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Critical success factors for niche online retailers in South Africa

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Abstract

The total amount spent on online retail goods in South Africa in 2007 is expected to be R929 million, earned by over 1000 South African online retailers, many of whom are unknown to the average internet user. The purpose of this study is to focus on the niche online retailers, who comprise a portion of the 1000 online retailers in the South African market, about whom very little is known.

This research will identify, through in-depth interviews, practical factors which, if present, will greatly increase a niche online retailer's chances of success in the South African market. This will be done by identifying well known retail theory and endeavouring to apply it to the niche online retail market in South Africa.

The data gathered suggests that there are aspects of each retail theory being applied by South African niche online retailers. The data also highlighted a number of other factors critical for success. All these factors have been integrated into a model that can be used by niche online retailers to enable their success in the South African niche online retail market.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

Jenefer Morgan

Date

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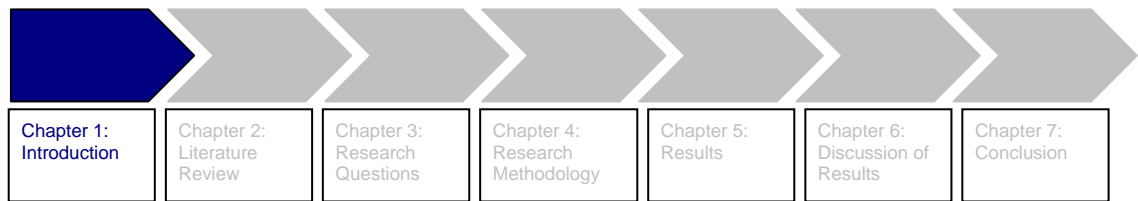
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1. Chapter 1: Introduction to Research Problem



1.1 Background – the South African Online Retail market

"Big upturn for online retail" World Wide Worx, 2007

The total amount spent on online retail goods in South Africa in 2007 is expected to be R929 million, up from R688 million in 2006, according to the Goldstuck Report (World Wide Worx, 2007).

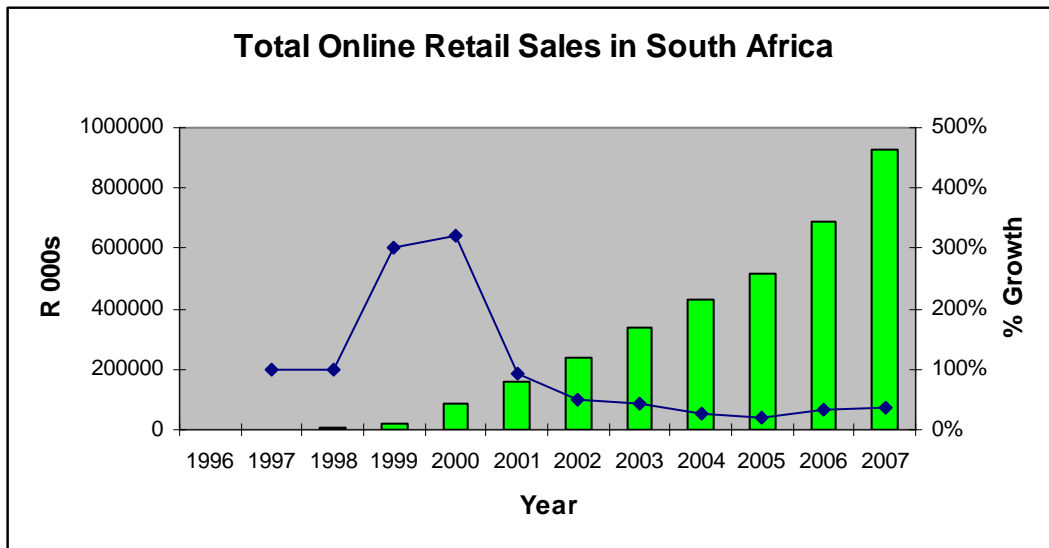
"There are two major factors behind this growth," says Arthur Goldstuck, MD of World Wide Worx. "The first is the rise of broadband, which by the end of next year will see more than a million users in SA. The second is a phenomenon called the Experience Curve, which shows that only once users have been online for around six years are they comfortable with the more challenging aspects of the Internet, such as e-commerce. And the number of people who have been online for six years or more has finally reached the level where it is making a substantial impact in online retail."

These figures exclude the sale of airline tickets online, which dwarf the numbers for online retail. The five SA airlines selling tickets online between them accounted for R2.3 billion in e-commerce in 2006, almost four times the size of

conventional online retail. This figure is expected to rise above R3 billion in 2007 (World Wide Worx, 2007).

Figure 1.1 Total Online Retail Sales in South Africa

Source: World Wide Worx (2004), cited in The e-Business Handbook (2005), updated with data from World Wide Worx (2007)



The South African online retail market is currently dominated by the top twelve online retailers, who between them account for more than three quarters of all online retail sales in South Africa, according to the Goldstuck Report: Online Retail in South Africa 2007 (World Wide Worx, 2007). The number of online retail sites has also grown substantially, from 826 in 2005 to 1014 in 2007. This growth has come despite 310 sites – more than a third of those online at the end of 2005 – closing down between 2005 and 2007. However, no less than 498 new sites came online during this time, according to the Goldstuck Report (World Wide Worx, 2007).

According to the Internet Access in SA 2007 study conducted by the World Wide Worx (2007) there are 3.85 million people in South Africa with internet access representing 8% of the population, or 1 in 12 people. In comparison, Internet World Stats (2007) reports there are 233 million internet users in North America, representing 69.7% of their population, and over 1 billion internet users world wide representing 14.1% of the world's population. Overall, 50% of South Africans who access the internet at least once a month have bought online previously, an increase of 26% from 2000, according to the results of WebCheck's latest Project SA Web User Research released in July 2006 (cited in Etcnewmedia, 2007).

The survey also found that:

- More males than females have bought online previously
- More people in the higher income bracket have bought online before
- The majority of those people who have shopped online before would do so again, and
- A credit card is still the most preferred way of paying for online purchases.

1.2 Need for research

Given the positive growth South Africa is currently experiencing with regard to online retail, and the large number of online retailers in South Africa, the majority of which are unknown to the average internet user, this research seeks to focus on a specific aspect of the South African online retail market – that of the niche online retailer, about whom there is a limited amount of literature available. This research will seek to contribute to filling this gap in information with regard to niche online retailers in South Africa and to identify factors which, if present, would greatly increase the chances of a niche online retailer's success in South Africa. This will be done by identifying well known retail theory, endeavouring to apply it to South African niche online retailers and ascertaining whether this retail theory holds in this context. Additional insights gained will be used to supplement this theory to make it applicable to niche online retail in South Africa, if necessary.

• Niche online retail in South Africa

Online retailers in South Africa fall into 3 distinct categories:

1. 'Clicks and bricks' online retailers – the online distribution channel for established retailers, such as www.inthebag.co.za, Woolworths' online store and www.exclusivebooks.co.za, Exclusive Books' online store
2. 'Clicks only' online retailers; large, commercial online retailers such as www.kalahari.net who have a large target market and sell a wide range of products, but are online stores only and have no physical stores, and
3. Specialised niche online retailers such as www.theveilandgarter.co.za which have a very specific target market and niche product offering.

For the purposes of this study, online retailers in general will be defined according to Goldstuck (2002 to 2003, cited in Chipp and Ismail, 2004, p. 206) as “those retailers who use the tools of the internet, whether they be e-mail-based or web-based, for any or all aspects of sales, that is negotiation, confirmation, authorisation and conclusion of a sale of tangible, physical goods”. For the purposes of this study, however, the term ‘online retailers’ will exclude service industries such as tourism, airlines and banking.

Niche online retailers, for the purpose of this research, will be defined as those online retailers who:

- have a more narrowly defined customer group seeking a distinctive mix of benefits (Kotler and Keller, 2006)
- have been in online business for a minimum of a year
- are closely held (Kotler and Keller, 2006) and
- are South African registered companies.

1.3 Research Problem/ Objective

This research will establish current, well documented and tested retail theory, models and frameworks. This retail theory will then be tested through interviews with both online retail experts in South Africa as well as with niche online retailers in a South African context to establish:

1. the extent to which this theory's application is valid in the context of niche online retail
2. what additions and or changes could be made to the theory to make it applicable to niche online retailers in South Africa, and
3. to determine, based on the above, what factors are critical for the success of niche online retailers in South Africa.

This testing will be performed by way of in-depth interviews with current niche online retailers in South Africa who meet the above definition.

2. Chapter 2 – Literature review



2.1. Introduction

This research seeks to establish a retail framework which can be used to establish success factors for niche online retailing in South Africa. Owens (2006) in his research into e-business business models notes that the real potential for a successful e-business lies in the choice of the correct business model. Zeng and Reinartz (2003) went one step further and noted that success in e-business depended on how well companies could match their business model with the real value added by the Internet for their customers.

