

Unlocking South Africa's next level of e-commerce growth



By [Lauren Hartzenberg](#)

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As the Covid-19 pandemic subsides and shoppers return to malls and physical stores, the sharp spike in e-commerce growth we witnessed in 2020 has petered out. But online shopping has become firmly entrenched in South Africa's formal retail market, and businesses investing to grow capabilities in the e-commerce space are invariably investing in their growth.



Source: [Pexels](#)

Transaction volumes at digital-payment gateway PayFast grew 101% between 2019 and 2020 when the pandemic gripped the country, slowing down to a still impressive 36% between 2020 and 2021, and 20% between 2021 and 2022.

At the recent PayFast e-Commerce Virtual Summit, the company's head of product David Kusel unpacked whether local e-commerce growth can continue its robust trajectory beyond the pandemic.

The contribution of online shopping towards total retail sales in South Africa remains under 10%, in comparison to just below 20% in the US, 20% in the UK and a phenomenal 50% in China.

Looking to China

Kusel outlined some of the reasons contributing to this enviable growth in China. He pointed out that online retail is often the preferred shopping channel in China, as the physical shopping experience can be crowded and confrontational.

Notably, he highlighted the role that e-commerce behemoth Alibaba played in providing a backbone around which the industry needed to develop. “You need a dominant player to establish infrastructure to support the industry,” he said.

Over the last 20 years, Alibaba created consumer and B2B marketplaces, invested prominently in logistics warehousing and digital-marketing services, and created its own payments system and cloud computing system. “Everything you need to run e-commerce as an industry has been put down by them. Alibaba paved the way for Chinese e-commerce to be able to grow fast,” Kusel explained.



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China also has a massive supply of efficient, low-cost delivery services, and an advanced digital-payments landscape, with mobile wallets and QR codes dominating the country's payment space. “In 2018 around 40% of all payments [in China] were made using mobile platforms, and it's probably grown massively since then. Mobile payments have made paying for goods easy - whether in face-to-face retail [transactions] or online,” Kusel said.

China boasts a strong mobile commerce culture. Not unlike Africa, the Asian country largely skipped over the PC and desktop era and went directly to smartphones. “In China over 80% of the population owns a smartphone and 750 million people in China shop online using mobile devices,” Kusel said.

With those factors in mind, how can South Africa unlock the level of e-commerce growth that China has achieved?

E-commerce infrastructure investment

Kusel encouraged companies to continue investing in e-commerce infrastructure, the backbone of e-commerce. “Takealot has done an amazing amount of work to grow this e-commerce infrastructure and they've been joined by big traditional retailers who are bringing their stores online as well.”

“Checkers Sixty60 is another prime example of a brick and mortar retailer that has embraced online and helped bring e-commerce to South Africans.”

This groundwork doesn't only serve consumers and the big online players, but also entrepreneurs hoping to benefit from the e-commerce opportunity.

That said, there exists a clear disparity between formal and informal markets, with the latter often lacking basic services like water and electricity, let alone e-commerce infrastructure.

“The big challenge in South Africa is that it's really difficult to get goods to the informal economy - few roads and proper addresses, and people don't own vehicles. We need to get creative on how we solve this. There's great technology like [What3Words](#) geolocation that helps address this, but we can't unlock more than 50% of our local e-commerce economy unless we find solutions.”

Ideas that embrace Africa

Doing business in Africa comes with unique challenges, but Kusel encouraged entrepreneurs to build businesses that meet the needs of our consumers.

E-tailer Yebo Fresh was highlighted as a local business doing just this, by bringing e-commerce into townships and stocking products and product combinations not available at traditional supermarkets. The innovative business is also using the vast network of spaza shops in townships, and other community landmarks, to help facilitate deliveries.



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Driving growth of digital payments

The next challenge that needs to be solved, according to Kusel, is accessible digital payments. “We have high bank account penetration, but that’s not translating into a high volume of digital payments. We do have really high smartphone and internet penetration - around 70% - which is a huge driver of growth in the future,” he said.

Cash remains king in South Africa, particularly in informal markets. A cash exchange is trusted, instant and universally understood. And the digital payments space has got a long way to go to achieve this same level of consumer trust.

“At least 50% of transactions are still in cash. Ninety-five percent of Sassa-grant beneficiaries withdraw their funds to cash within seven days, and eight out of 10 informal traders have no bank account,” Kusel noted.

The [imminent rollout](#) of the rapid payments programme, a banking industry-led payments modernisation initiative, is set to grow the digital-payment infrastructure and allow for more payment innovation, according to Kusel. The industry-wide collaboration is led by BankServAfrica, in partnership with the Payments Association of South Africa and the Banking Association of South Africa.

Commenting on the benefits of the rapid payments system, Kusel said, “Interbank transactions will likely happen in less than 60 seconds, whereas they’re taking two days now. The process will be simplified with the ability to use an identifier such as an email or phone number or ID number. If we can change the culture around cash payments, because digital payments are quicker, more trusted and easier to use, it’s going to be a huge win for our industry.”

He added, “Getting payments into a digital space gives us a record of what’s happening so that we can make better decisions. It’s a huge win for the country. But we do need to keep innovating off the buck a bit. I don’t think that relying on the banks to drive this is the way to solve [the challenge] across Africa.”



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Deliver an engaging experience

Finally, Kusel noted that to boost online sales we need to drive a culture of shopping online - a tough task in a country with a strong affinity for shopping malls.

“South Africans love malls. We have 2,000-odd malls in SA and those retail spaces are fantastic places to be. There’s entertainment, they’re clean, spacious and there’s cheap parking. All those things make physical shopping a good experience, and as an industry we need to think about how to make online sales more engaging.

"We need to embrace the fact that South Africans love the entertainment experience of malls," Kusel said, adding that retailers can employ an omnichannel strategy that combines online sales with physical retail to deliver an experience that's both engaging and convenient.

Kusel concluded that e-commerce in South Africa is here to stay if we can solve the infrastructure challenges. "By moving from cash payments to digital payments, setting up that infrastructure we need to continue to grow, and making the experience more engaging, I think we can get a lot closer to the 50% that China was able to achieve."

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