



UCS SOLUTIONS: WHITE PAPER
Building the flagship store of the future online

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Continuing research by UCS Solutions suggests that many South African retailers are taking a tentative and tactical approach to their online strategy at the expense of building a comprehensive omnichannel strategy and securing an engaged and loyal customer base.



Internationally, online and mobile channels have been at the forefront of retail sales growth, but South Africa's progress towards embracing this new growth opportunity has lagged. The general view is that the reasons for this have been high bandwidth costs and unsatisfactory download speeds. While it is true that only about 0.5 % of retail sales in South Africa are completed online (as compared with the United Kingdom's 10-13 %), international experience strongly suggests that customers would move rapidly to adopt online channels once conditions were right.

In 2012, UCS Solutions surveyed South African retail customers to understand whether this migration was starting to happen. The survey of over 1 000 consumers produced some surprising conclusions. It found this group to be far more engaged and discerning regarding online channels than had previously been thought. In particular, two categories were of interest:

- **New spenders**, who had begun shopping online within the past two years. The research found them to be surprisingly discerning shoppers although they had a tendency to abandon the transaction before purchase. This group was claiming to spend around R500 every two months.
- **Seasoned shoppers**, who had been shopping online for more than two years. This group is confident and demanding, with few concerns about shopping online – instead, they have high expectations from the online retailers they are frequenting. Seasoned shoppers spend a similar amount to new spenders when they shop online, but twice as frequently.

A key conclusion was that the South African consumers appear to be ready to embrace online channels, so why then is the South African online retail market so small? When, and how, is the local online shopping market going to achieve meaningful growth? Recent developments have been encouraging – the average speed of mobile data access (the dominant internet channel for most South Africans) has increased by 50% over the last year¹, and the number of broadband users has increased by 140% over the last two years². In addition, a study conducted by World Wide Worx estimates that South African e-commerce is growing at a rate of around 30 % a year³. Are retailers ready to grasp this emerging opportunity?

Magical mystery shopping tour

To complement its previous research into online shoppers, the UCS Solutions team investigated the online shopping offerings available to South African customers, and the kind of experience that those shopping online were being exposed to.

About the research

UCS Solutions team members shopped online at 35 retailers, a mix of pure-play and multi-channel across multiple categories. Some UK retailers were included in the sample as a point of comparison because the United Kingdom is a pace-setter in online retail. Seven different categories of activity were rated, each against multiple dimensions. These categories were:

- Registering on the site.
- Managing the account.
- Exploring and researching products.
- Building a basket.
- Checking out and paying.
- Receiving the product.
- Obtaining customer service.

Each activity was scored subjectively based on customer experience, and a net positive/ negative score calculated.

On the plus side, South African retailers scored better than initially expected, notably in three important areas:

- Fulfilment, which was largely on time, error-free and often surprisingly reasonably priced.
- Customer support, which was generally friendly and professional.
- Checkout and payment, with many retailers offering multiple payment options, including the redemption of

¹ mybroadband.co.za/news/broadband/63692-sas-mobile-broadband-speeds-growing-fast.html

² www.worldwideworx.com/broadband201/

³ www.worldwideworx.com/internet-2-of-sa-economy/

⁴ Source: Forrester Research, Inc.

a variety of loyalty points.

However, deeper analysis showed that these results were attributable to the good showing by the South African pure-play online retailers. Multi-channel retailers (those traditional retail brands with physical stores in addition to online channels), in fact, scored net negative in all categories researched apart from fulfilment.

The superior showing by the pure-plays should come as no surprise given that this is their core business. Three key reasons for their better performance exist:

- Their sites offered better information and were geared to inspire shoppers.
- Their sites were more functional and easier to use.
- Their fulfilment services were exceptionally fast and very often free.

South African retailers in general, pure-play and multi-channel alike, scored particularly poorly when it came to exploring and researching products, with a lack of information and advice and extremely poor search functionality.

It is particularly noteworthy that UK retailers scored much better in virtually all activities that were not purely 'transactional' but were geared towards an enriched and engaging customer experience.



Key finding: Win the customer, not just the sale

As the research team began to analyse the results, it became apparent that South African retailers were tending to focus on facilitating the shopping experience and concluding the deal, to the exclusion of the other key elements of the online sales cycle or journey. This focus actually prevents multichannel retailers from realising some of the major benefits of having an online presence.