The starting point for this literature review is well known, well established retail theory, models and frameworks. As Gibson, Lin and Burns (2003) note in their research into eBusiness experiences of practitioners and consultants, an important finding is that most eBusiness successes leveraged existing knowledge and strategies for their entry into cyber-markets. These retail theories, models and frameworks will then be tested against current niche online retailing in South Africa to establish their fit in this context.

Retail theory, models and frameworks which will be covered include:

- The Wheel of Retailing (Hollander, 1960)
- Ansoff's Matrix

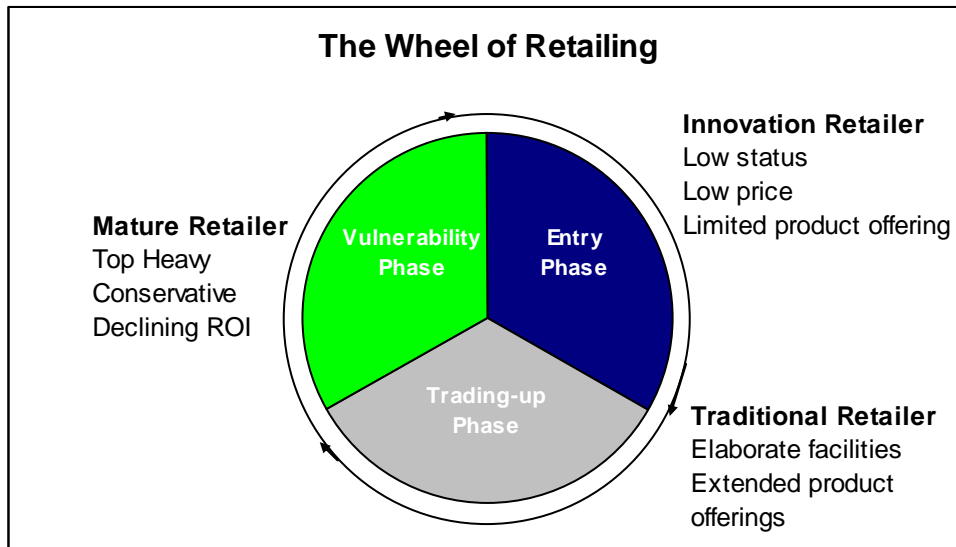
- The Marketing Mix (4Ps)
- Porter's Competitive Advantage Model
- Porter's Value Chain

2.2. The Wheel of Retailing

In 1960, Stanley Hollander's major hypothesis concerning patterns of retail development was dubbed 'the wheel of retailing' (Hollander, 1960). This hypothesis states that new types of retailers usually enter a market following a low-status, low-margin, low-price model (Hollander, 1960). Gradually though, these retailers acquire more elaborate premises and facilities resulting in increased investment and operating costs. These retailers ultimately mature as high-cost, high-price merchants who in turn are vulnerable to newer entrants who follow the same pattern. Department stores that originally appeared as vigorous competitors to the smaller retailers and then became vulnerable to discount house and supermarket competition are often cited as prime examples of the wheel pattern.

Figure 2.1 The Wheel of Retailing

Source: Levy and Weitz (2001)



Hollander's original documentation of the wheel of retailing cited tentative explanations for the wheel. These include (Hollander, 1960):

- **Retail Personalities**

New types of retail institutions are often established by entrepreneurs who are highly aggressive and cost-conscious, and who are determined to make their new venture a success by counting every cent and steering away from 'unprofitable frills' (Hollander, 1960, p. 37). These entrepreneurs often then relax their focus on minimising costs as they 'acquire age and wealth' (Hollander, 1960, p. 37). Their successors may also be less competent. As a result of this deterioration in management, the retailer moves along the wheel.

- **Misguidance**

Hermann Levy (cited in Hollander, 1960, p.38) suggests that movement along the wheel of retailing is also caused by retailers being seduced by promises

from sellers of retail equipment and supplies of increased sales and profitability. As a result, the retailer undertakes non-essential modernisation and installs overly elaborate facilities, again resulting in increased costs and movement along the wheel.

- **Imperfect Competition**

Mohr, Fourie and associates (2004) define perfect competition among buyers and sellers of goods and services as the point where no buyer or seller can influence the price of the goods or service in question. That is, the price is decided by the natural forces of demand and supply in the market.

Hollander (1960) notes that retailers often avoid direct price competition for fear of immediate retaliation by their competitors. Retailers, though, do not deem service improvements, including enhancements to location, to be susceptible to direct retaliation from competitors. As a result, retailers feel comfortable making changes which ultimately result in increasingly elaborate services at increasingly higher margins, again resulting in movements along the wheel.

- **Excess Capacity**

McNair (cited in Hollander, 1960) attributes most of the wheel affect to the development of excess capacity as more and more competitors enter the market. This however would only result under imperfect competition conditions, as under perfect competition conditions, excess capacity would result in reduced prices until the excess vendors were driven out of the market.

- **Secular Trend**

J. B. Jefferys (cited in Hollander, 1960, p.38) points out that a general long-run increase in the standard of living provides retailers with profitable opportunities for increasing their prices and margins. Opportunities would still remain for new, low-margin retailers because of uneven distribution of living-standard increases. Ultimately though, trends towards increased standards of living could cause retailers to move along the wheel. Jefferys sees this movement as being the result of sensible business decisions to change with prospering markets.

- **Illusion**

Finally, Professor B. Holdren (cited in Hollander, 1960, p.38) suggests that tendencies towards a mix of merchandise being sold by retailers may create illusions of movement along the wheel. Store-wide average margins may increase as new, high mark-up items are added to the retailer's mix of products despite margins on original products remaining unchanged.

It should be noted here that, despite it being commonplace to find the wheel of retailing in the opening chapter of most retailing textbooks, and the large amount of literature that the wheel has generated, Brown (1990, p. 146) notes that the concept still remains unproven. Similarly, Hollander (1960, p. 42) notes that the wheel hypothesis is not valid for all retailing. It does however describe a fairly common pattern amongst retailers in industrialised, expanding economies. Hollander (1960, p. 42) also notes that in some retailers the movement along the wheel has been very slow. Brown (1990, p. 146) also notes that the wheel of retailing theory only refers to a single aspect of change, the price-quality

continuum. It ignores other equally dynamic dimensions of retailing such as product mix and store size and location. Nevertheless, it was felt to be of significant benefit to any study of retail frameworks for inclusion here.

- **The wheel of retailing and the online retail**

Variables such as store size and location are irrelevant from an online retail perspective. As a result, online retail is often perceived as being a cheaper way to do business (Chipp and Ismail, 2004). Online retail could therefore be seen as the next revolution in the wheel of retailing – a channel to enter the market with fewer associated costs and therefore be considered as a low cost supplier.

2.3. Ansoff's Matrix

A more conventional conceptual model often applied to the retail industry is Ansoff's Matrix. Ansoff's Matrix, first published in the Harvard Business Review in 1957, suggests four options for success and growth of a business and makes a clear distinction between new and current markets and new and current products.

Figure 2.2 Ansoff's Matrix

Source: Ansoff, I. H. (1957)

		Products	
		Current	New
Markets	Current	Market penetration strategy	Product development strategy
	New	Market development strategy	Diversification strategy

The matrix has 2 dimensions: products and markets. Over these 2 dimensions, four strategies can be formed (Ansoff, 1957):

- **Market penetration:** market penetration occurs when a company penetrates a market with its current products. This strategy is used to increase sales without drifting from the original product-market strategy (Ansoff, 1957). Typical systems employed include volume discounts, bonus cards and customer relationship management. This strategy is important as it is easier to retain existing customers than to attract new ones.
- **Market development:** company strategies based on market development often try to lure clients away from competitors to attract new customers for existing products or to introduce existing products in foreign markets or new geographical areas.
- **Product development:** company strategies based on product development often try to sell other products to their regular clients. This can be accessories, add-ons or completely new products. Often existing communication channels are leveraged. This strategy often moves the company into markets and towards customers that are currently not being catered for.
- **Diversification:** company strategies based on diversification are the most risky types of strategies. “It calls for a simultaneous departure from the present product line and the present market structure” (Ansoff, 1957, p. 114). Often there is credibility focus in the communication to explain why the company enters new markets with new products. This quadrant can be further divided into horizontal diversification (new product, current market) (Levy & Weitz, 2001), vertical or forward and backward diversification (move

into suppliers or customers business) (Levy & Weitz, 2001), concentric diversification (new product closely related to current product in a new market) (Ansoff, 1957) and conglomerate diversification (new product in a new market) (Ansoff's Matrix on Value Based Management, 2007).

While each of these strategies describes a distinct path which a company can choose to follow, Ansoff (1957) emphasizes that in most actual situations a company would follow several of these strategies simultaneously.

- **Ansoff's Matrix and online retail**

Online retail is often described as a new channel to reach both existing markets and new markets, providing an instant global presence (Chipp and Ismail, 2004). This can be seen as applying Ansoff's market penetration and market development strategies. In addition, an online retailer's ability to supply a larger variety of goods as a result of no physical store constraints (Chipp and Ismail, 2004) implies the use of Ansoff's product development strategy. Ansoff's Matrix is therefore particularly pertinent for consideration as a business model for online retailers.

