannot touch and feel the product. This has decreased to only 13%. Of the current group of 51% non-users, half will consider online shopping in future. This group could be regarded as late starters, while the rest will probably never become online shoppers.

The future of online shopping will further be influenced by more and better online shopping platforms. The growth in Takealot and the consolidation with Spree and Superbalist, is a very good example of the dominance of specific platforms. Amazon will continue to dominate the worldwide shopping trends, creating new and better opportunities to make online shopping more convenient, safer and more exciting. The delivery of online products will further enhance the online shopping experience. All the new innovative delivery methods will work together to improve the convenience factor of online shopping.

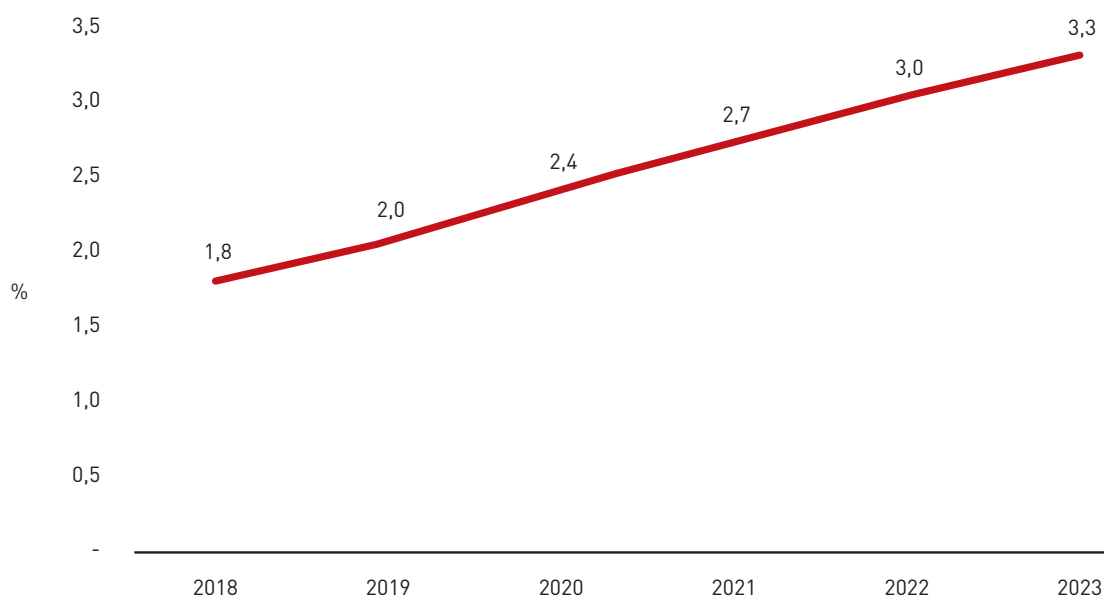
The estimates for online shopping in SA by 2023 vary between R30 billion and R45 billion. Based on all the above-mentioned online shopping trends together with spending, propensity to shop online, establishing of new online platforms, new retailer platforms and further convenience, online shopping can grow to ±R40 billion by 2023.

Graph 16 - ONLINE RETAIL SPEND RAND (BILLION)



This will then represent 3.3% of the total retail spend of R 1.3 trillion. South Africa has a unique market and will strongly be influenced by the growing Millennial and middle to upper income individuals. Shopping will always remain popular, but convenience will play an even bigger role in future.

Graph 17 - PROJECTED ONLINE SPEND AS % OF TOTAL RETAIL SPEND



APPROACH GOING FORWARD

The lessons that we have learned so far are that the future of retailing is in a combined approach of bricks-and-mortar and 'an-easy-to-operate' convenience online platform. An omnichannel strategy includes fully integrated channels of engagement including social media, mobile apps and websites, contact or fulfilment centres and a strong instore presence. The main aim with an integrated omnichannel strategy is to have a higher conversion between online and instore activities, to make shopping as convenient as possible and to retain customers. The physical and digital experiences must be integrated and consistent. Loyalty, word-of-mouth and positive reviews will drive successful brands in future. A deeper knowledge of customer behaviour and preferences is now more important than ever before.

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