

Top Risks for Retail Companies in South Africa - 2017

Consumer Markets & Technology

A photograph of a young woman with dark curly hair, smiling broadly. She is holding several shopping bags with blue handles. The background is a blurred outdoor scene with a building and trees.

No matter how appealing a retailer's strategy is, one should always look at the results it is bringing. That has seldom been more relevant than in South African consumer marketplace, where simply knowing what your customers really want has become exponentially more complex than it was before the advent of smartphones, the internet and social media. According to a report produced by KPMG, the retail industry in South Africa has a number of risks that should be top of mind for any retailer.

Competition



South African companies face intense competition on a national and international level where retailers often offer the same or similar merchandise and generally competed on the basis of price, quality, or speed to market. It is common to find that some retailers' competitors may have more resources or evolved business models that provide a better shopping experience that could affect smaller retailers. Also, to add to competition, the cost and barriers to entry into the market is at an all-time low, with a large number of niche players arriving and driving change through fresh ideas and ways of servicing customers.

A number of points to consider to address concerns brought about by competition, would be for local retailers to pay attention to a pricing and promotional strategy. Another area would be altering ones business model based on culture, retail sub channel and history. The challenge for retailers and brands is that, as they strive to acquire the digital skills they need, they are engaging in a war for talent and retaining such talent. Yet they have to succeed if they want to go to market quicker and embrace new ideas which often come not from a late-night board meeting or R&D brainstorm session, but from being able to respond to a customer who decides they want something different and they want it now.

The impact of mobile commerce and social media on retailers is only growing. Customers are increasingly placing pressure on retailers to deliver faster therefore placing pressure on delivery expectations. Often, retailers would be forced to add to their costs of delivery, all the effort to cut down on delivery times and work within the standards of what a customer would expect. Competition also comes in the form of a more socially conscious shopper who are more informed of the background of a retailer. Pop-up stores is a relatively new phenomenon in South Africa but has been met with huge success over the past three years. Reasons for this is that it involves a lower cost of concept and entry.



Customer Trends and Preferences

Customers are the new point-of-sale. For today's connected South African consumer, the shopping 'experience' can be an endless possibility for retailers to try and master and the shopping experiences at those retailers that are meaningful, memorable, shareable and personalised, will maintain traffic. Incorporating technology into a brand persona through influencer marketing is a powerful tool in driving customer habits. We notice more male and female bloggers popping up in South Africa, acquiring attention in the media and specialising in providing reviews on products in their area of expertise. These reviews have a big effect on the general audience who often purchase products solely based on blogger recommendations. Offline, brand building on the retail front has become a team sport for many firms that are generating significant results via partnerships that deliver competitive advantages.

Brand and Reputation



Retailers run the risk that one innocuous post, video or comment from any angle (board, customer, associate or management) could trigger a significant brand protection situation which impacts sales or customer perspective. This is something South African retailers worry about often as damages to one's brand and reputation can occur at any given moment and is difficult to reverse quickly. Brand and reputation damage is closely linked to social media because of the ease of public opinion as no cost is then immediately felt by any retailer, either in a positive or negative way. This can be summed up as follows: it takes years to build reputation and seconds to destroy. A response for local retailers to keep in mind is that since these incidents usually take place unexpectedly, they need to proactively have measures in place so they could react to situations as they happen.

Security of Customer & Personal Information



An unexpected risk is that of security breaches of business and customer data through cyber-attacks from hackers and sophisticated organisations. This occurs when there are gaps in the control structure due to too much reliance on 3rd party vendors. In cases like this, there is a risk of significant business impact on key systems not being available (websites, core operating systems, e-mail etc. through methods such as Denial of Service attacks and others). More South African retailers are taking to the e-commerce model and it is essential to demonstrate leadership and governance by having an information risk management policy in place. Adequate back up and support is also crucial.

Compliance with regulations



Local retailers are noticing an increased regulation pertaining to operations, product liability, competition, consumer protection, price controls and social and environmental considerations. One recent example is sugar tax and those companies that can respond faster to situations like this will be better off.

Technology Disruption and change



Risk exists in the management of a rapidly changing IT infrastructure due to the growing importance of technology and strategic shift in speed of technology change. The temptation to continuously, incrementally improve legacy systems is ongoing and often results in adding "technical debt" to already deep infrastructure. Aligning inventory, pricing, and customer systems is a must to deliver a seamless customer experience. We will continue to hear more about retailers implementing an Omni-channel model which entails integrating all experiences, online and offline into one uniform experience.

Attract and retain personnel



Loss of critical human resources will impact a retailer's ability to deliver customer service, business results and stakeholder expectations. Rapid personnel changes at executive levels lead to gaps in ability to define and execute strategy.



Omni Channel and 21st Century Retailing

Customers gravitate to retailers that provide the best and most consistent multifaceted experience based on their quality/value perspective. It's not yet clear what the next trigger point for transformation in retail will be, however, it will occur in the next 5-10 years through adopting new technologies such as VR, self-driving cars, embedded communication, etc. One view of customers is customer engagement or conversation instead of just focusing on the transaction. Current times require retailers to adopt a strategic revision of critical areas such as channel mix management, brand experience delivery, merchandising, communication, personalisation of shopping, communication, offers, transaction processing, inventory management, logistics, forecasting, incentive alignment and customer profiling.

Pricing



Customers' expectations on pricing are changing and retailers often go all out featuring the 'lowest prices' or 'best bargains.' While the discounting pulls in new customers, it also erodes margins. A recent example is Black Friday where retailers often lose margin by discounting but because of attracting feet into stores, hope that higher margin products will be purchased. Discounted will always be a strong offering by local retailers but in future, smart retailers will focus less on deep discounts and more on customer experience. Future possibilities also exist for dynamic or time-based pricing -sophisticated algorithms and computing programs to monitor real-time prices on items sold by competitors.

Analytics and IT platforms that tap into ebbs and peaks of consumer activity help retailers make informed and timely decisions regarding competitive pricing strategies much better than tradition or existing policies. Challenges local retailers might find is that customers are looking for seamless prices, offline and online but this does not always occur due to added delivery costs. A potential problem could be undercutting by suppliers with retail outlets. Eventually one ends up with a "total price consideration" for a customer (includes cost of product, cost of delivery (free shipping), cost of return, ease of return and previous experience).

Data and Insight



Big data has long been touted as the next big transformation point, however, this has not yet occurred in mainstream retail. While retailers capture a large amount of data on customers, purchases, and trends, few have leveraged this to be able to form valuable insight that gives them an edge. Data overload has also become a problem in retail.

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