2.4. The Marketing Mix (4Ps)

Ansoff's Matrix has been extended in retailing strategic decisions to the selection of a target market as well as the development of the 'six Ps' of the retailing mix (Lamb, Hair and McDaniel, 2002). The six Ps are derived from the Marketing Mix Model of 4Ps. The 4Ps are controllable variables which need to be blended in an optimal way. The 4Ps Marketing Mix framework has its origins in the 60's: Neil Borden (1964, cited in Constantinides, 2006) identified twelve controllable marketing elements that, properly managed, would result in a 'profitable business operation'. Several studies confirm that the 4Ps is indeed the trusted conceptual framework of practitioners dealing with operational issues (Constantinides, 2006), and that the chances of successful activities increase if decisions on the 4P activities are optimised (Constantinides, 2006). Given Timmers' (1998) findings that it is essential to link the business model of an online retailer to a marketing model, it was considered prudent to include the Marketing Mix in this literature review.

The 4Ps are:

- **Product**

Kotler and Keller (2006) define a product as anything that can be offered to a market to meet a want or need. A product includes physical goods, services, experiences and events to name a few. Products can be classified in a variety of ways - such as according to durability and tangibility (Kotler and Keller, 2006), as well as consumer versus industrial products, and according to whether the product is a budget item or a luxury item.

As Ansoff's Matrix depicts, products can be either existing or new products. The success of a certain product also depends on a number of other factors including: quality, design, features, brand name, packaging, sizes, warranties and return policies.

The choice of product from an online retailer's perspective is one of great importance, as not all products are suited to online retailing. Products with high sensory requirements, or those which need to be experienced, tried on or tested before being purchased are generally not suitable for online retailing (Chipp and Ismail, 2004).

From a niche online retailer's perspective, Michaelson (1988, p 23) believes that the first rule of a niche marketing strategy is "to offer the customer a clearly differentiated product that fills (or creates) a need". Parrish, Cassill and Oxenham (2006) conclude that a company must offer a product uniquely different from the competition, which appeals to a specific market segment. "This can be done by offering an innovative, technologically advanced product" state Parrish *et al* (2006, p 703). Kotler and Keller (2006) note the recipe for internet niche retailers' success as the combination of choosing a hard-to-find product with one that customers do not need to see and touch.

- **Place**

“The most important factors for success in retailing are location, location, location”, Anon.

The decision on where to establish your retail outlet is definitely a major one. A retailer must consider the relationship between high traffic and high rent (Kotler and Keller, 2006). Decisions regarding place also include the channels to be used to distribute products, the amount of inventory to be held on site, and therefore the size of storage required as well as transport to and from the store. Value Based Management (2007) notes the retailer must consider whether the product or services are available at the right place, at the right time and in the right quantities: revolutions in business often come about by changing ‘Place’.

For online retailers, location is one aspect which is irrelevant because the internet reduces the importance of the physical location of the retailer. It widens the geographical market from local to regional, national and even international (Porter, 2001). “The internet provides an instant global presence, which provides access to traditionally geographically dispersed and hard-to-reach markets” (Chipp and Ismail, 2004, p. 209). For a niche online retailer this has the benefit of exponentially increasing the narrow market for the niche product. This has disadvantages as well though: as virtually every dealer or retailer globally becomes your potential competition in the market (Porter, 2001).

- **Price**

The pricing decision is influenced by the product and the target market. As Reynolds and Cuthbertson (2004) note, budget customers are price-focused while value customer focus on value for money; quality customers are focused on high quality products and services and while price is not their primary concern, they also do not want to be 'ripped off'. And finally, luxury customers will choose exceptionally high product quality products and services. Price is not an issue for these customers. Decisions regarding price also need to include decisions around discounts, allowances, payment periods and credit terms, as Kotler and Keller note (2006).

These pricing considerations relate to online retail as well. Online retailers do not have all the costs which traditional retailers have with regard to physical stores, staffing, stock storage and so on. They do however have additional costs such as the cost of delivery which needs to be factored in to the final price of their products (Levy and Weitz, 2001). Another factor which an online retailer needs to consider with regard to their product pricing is channel conflict – where a retailer is selling their products both online and offline. To sell their product at a lower cost online could be seen as cannibalising their offline channel (Chipp and Ismail, 2004).

Niche online retailers, discussed in more detail later in this chapter, have the advantage that customers will pay a premium price to the firm that best satisfies their needs (Kotler, 2003).

- **Promotion**

Promotion refers to sales promotions, advertising, public relations and direct marketing (Kotler and Keller, 2006). Promotion has four distinct elements – advertising, public relations, word of mouth and point of sale.

Value Based Management (2007) describes promotion as how the chosen target groups are informed or educated about the organisation and its products. “While the other three Ps have lost much of their meaning in today’s markets, Promotion has become the most important P to focus on” (Value Based Management, 2007).

An extremely useful benefit of the internet is its value to the retailer as a means to communicate promotional data to the market. Customers and prospective customers can be provided with a wealth of detail about the firm via the firm’s website. Chipp and Ismail (2004) also note the use of websites as interactive brochures.

An additional P which has subsequently been added to the 4Ps is considered useful for service industries and has thus been included here.

- **Personnel (people)**

Value Based Management (2007) in Booms and Bitner’s 7Ps model for services industries, defines personnel (people) as all people directly or indirectly involved in the customisation of the product or service.

Stephen J. Arnold's research into lessons to be learnt from the world's best retailers (2002) highlights inspirational leadership. Arnold (2002) found that in every one of the world's best retailers interviewed, there have been leaders who inspired their organisations. These individuals were also credited with growing and establishing an organisational culture that attracted talented, passionate individuals and motivated them as managers and employees to be entrepreneurial, adaptive and opportunistic. Arnold (2002) concluded that regardless of what the retailer sold, or the retailer's location, success originated from individuals who motivated others in the organisation to be innovative in making customers and their community their top priority. Crittenden and Wilson (2002) concur that success in retailing is due to the maturity and experience of key managers, and the ability to retain good people and to promote from within.

From an online retailer's perspective, good personnel are equally as important. Whether web designing, answering queries from potential customers, placing orders with suppliers, responding to dissatisfied customers or shipping items to customers, an online retailer needs a team of competent, talented, passionate individuals (Chipp and Ismail, 2004).

- **Target market selection**

Any retailer must be content with not being able to satisfy every customer in a market. The retailer must identify distinct groups of buyers who might prefer or require certain product and service mixes. This identification is done by examining demographics and behavioural patterns among buyers. The retailer must then decide which market segment presents the greatest opportunity. As

Kotler and Keller (2006) note, for each chosen market, the retailer then develops a market offering which must be positioned in the targeted buyer's mind as delivering certain key benefits and value. Reynolds and Cuthbertson (2004) refer to this decision as the consumer segment decision where the decision of 'to whom' the product/ service mix is targeted is made, and the target markets' perceived needs are determined.

Knowing and understanding your target market is equally important for an online retailer. With regard to a niche online retailer, Dalgic and Leeuw (1994, 9. 40) "consider a niche market to be a small market consisting of an individual customer or a small group of customers with similar characteristics or needs". Linneman and Stanton (1992, cited in Parrish *et al*, 2006) comment that a niche involves the splitting of traditional markets into smaller segments, or niches. This is in line with the five characteristics Kotler (2003) describes niche markets as having, namely:

- The customers in the niche have a distinct set of needs;
- They will pay a premium price to the firm that best satisfies their needs;
- The niche is not likely to attract competitors;
- The niche marketer gains certain economies through specialisation; and
- The niche has size, profit and growth potential.

2.5. Porter's Competitive Advantage Model

Michael E. Porter (1980) in his book entitled 'Competitive Strategy: Techniques for Analyzing Industries and Competitors' proposes three generic strategies that a business can choose to focus on from a strategic point of view.

These are:

- Overall cost leadership
- Differentiation
- Focus

Figure 2.3 Porter's Competitive Advantage Model

Source: Porter, M.E. (1980)

		Competitive advantage	
		Low cost	Higher cost
Comparative scope	Broad	Overall cost leadership	Differentiation
	Narrow	Cost focus	Differentiation focus

- **Overall cost leadership**

From a retailer's perspective this would be where a retailer seeks to become the low cost producer in its industry (Value Based Management, 2007); to keep its costs to a minimum to enable it to compete on price and thereby win a large market share from its competitors. By producing high volumes of a basic product, a firm would look to take advantage of economies of scale. Porter (2001) refers to this as operational effectiveness, which involves doing the same things your competitors do but doing them better (Porter, 2001). Porter's overall cost leadership strategy fits in well with the first stage of the Wheel of Retailing (Hollander, 1960).

"The Internet is a nearly perfect market because information is instantaneous and buyers can compare the offerings of sellers worldwide. The result is fierce

price competition, dwindling product differentiation and vanishing loyalty" (Kuttner, 1998, cited in Reynolds and Cuthbertson, 2004).

