The consumer power-shift of the digital age

By Itumeleng Mukhovha

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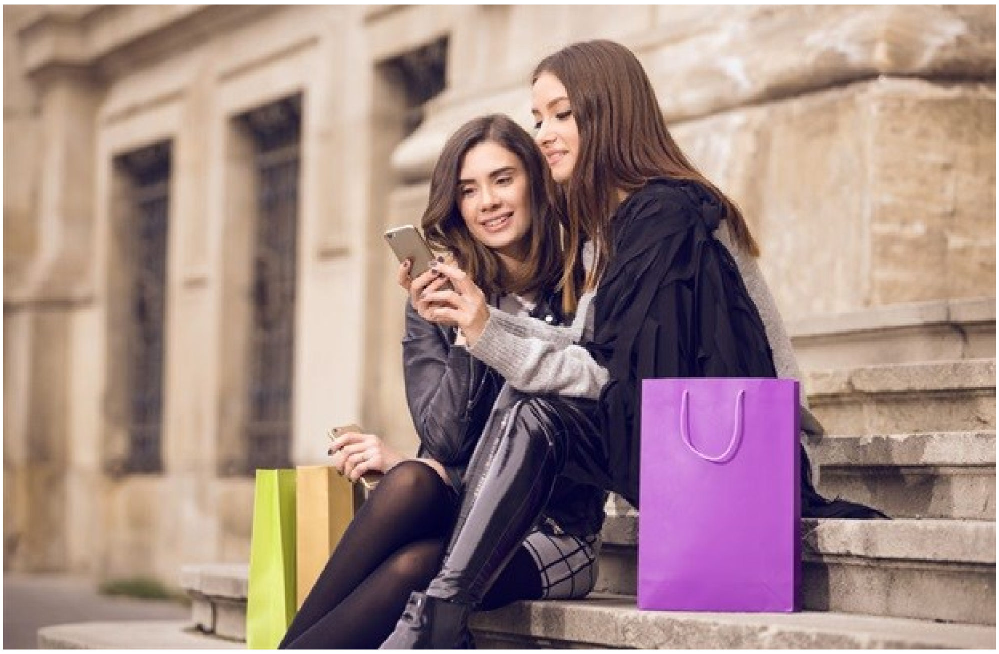
Advances in telecommunication technology have transformed the tools used for marketing and consumerism and ultimately, the way that businesses operate. The Statista 2017 Report indicated that the number of smartphone users in the United States is estimated to have reached 224.3 million, with smartphone users worldwide exceeding 2 billion. Undoubtedly, we are running headlong into the end of the industrial era of consumption and into a consumer power-shift.



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Current consumer trends, and particularly the digital era of consumerism, indicate that there is a paradigm shift in the way businesses operate. Historically, large companies made massive quantities of homogenous products to sell to consumers, whose needs were simply grouped into segments. These products were sold through retail distribution in an effort to reach the relevant segments and the retailer generated profits by supporting physical store locations, offering some knowledge of the product and delivering a service experience to the consumer.

However, the digital age, which started in the 1970s, began upending the traditional consumer process when it introduced the personal computer. Subsequent technology improved the free and efficient transfer of information.

With more than 290 million internet users, the United States is one of the largest online markets worldwide. The most popular internet activities of American internet users are social media, and the buying and selling of products or services through electronic channels.

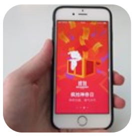
According to available data, 2016 e-commerce sales in the United States were estimated at $360 billion. An additional growing trend within the e-commerce market is the rise of mobile shopping. In 2016, Statista reported that an estimated 136 million consumers had made at least one purchase using a web browser or mobile app. In fact, major companies have sponsored the usage of apps and social media for online shopping and are thus responsible for the growing popularity of mobile shopping and, ultimately the predominance of m-commerce in the e-commerce industry.

Although customer satisfaction with online retail in the United States is high, online sales still represent a fraction of retail sales in the United States. However, legacy brick-and-mortar retail outlets appear to be on the decline. The commercial property firm Cushman & Wakefield has provided evidence that the United States' precarious condition has resulted in 9,000 retail outlets closing in 2017, with 12,000 on the chopping block in the last quarter of 2018. American retail companies have found themselves in a quandary trying to decide whether e-commerce is "a friend or a foe".

