

HOW TECHNOLOGY IS DRIVING RETAIL IN AFRICA



ARSHAD ABBA, the South African MD responsible for Africa and joint Vice-President of Economist Intelligence Unit (EIU) Canback, reports on how the digital era is changing the ways and means of retail across Africa.

A report by The Economist Intelligence Unit – How Technology is Driving Retail in Africa – describes how e-commerce is changing retail in Africa. The rapid change in the retail landscape is creating a greater availability of products that were not easily accessible in the past and will affect companies' ability to win in Africa.



Many African cities are characterised by many well-organised informal traders, who compete directly with formal retail. E-commerce, although not accessible and affordable to large parts of the population, has increased access for many consumers and has started to bridge the gap to formal retail. However, trust for online transactions remains an important constraint that needs to be overcome if e-commerce is to flourish across Africa. Although South Africa is more advanced, and formal retail more developed, challenges are prevalent here as well.

Nigeria's e-commerce growth has been helped by its lack of shopping malls and formal retail.

South Africa, mobile and internet subscriptions far outpace the rest of Africa, remains well placed to take advantage of e-commerce. Retail is more formalised and mature in RSA, and consumers want to find more accessible ways to purchase goods. Key factors that will drive future growth in e-commerce include price competitiveness, improved and more efficient delivery systems. Also, improved connectivity across the country, increased security and certainty related to online payments. Another key consideration for companies is how e-commerce might work across borders, as cross-border trade becomes increasingly the norm.

South Africa is primed for rapid expansion given its growing middle class, higher disposable income levels compared to most other countries in Africa, and high internet use. With a more mature market than most emerging countries, South Africa remains competitive. Middle and lower income consum-

ers will continue to make decisions that are influenced by price and value-for-money.

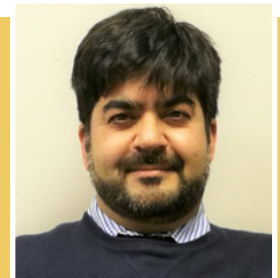
For South African companies, this paper provides an initial understanding of the changes in retail that are being driven by e-commerce. With online retail growing by more than 20% per year since 2000 (Source: World Wide Worx), capitalising on growth will be a key imperative for companies over the next 5-10 years.

The current and expected trends in South Africa will also be important for companies looking to expand operations into other African markets, as South Africa could be the precursor for them. South Africa, along with Nigeria, Ghana and Kenya remains the largest stable opportunities across Sub-Saharan Africa. Nigeria's e-commerce growth has also been helped by its lack of shopping malls and formal retail as compared to South Africa. As retail formalises and shopping malls continue to spread, the market will become more competitive and will influence the growth of e-commerce in Africa.

Some of the key shopping categories in South Africa that are primed for this growth are digital goods, clothing, travel, and consumer electronics. While these categories are most ready for growth, supermarkets and other small industries may also see rapid expansion in South Africa. »

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SMARTPHONES DRIVING AFRICA'S E-COMMERCE

A new EIU report says that smartphones could help expand Africa's e-commerce market to US\$75bn within the next decade.

Retail in Africa has largely been shaped over the years by a more informal shopping experience than that of the West. To this day, Africans prefer to use a network of physical stores, street traders and informal market sources for their purchases, which are predominantly carried out in cash. The relative lack of sophistication in the nature of many transactions in Africa reflects a paucity of infrastructure, as well as insufficient familiarity and trust with alternative sources.

That is changing, however. Increasing access to technology, via avenues such as smartphones, is helping consumers in previously hard to reach areas to access all manner of e-commerce opportunities, including emerging African fashion. A large number of malls have been built in Africa, and consumers flock to these in order to partake in a more engrossing shopping experience, which constitutes a day out for many families. This is leading to a "leapfrogging" effect where an increasing number of Africans are embracing the potential of e-commerce by using mobiles, rather than personal computers (PCs), for their online purchases.

Estimates as to the potential value of Africa's e-commerce vary, but it could be worth as much as US\$75bn per year within the next decade. However, several obstacles to e-commerce growth remain, including fear of fraud among African consumers, a logistics network beset by problems, the fragmented nature of African retail markets, a pressing need to improve telecoms network infrastructure and the entrenched problem of illiteracy among a significant proportion of the African population.

A recent Economist Intelligence Unit report uses bespoke EIU Canback data to highlight the countries and metro regions in the African continent with the biggest potential for e-commerce growth, while highlighting the trends and developments in the market. The scores marry the size of an addressable market (in terms of income level by household or individual) to a range of external-environment indicators relating to the overall business environment such as market opportunities, mobile subscriber penetration rates (per 100 people) and PC ownership (per 100 people).

Among the key takeaways from the analysis are (South Africa):

- South Africa is the most primed to take advantage of the potential of e-commerce is South Africa, where mobile penetration rates are higher, infrastructure is more sophisticated and the middle class more expansive and willing to engage in online purchasing.
- The country lags behind the US and Europe in terms of e-commerce, although the local business-to-consumer market also offers a number of services similar to those found in its overseas counterparts. World Wide Worx, a local technology research firm, estimates that online spending surpassed R9bn (US\$610m) in 2016, reaching the important milestone of 1% of the R900bn overall retail market.
- Online retail has been growing by more than 20% per year since 2000, according to the firm. A 2015 study by a market research firm, Ipsos, revealed that 22% of South African internet users said that they had made purchases online and 48% expected to do so in future.
- In addition, many South Africans engage in crossborder shopping, further broadening the opportunities for revenue gains for e-tailers. According to a cross-border commerce report by a global payments firm, PayPal, and Ipsos, in 2016 around 43% of South Africans shopped across borders.
- Both mobile penetration and mobile infrastructure are notably more advanced in South Africa compared with the rest of the continent. The market has reached maturity, with a penetration rate of 171% in 2016, which we forecast to rise to just under 197% by 2021.
- This rise is likely to be fuelled, in no small part, by the demographic shift of greater swathes of the black population joining the ranks of the more affluent, with greater disposable incomes. On the infrastructure side, a lack of spectrum availability has hindered many operators' attempts to improve both network coverage and speed. This has therefore had an impact on providers' ability to encourage take-up of 4G connectivity, which is estimated to have accounted for just 4% of all mobile subscriptions in 2016.

Business Environment Opportunity Rankings, 2016

Geography	Opportunity		External environment Indicators			
	Rank	Score	Overall business environment rating	Market opportunities rating	Mobile subscribers (per 100 population)	Personal computers (per 100 population)
Nigeria	1st	80.4	4.5	5.0	82.5	12.8
South Africa	2nd	63.0	6.0	5.4	171.4	23.8
Congo (Democratic Republic)	3rd	58.0	3.9	5.0	79.0	38.8
Ethiopia	4th	50.8	4.3	4.5	32.7	3.2
Ghana	5th	46.4	5.3	5.3	115.2	22.7
Kenya	6th	41.9	5.0	4.1	74.1	12.6
Mali	7th	40.2	5.1	5.3	149.9	7.9
Tanzania	8th	40.0	5.0	4.3	63.1	3.6
Gabon	9th	38.4	5.2	5.2	171.7	9.9

Source: EIU Canback

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