- **Differentiation**

This involves doing things differently from your competitors in a way that delivers a unique type of value to customers. From an online retailer perspective, this could entail offering a different set of features or different logistical arrangements (Porter, 2001); to concentrate on achieving superior performance in an aspect of the product or service offering considered important and of benefit by the customer, and a large part of the market. In this way, the retailer differentiates itself in the market. It is important to note that a differentiator cannot ignore its cost position. In all areas that do not affect its differentiation, it must aim to decrease cost. Gebauer and Ginsburg (2003) note that for an online retailer, examples of differentiation can be powerful search engines that help match consumer preferences quickly to products, or generous loyalty programmes.

Porter (2001, p.66, 67) notes however "It is more difficult for on-line (sic) dealers to differentiate themselves, as they lack potential points of distinction such as showrooms, personal selling and service departments. With more competitors selling largely undifferentiated products, the basis for competition shifts ever more toward price". This suggests that when applying Porter's Competitive Advantage Model to a niche online retail environment, a focus on cost would be expected.

- **Focus**

From a retailer's perspective this would entail focussing on one or more narrow market segments (a niche market) and either competing on cost or differentiation models in each niche.

Porter defines strategy as the creation of a unique and valuable position involving a set of activities which differs from the competition (Porter, 1980). A successful retailer can therefore be said to be one that performs different activities from its competitors, or alternatively, performs the same activities in a different way.

Online retailers, depending on their products and target markets could fall into any one of Porter's generic strategies. Niche online retailers, given that customers will pay a premium price to the firm that best satisfies their needs (Kotler, 2003), will look to focus on differentiating themselves in their product, their product range and service offering as opposed to competing on price.

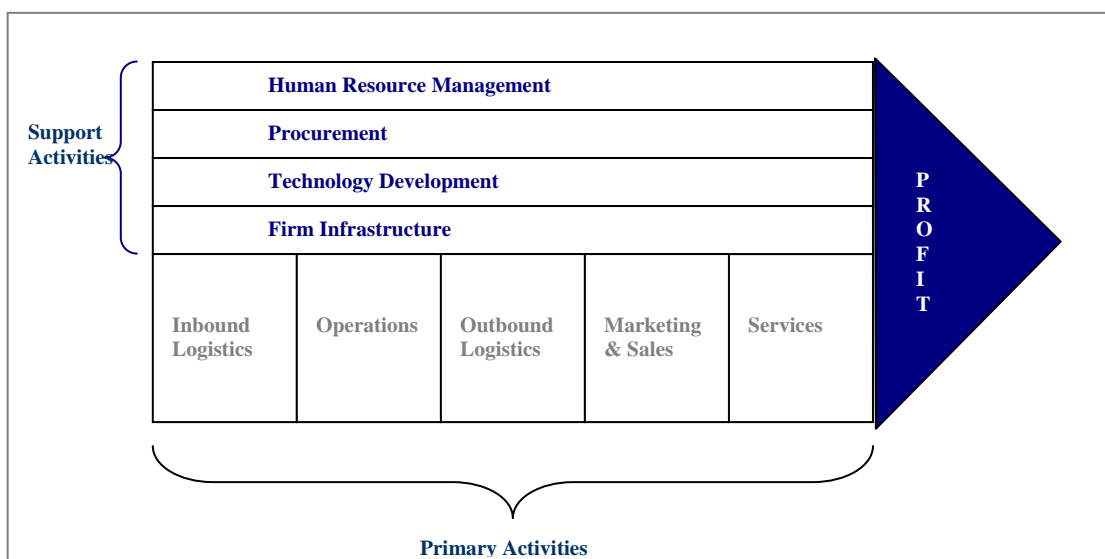
2.6. Porter's Value Chain

Michael Porter's (1985) Value Chain is a tool for identifying ways to create more customer value and competitive advantage for the firm at each stage in the 'value chain'. The model divides a company's activities into the technologically and economically distinct activities it performs to do business (Porter and Millar, 1985).

According to the model, every retailer is an amalgamation of activities designed to design, produce, market, sell and service its products. These activities are reflected in the model as *primary activities*. In total, the model identifies nine strategically relevant activities that create value and incur costs in any business (Porter and Millar, 1985). In addition to the primary activities mentioned above, the model includes four support activities, namely: the firm's infrastructure, human resource management, technology development and procurement.

Figure 2.4 Porter's Value Chain

Source: Porter and Millar (1985) The Value Chain



As Kotler and Keller (2006) note, the primary activities cover the cycle of bringing materials into the business (inbound logistics), converting them into products (operations), delivering the final products (outbound logistics), marketing the products (marketing and sales) and supporting and servicing them (service). The support activities are handled in certain specialised departments.

Each retailer's focus will be on understanding the costs and performance of each of the nine value-creating activities and looking for ways to improve them. Improvements will depend on the product or service offered, and the willingness of the retailer to innovate on each activity. "The most successful dot.coms will focus on creating benefits that customers will pay for" (Porter, 2001, p76).

The main advantage of the internet in general and for online retailers specifically is the ability to link one activity within the value chain with others and make real-time data created in one activity widely available, both within the company and with outside suppliers, and customers (Porter, 2001). Careful management of these linkages is often a powerful source of competitive advantage because of the difficulty rivals have in identifying and replicating them (Porter and Millar, 1985).

Building on from this, Kotler and Keller (2006) consider that to be successful, a retailer needs to consider competitive advantages beyond its own operations, into the value chain of suppliers, distributors and customers. "Many companies today have partnered with specific suppliers and distributors to create a superior value delivery network also called a supply chain" (Kotler and Keller, 2006, p. 39).

2.7. Summary of retail models

The above retail models can be summarised as follows:

Table 2.1 Summary of Retail Theory

Retail Theory/ Models	Summary of success factors
The Wheel of Retailing (Hollander, 1960)	Entry Phase: low price and low service Trading-up Phase: higher prices and elaborate facilities Vulnerability Phase: top heaviness and conservativeness
Ansoff's Matrix (Ansoff, 1957)	Focuses on 2 dimensions: <ul style="list-style-type: none"> • Products and • Markets Within these 2 dimensions are four growth strategies: <ul style="list-style-type: none"> • Market penetration (current markets and products) • Market development (new markets, current products) • Product development (current markets, new products) • Diversification (new markets and new products)
The Marketing Mix Model (4Ps)	Controllable variables which can be blended to meet the needs of the target market: <ul style="list-style-type: none"> • Product • Price • Place • Promotion Additional variable added: <ul style="list-style-type: none"> • <i>Personnel (people)</i>
Porter's Competitive Advantage Model (1980)	Sustainable competitive advantage can be achieved by means of: <ul style="list-style-type: none"> • Cost leadership (low cost) • Differentiation • Focus
Porter's Value Chain framework (1985)	Value and competitive advantage can be established by focusing on: <ul style="list-style-type: none"> • Primary activities:

	<ul style="list-style-type: none"> ○ Inbound logistics ○ Operations ○ Outbound logistics ○ Marketing and sales ○ Service • Secondary activities: <ul style="list-style-type: none"> ○ Firm infrastructure ○ Human resource management ○ Technology development ○ Procurement
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2.8. Unique selling points of niche retailers

Having discussed models for traditional retailers, it is evident that there are some unique aspects applicable to niche retailers which have not been discussed. These have been included below to provide a fuller picture.

- **Factors for success – specific to niche markets:**

Parrish *et al* (2006) note that one of the most important factors in the success of niche marketing is **relationships**. Dalgic and Leeuw (1994) stress that strong, long-term relationships can help build a barrier to deter potential competitors and sustain long-term profitability and customer retention. Parrish *et al* (2006) note that potential success as a niche market depends on a strong, loyal customer base that would not easily be swayed by the competition.

Another concept of major importance to a niche marketer, according to Parrish *et al* (2006) is **reputation**. McKenna (1998, cited in Parrish *et al*, 2006) points out that niche strategies depend on word-of-mouth and referrals. Dalgic and

Leeuw note that in niche marketing, a company markets not only their products, but also their business (Dalgic and Leeuw, 1994).

Other important characteristics of successful niche marketers have been noted by Dalgic and Leeuw (1994) as positioning, profitability, distinctive competences, small market segments, and adherence to the market concept. Kotler (1999, cited in Parrish *et al*, 2006) suggests that the success of niche marketers is due to their strong dedication to their customers and the offering of superior performance, responsive service and punctual delivery, with top management staying in direct and regular contact with key customers, and the emphasis on continuous innovation directed at improving customer value.

Another critical success factor is **sound research**. Linneman and Stanton (1991) note the ABCD of successful niche marketing as “Always Be Collecting Data”. Successful niche marketing requires information gathered over a period of time with regard to customers’ wants and needs, as well as sensitivity to price. “Research results suggest that the most important factor in the success of a niche market is the knowledge of the customer. Companies need to understand customers’ wants and needs, and must focus on the right market for their product. Firms gain this understanding by communicating with the consumer through intense and extensive market research” (Parrish *et al*, 2006, p. 702).

2.9. Conclusion

This literature review has considered five well respected retail theories, models and frameworks. These retail theories, models and frameworks will now be tested against a sample of niche online retailers in South Africa, with the aim being to determine if retail theories, models and frameworks can and are being successfully employed by niche online retailers in South Africa.