Rise of China

In 2015, it was recorded that China was catching up with the United States in the battle for e-commerce supremacy. In the last quarter of 2015, China had generated circa $250 billion from online sales and economists and investment banks predicted that the Asian country would dethrone the United States as the largest online retail market in the world.

Some of the factors that have contributed to China's e-commerce growth include increased internet penetration, the growing spending power of the population and the development of online market platforms. For example, Chinese multinational conglomerate Alibaba, which specialises and operates China's largest e-commerce platform, has more than half a billion consumers shopping online. In the fiscal year ending March 2018, Alibaba's e-commerce platform was recorded to have generated a revenue of 176.6 billion yuan in Chinese online sales, which translates to $20.8 billion.



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In an attempt to find a balance between e-commerce platforms and the legacy brick-and-mortar stores, China has introduced 'New Retail', a hybrid model intended to merge online, offline and logistics for a dynamic new world of retailing. New Retail goes beyond the constraints of the two-party system of retail operations, namely e-commerce and the legacy brick-and-mortar retailing, and introduces a system that blends the best of both worlds in a newly designed human, digital and physical retail experience.

During the 2018 Observing China Forum in Beijing, Alibaba's CEO, Daniel Zhang, explained that China's e-commerce platform is evolving to establish a New Retail infrastructure, empowering brands with data.

African challenges

While new age consumerism prompts an entire rethink in the retailers' operations and the production of consumer products, middle and low-income countries in sub-Saharan Africa have been laggards in e-commerce for a number of reasons. These include the lack of technological infrastructure, the Gini coefficient, high levels of illiteracy and logistical inefficiencies.

When considering the sectoral composition of the GDP, South Africa is a service-driven economy and classified as an "upper-middle income" country, with the last recorded real GDP per capita circa $7500. However, the uneven and sluggish growth in average income and the decline in foreign direct investments, amongst other things, has translated into only a moderate decline in poverty.

According to the latest World Bank Report, South Africa lags behind its peers on the inclusiveness of consumption growth. In addition, the labour market is effectively split into two extreme job types. At one extreme is a small number of people with highly paid jobs in largely formal sectors and large enterprises, on the other, is most of the population who work in jobs that are often informal, require less skills and pay less well.

The share of output that has contributed to the informal labour market has been the retail industry, which is more likely to employ new entrants and semi-skilled members of the population. Undoubtedly, the current global phenomenon of upending the legacy brick-and-mortar retail system would add to South Africa's high unemployment rate, resulting in abject poverty and an increase in the Gini ratio. Therefore, illiteracy, poverty and the high unemployment rate remain key challenges for South Africa's (and comparator countries) e-commerce industry.

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Emerging market opportunities

In spite of these challenges, economists are confident that the African continent may be the next emerging market set to make significant strides in e-commerce. Statista reported that the e-commerce sector in Africa had generated $16.5 billion in revenue in 2017 and forecasted a revenue of 29 billion by 2022. The largest economy in Africa in terms of GDP, Nigeria, has the most e-commerce sites on the continent with 40% of Africa's e-commerce investment ventures headquartered in Nigeria.

With new age consumerism, companies in Africa and around the world, understand the importance of consumer engagement and are on a mission to find ways to determine consumer needs. In driving consumer engagement, forward-thinking brands have invested in over 300 million community bloggers who have generated billions of posts on beauty, fashion, wellness and hobbies across different social media platforms. This is due to the fact that consumers have shown an increasing preference in trusting the opinion of influencers and asking them about the product features rather than reading product information on the back leaflet or website.

In addition, companies are taking advantage of Big Data to manage, store and decipher massive amounts of information to understand consumers' demands and anticipate the needs of each individual consumer.

There is no doubt that consumerism has been transformed by the advances in telecommunications technology. Most businesses have developed apps, blogs and a variety of social media pages to maintain regular and constant communication with consumers and to better understand consumers' needs. Pioneers in the retail and consumer space no longer view people as consumers but also see them in the role of co-producers. The consumer power-shift has most definitely begun.

ABOUT THE AUTHOR

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