To put this into context, let's first consider what the online sales cycle looks like. Successful online retailers take their customers on a five-step journey:

1. Build excitement and drive traffic to the site.

Getting customers to the online store is the first step, and generating product "buzz" through a variety of electronic media can be a powerful conduit to drive customers to the store. Inspirational "advertorial" content with click-through links have high success rates, as do sign-up offers, such as vouchers or free delivery for the first purchase.

2. Present an appealing product offering.

Once customers have arrived at the site, they need to be given the opportunity to browse, research and explore the retailer's offering. This is a critical step in winning the sale. In this area, the quality of the product images and descriptions are vital, and the search function must be both effective and useful. Successful sites offer time-saving functionality such as prompting with previous products purchased or recipe ingredients. How-to information, expert advice, recipes and events can contribute to building the consumer's trust in the retailer and making the shopping experience both fun and rewarding. Live, online help is easy to offer via off-the-shelf software and enables a retailer to deliver a consistent customer-service experience independent of geography.

3. Facilitate the shopping experience.

Having made their shopping decisions, customers need to be able to put their products in a basket, process payment, and provide delivery instructions quickly, simply and painlessly. These are the nuts-and-bolts of online shopping, and an area in which South African retailers performed well. One looming issue is 3-D security procedures initiated by the credit card companies – some retailers are finding that this extra authentication step is causing customers to abandon the transaction.

4. Deliver on the promise.

After years of slow and unreliable customer deliveries, South African retailers have worked hard to ensure that deliveries are on time, in full – and affordable. In fact, this is one area where local retailers have a built-in advantage over their international peers, who have to deal with long lead times and expensive shipping charges when delivering to South Africa.

A number of local retailers are trialling a “click and collect” model, where customer can order online and collect their goods at their nearest store.

5. Grow customer engagement. Retailers are looking for a longer term relationship with customers, beyond the first visit. Some South African retailers offer incentives for shoppers to return, such as loyalty points or the ability to reuse previous shopping baskets. Social shopping has been a major driver of repeat traffic – leading sites allow customers to “curate” their own content and interact with each other as a way to build repeat visits and, hopefully, prompt further purchases.

Our research showed that local retailers scored better than expected on steps 3 and 4 – the core of the online shopping transaction – but consistently poorly on steps 1, 2 and 5 – where the customer’s attention, commitment and ultimately loyalty are developed.



Research shows that while online sales account for 8% of total sales in the United States, sales influenced by online exploration and research account for a further 45% of total sales⁴. In other words, there is more value to be derived in influencing customers through online channels, than through actually executing the transaction itself online. By not devoting sufficient attention to building excitement, presenting an appealing product offering, and growing customer engagement, South African multi-channel retailers are only realising a small fraction of the potential benefits from their online channels.

Build your flagship store online

This focus on the long-term customer relationship in retail

does not differ much from the timeless imperative that retailers know (or should know) all too well: find out what consumers want and give it to them. But the characteristics of a good customer experience tend to vary depending on the type of purchase. For example, customers who are shopping frequently for daily items—groceries, cosmetics or lotto tickets—value an experience that is easy and quick. By contrast, those buying a luxury car or a cruise on the Queen Mary will respond to inspirational / aspirational content, while customers buying an appliance or do-it-yourself equipment value expert advice and practical suggestions. There are many nuances, but these three ingredients in various proportions are vital: ease of use, expert advice, inspiration and aspiration.

For many retailers, the online store is becoming their true ‘flagship’, the store where they can offer their quintessential brand experience to customers. This trend is being driven by a number of factors:

- Thanks to advances in analytics, retailers can recognise the customers as they enter the online store and know exactly what their purchase history and worth is—and can respond to them in real time.
- Retailers can showcase their products imaginatively, using multimedia to show how they can be combined to create a certain style or “look”.
- Retailers can use their best people to provide a customer experience that is “Company X on its best day” every day. They no longer have to rely on store staff to create a truly rich customer experience.
- Online stores are open 24/7, meeting the customer’s increasing desire for convenience.

It’s a truism, but retail is all about the customer. Online channels are growing in importance for customers, so there is no question that retailers need to focus their energies on getting it right. At the same time, though, an effective online presence has considerable benefits for retailers, not the least of which is the opportunity for developing a truly engaged and loyal customer community at a time of increasing competition both from local and international players.

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