3. Chapter 3: Research Questions



The aim of this study is to establish what the critical success factors are for niche online retailers in South Africa. To facilitate this research, a number of tried and tested retail theories, models and frameworks have been documented as well as the specific characteristics of a niche retailer.

The open-ended questions that will be answered in this research are:-

Research Question 1: Low cost entry

Is a critical success factor for a niche online retailer in South Africa the ability to enter a market as a low cost supplier, with the option of increasing prices at a later stage? (Wheel of Retailing)

Research Question 2: Products and Markets

Is a critical success factor for a niche online retailer in South Africa the decision between offering current products in current markets, current products in new markets, new products in current markets or new products in new markets? (Ansoff's Matrix)

Research Question 3: Product, price, place, promotion, personnel

Are critical success factors for a niche online retailer in South Africa the decisions made regarding product, price, place and promotion? (The Marketing

Mix Model). Are decisions made regarding personnel and target markets critical success factors for niche online retailers in South Africa?

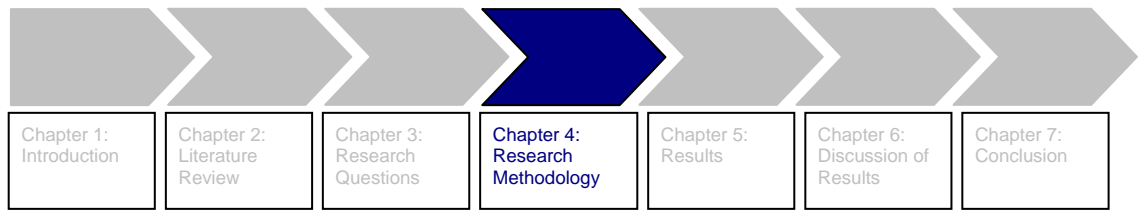
Research Question 4: Cost leadership, differentiation and focus

Are critical success factors for a niche online retailer in South Africa the decisions made regarding whether to follow a low cost strategy or a differentiation strategy? (Porter's Competitive Advantage model). The question regarding focus is considered superfluous as it refers to a niche retailer – which the sample of respondents must be in order to be interviewed in the first place.

Research Question 5: Primary and Secondary activities

Are critical success factors for niche online retailers in South Africa the decisions made regarding primary activities (inbound logistics, operations, outbound logistics, marketing and sales and service) and secondary activities (firm infrastructure, human resource management, technology development and procurement)? (Porter's Value Chain framework)

4. Chapter 4 – Research methodology



5.1. Rationale for Methodology

The aim of this research was to determine the critical success factors of niche online retailers in South Africa with reference to well known retail theory, models and frameworks. This retail theory has not to the researcher's knowledge been used previously to determine the critical success factors for niche online retailers in South Africa.

Leedy (2001) recommends a qualitative methodology design when a researcher is attempting to interpret a certain phenomenon. He notes that to answer some research questions it is not possible to skim along the surface – the researcher must dig deep. To attempt to answer the research questions noted in chapter 3 in a meaningful manner, it was deemed necessary to conduct exploratory research into the status of the online retail market in South Africa currently, the strategies and models being followed by niche online retailers in South Africa, the reasons for the application of these strategies and models and the niche online retailer's experience in the online retail market in South Africa. This was not considered achievable through quantitative research. This qualitative research generated data by means of exploratory, semi-structured, in-depth interviews (Kvale, 1996).

In a study of this nature a sample size of five to twenty-five individuals is considered adequate (Leedy and Ormrod, 2001). This research was conducted on a small sample and in significant depth to enable the research questions to be answered in sufficient depth so as to be meaningful. The sample, while small, was carefully selected to ensure those interviewed were able to contribute meaningfully to the research questions posed.

Given the review of current retail theory, models and frameworks as part of this research, concept testing of these retail theories, models and frameworks was undertaken as part of this qualitative research. Silverman (2001) agreed that prespecified theories can be tested with qualitative data. A series of key research questions to these ends were devised.

To ensure as far as possible the trustworthiness of this qualitative research, Guba's (1981, cited in Shenton, 2004) four constructs for enhanced trustworthiness in qualitative research were taken into account. These include:

- Credibility
- Transferability
- Dependability and
- Confirmability

- **Credibility**

Lincoln and Guba (1985) argued that ensuring credibility was one of the most important factors in establishing trustworthiness in qualitative research. To ensure credibility, the following actions were taken during this qualitative research:

- Well established research methods were adopted in the form of expert interviews, and in-depth semi structured interviews of niche online retailers. The use of more than one research method enabled triangulation of data resulting in a greater confidence in the findings (Bryman and Bell, 2003)
- Familiarity with the culture of participating niche online retailers was established upfront, and a relationship of trust established between the interviewer and the participant, as recommended by Lincoln and Guba (1985)
- Different methods of testing the retail theories, models and frameworks discussed, as well as determining other critical success factors for niche online retailers in South Africa, were used in concert to compensate for the individual limitations of each of the methods, and to exploit their respective benefits. These methods included both expert interviews in phase 1 and in-depth semi-structured interviews with niche online retailers in phase 2
- Tactics to help ensure honesty of respondents were employed (Shenton, 2004). Potential participants were given the opportunity to refuse to participate in the research. This was done to ensure only participants who were genuinely willing to part in the research and prepared to offer data freely were interviewed. Participants were also encouraged to be frank from

the outset of each interview. The interviewer made it clear to all respondents that there was no right or wrong answer to any of the questions asked

- Iterative questioning was used by the interviewer to ensure a respondent's answers to questions were correctly recorded (Shenton, 2004). The interviewer returned to matters previously raised by the respondent with a view to extracting related data through rephrased questions.
- Member checks, which Lincoln and Guba (1985) consider the single most important provision that can be made to bolster qualitative research credibility, were used. Participants were asked to read the transcript of their interviews to ensure what was recorded was an intended reflection of the participant. In addition, participants were asked to verify and comment on the researcher's theories and inferences formed during the research. Pitts (1994), Brewer and Hunter (1989) and Miles and Huberman (1994) (cited in Shenton, 2004) have all employed this strategy before. Where appropriate, participants were also asked to offer reasons for patterns observed by the researcher in the course of the research.

- **Transferability**

Bryman and Bell (2003) noted that because qualitative research typically entails the intensive study of a small group of individuals sharing certain characteristics, qualitative findings tend to be orientated to the contextual uniqueness and significance of the aspect of the social world being studied; they cannot be applied to other studies and other situations. Consequently, the findings of qualitative research such as this research are specific to a small sector of the online retail market, and to a small number of participants within

this niche market. It is therefore impossible to demonstrate that the findings and conclusions from this research are applicable to other situations and populations. The researcher however focused on providing contextual information about the niche online retail sector as well as the participants in the study to enable as far as possible the application of these findings to other areas.

- **Dependability**

In order to address the issue of dependability, that is, the ability for an independent researcher to reperform this research following the processes and methods noted in this research, the processes and methods followed in the course of this research have been explicitly stated.

- **Confirmability**

Miles and Huberman (1994, as cited in Shenton, 2004) consider that a key criterion for confirmability is the extent to which the researcher admits his or her predispositions. The researcher therefore sought to make the reasons for her decisions to follow certain methods very clear, and to highlight the possible limitations of these decisions.

5.2. Research design

Zikmund (2003) noted with regard to exploratory research, that the researcher must be creative in the choice of information sources to be investigated. As a result, this research design took the form of a 2-phase qualitative study.

Phase 1 consisted of semi-structured interviews with online retail experts in South Africa currently. Expert interviews were considered a vital starting point as the researcher did not have a background herself in retail nor in online retail.

The aim of this research phase was:

- to gain a deeper understanding of the current state of niche online retailing in South Africa currently
- to ascertain, at a high level, the relevance of the retail theory, models and frameworks to the niche online retailer in South Africa
- to inform the tailoring of research questions for phase 2 and
- to assist with the selection of the sample used in phase 2.

The experts in online retail were identified through articles written recently in South Africa regarding online retail, as well as the panel members of the Jump Shopping E-Commerce Awards (Jump Shopping, 2007) and members of the South African Forum for E-tailers (2007). A table of experts in the field of online retail in South Africa currently who were approached and prepared to take part in this research is provided below.

Table 4.1 Participants in expert interviews

	Name of expert	Designation
1	Arthur Goldstuck	Managing Director – World Wide Worx
2	Albert Bredenhann	Co-owner – Jump Shopping
3	Charles Elliman	Web Strategist, DFS division - MWEB Business Solutions
4	Jaco Roux	Founder and Co-owner – Jump Shopping

Phase 2 consisted of semi structured in-depth interviews with the key decision makers or entrepreneurs of niche online retailers in South Africa.

Table 4.2 Participants in niche online retailer interviews

	Name of participant	Designation and Company name
1	Emile Swanepoel	Managing Director – www.bodynut.net
2	Fiona Philips	Managing Director – www.cybercellar.co.za
3	Greg Wise	Managing Director – www.girlsbestfriend.co.za
4	Justin Drennan	Partner – www.wantitall.co.za
5	Michelle van der Merwe	Managing Director – www.gurgle.co.za
6	Minette Tonoli	Managing Director – www.herbsonline.co.za
7	Patricia Timmins	Managing Director – www.embroideryconnection.co.za
8	Ryan Bacher	Managing Director – www.netflorist.co.za
9	Teresa Barnard	Managing Director – www.beautybust.co.za
10	Zane Zietsman	Managing Director – www.edreams.co.za

Given the nature of this research, no generalisation is possible. The aim however is for the critical success factors identified to be empirically and quantitatively tested in future.

5.3. Population

The population of relevance for phase 1 of this research consisted of all online retail experts in South Africa. An expert for the purposes of this research was defined as someone with a current theoretical and/ or practical knowledge of both mainstream and niche online retail in South Africa, who was involved on a

regular basis with the South African online retail market and who would be able to provide context for the purposes of this research into niche online retailers.

The population of relevance for phase 2 of this research consisted of all niche online retailers in South Africa who met the definition noted in Chapter 1. The size of this population was unknown as no records specifically documenting niche online retailers as defined for the purposes of this study were available.

5.4. Sampling

The sample for expert interviews in phase 1 was a **judgement (purposive) sample**, defined by Zikmund (2003, p 382) as “a non-probability sampling technique in which an experienced individual selects the sample based upon some appropriate characteristic of the sample members”. For the purpose of phase 1, the characteristic of sample members which facilitated their selection was the meeting of the definition of an expert noted above. To ensure the necessary experience required for the selection of a sample using judgement sampling was obtained, the expert interviews in phase 1 began with the online retail experts who comprised the panel members of the Jump Shopping E-Commerce Awards (Jump Shopping, 2007).

The sample for phase 2 will be selected using a combination of judgement sampling and **snowball sampling**. Zikmund (2003, p. 741) defined snowball sampling as a sampling technique in which initial respondents are selected by probability methods and additional respondents are obtained from information provided by these initial respondents. As the complete population of niche online retailers in South Africa was unknown and therefore true probability

sampling could not be used, the initial sample members were selected from a source containing a number of niche online retailers in South Africa, recommended by the experts interviewed, Jump Shopping (Jump Shopping, 2007). This comprised the judgemental aspect of the sampling. Additional respondents were obtained from information provided by the initial respondents. This comprised the snowball aspect of the sampling. A necessary condition for the inclusion in this sample was the meeting of the definition of a niche online retailer, as defined for the purposes of this research.

5.5. Unit of analysis

The **unit of analysis** will be experts and individual niche online retailers as defined for the purposes of this study. Table 4.3 shows the collection method, sampling technique and sample size for each phase of the research.

Table 4.3 Data collection method, sampling technique and sample size

Research phase	Aim of phase	Data collection method	Sampling technique	Sample size
Phase 1	Expert opinion on critical success factors for online retailers in South Africa, with a specific focus on niche online retailers	Semi structured, expert interviews	Judgement/Purposive	4
Phase 2	In-depth face to face interviews with key decision makers or entrepreneurs of niche online retailers in South Africa	Semi-structured, in-depth interviews	Judgement/Purposive and Snowball sampling	10

4.6. Data collection, instrumentation, data analysis and data management

5.6.1. Data collection

Table 4.3 shows the methods used for data collection for both phase 1 and phase 2 of this study. Semi-structured face-to-face interviews have been selected for use in phase 1. Online retail experts were contacted telephonically and by email and asked to take part in the research. Forty-five minute meetings were set up at a location of the expert's choice at a time most convenient to them. All meetings took place at the expert's place of work during the day.

Semi-structured, in-depth face to face interviews were selected for use in phase 2. Potential respondents were contacted telephonically and by email and asked if they would be interested in participating in this research. Four potential respondents that were contacted either declined taking part in the research or did not reply to email messages or telephonic messages left for them. Reasons given for not taking part in this research included the potential participant's perception that their online business was not yet successful, or that their business was too new to be able to make any comments that would add value to the research. One to one and a half hour meetings were set up at a location of the niche online retailer's choice and at a time most convenient to them. Three of the ten interviews conducted took place after work hours at a coffee shop or similar, quiet location.

Responses to questions in both interviews in phase 1 and phase 2 were recorded verbatim where possible (Zikmund, 2003, p. 441). The manner in

which the respondents answered, including tone and word usage, were also noted for analysis. For this reason, and to facilitate the establishment of trust and rapport between the interviewer and the participants, interviews were held face-to-face where possible. All interviews were held face-to-face with the exception of respondent 5 whose interview was conducted telephonically.

5.6.2. Instrumentation

Phase 1 - A copy of the Expert Interview Guidelines, used by the interviewer during each expert interview to encourage the comparability of results, can be found in Appendix A.

Phase 2 - A copy of the Niche Online Retailer Interview Guidelines, used by the interviewer during each interview to encourage the comparability of results, can be found in Appendix B.

Participants in phase 1 were asked to paint a picture of the online retail market in South Africa currently, and questions were aimed at answering the research questions in chapter 3. Participants in phase 2 were asked to relate their story of the setting up of their niche online retail business in addition to a series of questions aimed at answering the research questions noted in chapter 3, as well as any critical success factors identified during expert interviews. Questions asked in phase 1 and phase 2 did not represent a structured, quantitative questionnaire, but a more open ended questionnaire. Respondents were free to range more widely in their comments and to add any factors they deemed critical for success. A larger pool of detailed but relatively unstructured information was gathered relating to each unit of analysis than would be

possible using a large scale clearly defined quantitative survey (Yin, 1994) (cited in Parrish *et al*, 2006). This allowed for additional insights, which is important because a range of various business situations and motivations could thereby be captured (Parrish *et al*, 2006).

4.6.3. Data analysis

Qualitative research has been likened to the metaphor of a lantern (Shank and Villella, 2004) as lanterns are used to allow light to illuminate dark areas so that things previously obscure can now be seen.

Content analysis of the interview transcriptions from both the expert interviews and the niche online retailer interviews was performed. Transcripts were analysed in isolation and the researcher's observations noted. The observations were then compared and contrasted to each other. The analysis sought to identify key factors critical for success, as noted by the interviewees, that support the retail theory, models and frameworks identified during the research (refer to Chapter 2) , as well as those critical success factors not covered by the retail theory discussed.

In addition, the analysis sought to identify either a single or a combination of retail theory, models or frameworks which most accurately and concisely supported the critical success factors noted by interviewees.

The transcripts from both the expert interviews and the niche online retailer interviews were also analysed from the tone of the interviewees, their word usage, as well as the practical versus the theoretical nature of their responses.

4.7. Potential Research Limitations

The following limitations to this research have been identified:

- Given the researcher's lack of familiarity with the sector being studied (niche online retailers and retail theory), the researcher may have been inadvertently influenced by expert bias during the expert interviews
- Given the lack of a single source of all niche online retailers in South Africa currently, the entire population of niche online retailers could not be established. Random sampling was therefore not possible. The results of the research can therefore not be deemed to be representative of the population of niche online retailers in South Africa currently.
- This research may extend across several niche online retail sectors. Critical success factors may be specific to certain retail sectors.
- While niche online retailers have been specifically defined for the purpose of this research, this definition may differ from niche online retailers in practice, in which case the definition may need to be adjusted.
- The ability to triangulate with other data was limited as a result of the lack of theoretical knowledge of retail theory, as documented in chapter 2, of both the experts and respondents.

5. Chapter 5 - Results



5.1. Introduction

The results of all interviews conducted in terms of this research are documented here. These results include findings and comments from both the online retail experts interviewed as well as the interviews conducted with South African niche online retailers. The findings from the niche online retailer interviews have been mapped to research questions 1 to 5 to which they relate. Each expert and niche online retailer interviewed has been allocated a number which does not relate to their order in tables 5.1 and 5.2 below. This is to ensure the anonymity of the responses given by participants in the research.

5.2. Results: Expert interviews

Expert interviews were held with four experts in the field of online retail in South Africa currently. These experts are noted in Table 5.1 below. Detail regarding each of the experts is contained in Appendix C.

Table 5.1 Participants in expert interviews

	Name of expert	Designation
1	Arthur Goldstuck	Managing Director – World Wide Worx
2	Albert Bredenhann	Co-owner – Jump Shopping
3	Charles Elliman	MWEB Business Solutions
4	Jaco Roux	Founder and Co-owner – Jump Shopping

The results of these interviews are noted below under the headings from the expert interview guidelines. These interviews were conducted to gain a deeper understanding of the current state of niche online retailing in South Africa currently; to ascertain, at a high level, the relevance of the retail theory, models and frameworks to the niche online retailer in South Africa and to inform the interviews with niche online retailers.

- **To paint a picture of the online retail market in South Africa currently**

The South African online retail market is experiencing a healthy growth rate currently, specifically in the last 12 months with an expected 3 million South Africans having been 'online' for more than 5 years by the end of 2007.

When asked if niche online retailers use retail theory as the base for their online retail businesses, one online retail expert noted that there are two schools of thought:

- The first school of thought is that the rules of retail do not change, regardless of whether you are a bricks and mortar retailer or an online retailer. Factors which drive online sales are the same as those that drive offline sales, and include:
 - Visibility
 - Product range
 - Quality; and
 - General brand experience

- The second school of thought is, given the growth currently being experienced by online retail in South Africa, that regardless of the retail theories one does or does not follow, there is a good chance of success.

Overall, the experts interviewed did not name any specific retail models which were being used by online retailers – whether niche or other. They tended to classify online retailers as those entering the market as low cost suppliers, and those not entering the market as low cost suppliers.

- **Expert opinion on why South African online retail (in general) growth is not faster**

All the experts interviewed agreed that South Africans have a fear of security when it comes to online retail. This fear is made up of two components:

- they are concerned that it is unsafe to ‘shop’ online, i.e. to input your credit card details onto a website to pay for items you would like to purchase; and
- they are concerned that they will not get delivery of the items they have purchased online.

Another reason why South Africans do not buy online is a lack of access to reasonably priced broadband.

“This has been addressed by broadband providers during 2007 which has contributed to the recovery of online retail growth in South Africa in 2007”
commented expert 4.

A lack of experience with online retail – and an associated lack of comfort with buying online – is also a reason why growth in online retail in South Africa has taken a while, cited by one of the experts interviewed. This is however starting to change. As the expert noted, online retail growth is linked to the experience curve of online and internet usage. The more experience South Africans have with the internet and online banking, and the more comfortable they become with the medium, the more online retail growth there will be. The use of online banking can be used here as one indicator of the future growth of online retail.

For online retailers, credibility is also a problem. The majority of online retailers are not household names. This problem is exacerbated by the fact that not all major South African retail players are onboard yet when it comes to online retail, explained two of the experts interviewed. Their reasons for not offering products on line can vary from previous failed attempts to a perceived lack of benefit from offering products online. The result is public perception that only limited products are available on line, meaning that South Africans don't even consider searching online for products. This has negative implications for all online retailers – niche and other. The public's security concerns regarding purchasing online are also reinforced when the retail names they trust are not available online with everyone asking – if online is so safe and easy, why are some companies not doing it?

“South Africans need incentives to shop online. We have a strong shopping mall culture, and without incentives to do our shopping online, many South African's won't make the change” commented expert 3. He noted vouchers and coupons

or free delivery as incentives to encourage South Africans to do their shopping online.

Three of the experts interviewed agreed that there is currently no governing of the online retail space currently in South Africa. The Electronic Communications (ECT) Act which governs all online transactions and sending of spam is perceived not to be enforced. A possible reason for this is lack of online expertise in the legal system, an example being trying to explain to a police officer or to a judge that someone is stealing your company's bandwidth.

The total spent on online retail goods in SA in 2007 is expected to be R929 million, up from R688 million in 2006, according to the Goldstuck Report (World Wide Worx, 2007). Currently in South Africa, the vast majority (estimated to be 90%) of online retailers are 'one man bands', and in the case of an estimated 50% of online retailers, online retail is their second job and not their primary source of income, noted one of the experts interviewed.

Expert 1 commented "*The majority of online retailers in South Africa tend to be online computer stores because they have a passion for computers and the web, and computer equipment is easy to get supplies for. The problem here is that a computer guru often knows nothing about customers and customer service*".

Details surrounding the quantity of internet sales in South Africa and the number of online retailers and online shoppers are not easily quantified or easily

available. All the experts interviewed agreed that research conducted by World Wide Worx is generally considered to be the most accurate source of these figures. One of the reasons for this lack of exact figures is the resistance of online retailers to sharing information regarding the number of online shoppers visiting their stores and the amount of their annual turnover from online sales.

5.3. Results: Niche online retailer interviews

Phase 2 consisted of semi-structured in-depth interviews with the key decision makers of ten niche online retailers in South Africa. These respondents are noted in Table 5.1 below. Detail regarding each of the respondents is contained in Appendix C.

Table 5.2 Participants in niche online retailer interviews

	Name of participant	Designation and Company name
1	Emile Swanepoel	Managing Director – www.bodynut.net
2	Fiona Philips	Managing Director – www.cybercellar.co.za
3	Greg Wise	Managing Director – www.girlsbestfriend.co.za
4	Justin Drennan	Partner – www.wantitall.co.za
5	Michelle van der Merwe	Managing Director – www.gurgle.co.za
6	Minette Tonoli	Managing Director – www.herbsonline.co.za
7	Patricia Timmins	Managing Director – www.embroideryconnection.co.za
8	Ryan Bacher	Managing Director – www.netflorist.co.za
9	Teresa Barnard	Managing Director – www.beautybust.co.za
10	Zane Zietsman	Managing Director – www.edreams.co.za

Figure 5.1 below shows the number of respondents interviewed who run their business full time versus part time, and figure 5.2 shows the number of respondents for whom this is their first online business venture.

Figure 5.1 Niche online retailers interviewed – part time vs full time

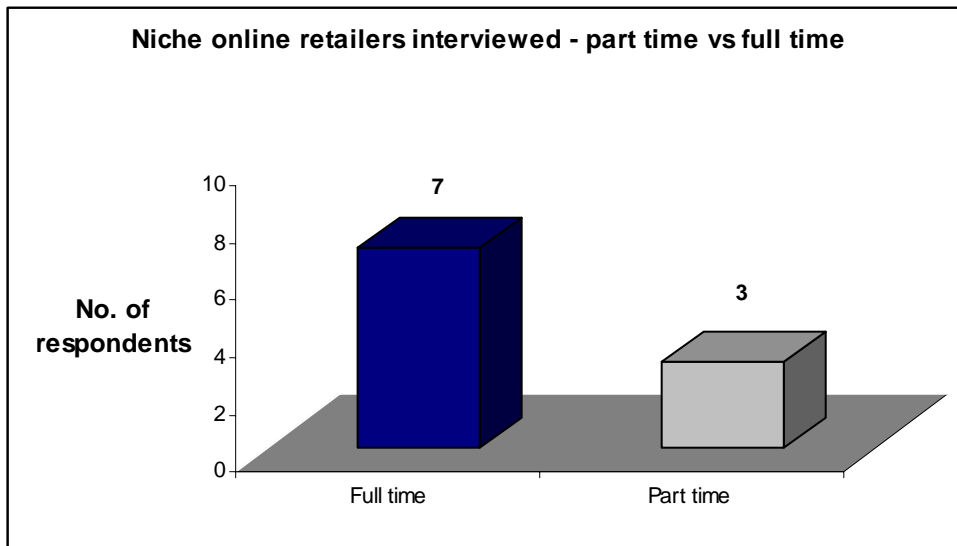
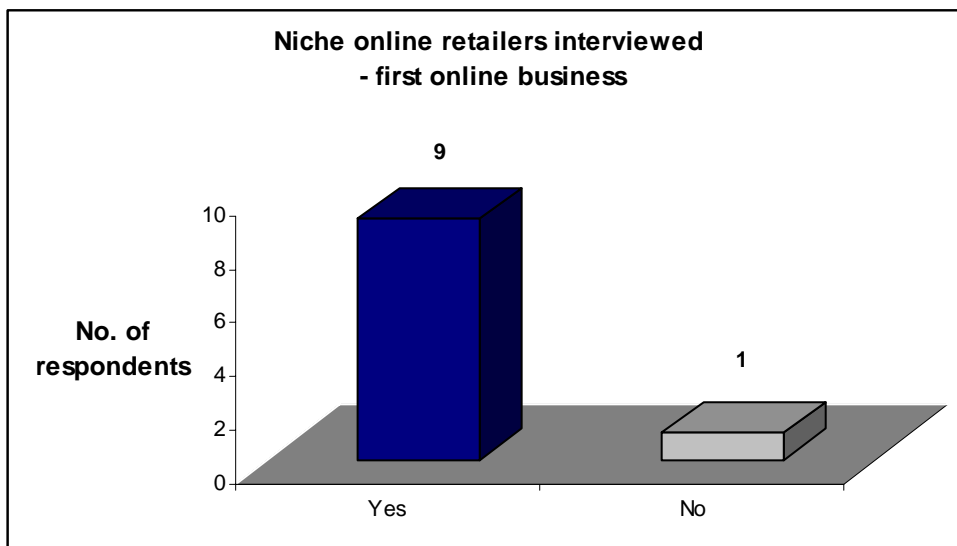


Figure 5.2 Niche online retailers interviewed – first online business



Research Question 1: Low cost entry

Is a critical success factor for a niche online retailer in South Africa the ability to enter a market as a low cost supplier, with the option of increasing prices at a later stage? (Wheel of Retailing)

Of the ten South African niche online retailers interviewed as part of this research, two respondents had entered their markets as a low cost supplier.

“I keep my prices low to make my product affordable for everyone. This does however mean my growth has been slow” commented respondent 3.

Both were able to compete on price based on their ability to contain their input costs by either using local suppliers or purchasing raw materials directly from the source. One respondent was able to compete on price in regions where they had secured distribution rights for their products.

None of these three respondents had significantly increased their prices since launching their niche online businesses. This could be partly the result of the businesses still being relatively new as none of these three respondents had been in their respective businesses for more than 5 years. While these three respondents noted a strategy to enter the market as a low cost supplier, no mention was made of an intention to significantly increase prices at a later stage.

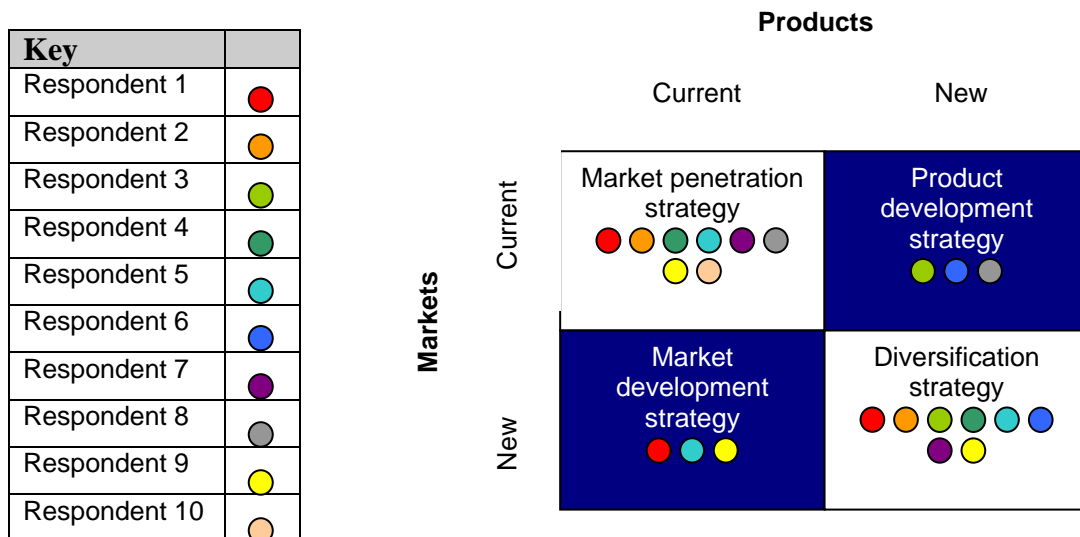
The remaining seven respondents had consciously not entered the market as low cost suppliers. The strategies of these seven respondents will be further discussed under the findings for research question 4.

Research Question 2: Products and Markets

Is a critical success factor for a niche online retailer in South Africa the decision between offering current products in current markets, current products in new markets, new products in current markets or new products in new markets? (Ansoff's Matrix)

Findings from interviews with respondents have been summarised on the Ansoff's Matrix below for ease of comparison.

Figure 5.3 Interview findings mapped to Ansoff's Matrix



For the purpose of this research, a current product has been defined as a product currently available in South Africa, a new product as a product not

previously available on the South African market, a current market as a local market, and a new market as a non-local market (foreign or international market).

As can be seen from the results presented in figure 5.1, eight out of ten respondents focused on a market penetration strategy, retailing current products in current markets online. These respondents' products were already available on the South African market although in most cases, the respondents were the primary suppliers of their products online.

With regard to diversification, respondents were classified as employing a diversification strategy if they were engaged or planned to be engaged in either forward or backward integration. Only two of the ten South African niche online retailers interviewed were not currently undertaking an element of forward or backward integration. These same two online retailers also had no plans for either forward or backward integration in the foreseeable future.

Of the eight respondents employing a diversification strategy, three were either currently employing backward integration or had plans to in the near future. Types of backward integration employed or envisaged included manufacturing of products or producing of the raw materials required for manufacturing of products as well as the purchasing of a share in suppliers.

Seven of the eight respondents employing a diversification strategy were either currently employing forward integration, or had plans to do so in the near future.

Examples of forward integration employed or envisaged included primarily the delivery of products as well as the opening of a physical store for distribution of their products.

Despite online retailers having access to a global market, only two of the respondents interviewed were currently consciously targeting the global market. This will be further examined under research question 3 below.

Research Question 3: Product, price, place, promotion, personnel

Are critical success factors for a niche online retailer in South Africa the decisions made regarding product, price, place and promotion? (The Marketing Mix Model). Are decisions made regarding personnel and target markets critical success factors for niche online retailers in South Africa?

To assess which, if any, of the 4Ps were critical to the success of a niche online retailer, respondents were asked what the most important factors to consider were when looking to enter the niche online retailer market in South Africa. Those respondents who didn't voluntarily make mention of any one of the 4Ps were prompted by the interviewer for a response.

- **Product**

Seven out of the ten respondents volunteered the choice of product as one of the factors to consider for a success niche online retail business in South Africa. These respondents noted that the following characteristics for the ideal niche online product were: the product should be easily transportable, and must be

able to be packaged so as to arrive in a usable state. One respondent commented that none of their fresh products could be sold online as South African delivery companies could not easily and affordably cater for these goods; a picture of the product on the website must be sufficient to enable the customer to make a choice, as no testing or handling of the product could be done prior to purchase; products with an international appeal that can easily be exported are preferable as well as products that can not easily be found in South Africa. One respondent noted that this is needed to counter the fact that the South African online purchasing market is not currently big enough to support niche online retailers.

“Even a big slice of a small pie is still small” noted respondent 5. *“You must ensure that what you are selling lends itself to online selling and to the internet experience”*.

Three of the ten respondents noted that, since the launch of their online businesses, they had started to include supplementary products for sale on their websites as well. This was an attempt to increase the size of purchases made by increasing the variety of products available, and has proved successful.

- **Place**

All the respondents interviewed noted that in online businesses, physical location is no longer important. Three out of ten commented however that their choice of product restricted them to the local South African online market as a result of stringent export regulations. Examples of these export regulations

include those around safety or products and the exporting of fresh produce. Another three respondents commented they were specifically only targeting the South African market as a result of their product. One of these respondents was importing goods for sale, while the remaining two respondents were currently purchasing their goods and produce locally for resale online.

One respondent noted that their product sold much better on the international market than on the local market, and that the majority of their online sales were currently generated through sales in the US, New Zealand and Australia. This will be further commented on below when target market is discussed.

Six of the ten respondents interviewed admitted to considering opening a physical store, while one respondent already had a physical store. Reasons given for considering opening a physical store included: a location for goods to be collected from and, if necessary, returned to; and, a place for potential customers to firstly see and experience products and secondly to reassure themselves as to the existence and legitimacy of the online retailer.

“Some brands and products won’t be supplied to you unless you have a physical store” commented respondent 10.

Respondent 7 noted, *“People find our product online and come to visit our physical store”*.

Respondents envisage customers visiting the physical stores initially and thereafter making their future purchases online with the assurance that the online retailer is legitimate.

- **Price**

Four out of ten respondents noted price of products as a vital factor to be considered for niche online retailers in South Africa. Respondents noted that consideration of price should include: consideration of your online and offline competitors' prices. This was noted even by those respondents who had admitted they were not competing on price; delivery and insurance costs which would ultimately affect product price. One respondent noted that their customers would not pay for the full delivery charge and they needed to recover this cost elsewhere – such as allowing advertising banners on their website. Another respondent, who is importing goods from the US, noted that displaying the price of the goods in ZAR was very important – that the potential customer did not want to have to work out the local price themselves, even if a currency converter was provided. This requires knowing the exchange rate applicable at any point in time to be able to price items correctly.

Respondent 4 noted that the value proposition being offered to the customer was more important than the price of the product. He went further to comment, *“We as online retailers have not been innovative enough around the value add we offer our online shopping customers.”*

- **Promotion**

All respondents included promotion and marketing as one of the most important factors for a new South African niche online retailer to consider. Respondent 4 commented, *“It is not a case of you can build it (a website) and they will come”*.

The majority of respondents did not advertise in traditional media (magazines, radio and TV) as this was expensive and not considered the most effective way to reach their specific target markets. Instead, promotions were done using PR companies, writing articles and reviews for online and offline newsletters and specialised magazines, displaying their products and taking part in trade shows held around South Africa annually, and holding regular draws for a collection of products. As respondent 4 commented, *“You can’t build a brand in South Africa online”*.

Another respondent had contacted the supplier of the equipment required to use their product, and had included samples of their product with all equipment purchased locally. Another respondent offered an 11th purchase free to promote sales.

“We use chat rooms and online communities to communicate with our target market” noted respondent 6.

The majority of respondents used Google Adwords to advertise their online businesses online, and to track and analyse visitors to their sites. *“We are*

continually conducting analysis of the traffic to our website and are continually re-optimising our key words” commented respondent 6.

The majority of respondents had also listed their websites with local comparative shopping websites, such as Jump Shopping (2007). One respondent maintains a website solely to advertise his product and supplementary products, and to drive web traffic to his site.

“If people can’t find you, they can’t buy from you” commented respondent 7.

A number of respondents maintain databases of their clients and send them newsletters or details of new products or specials. *“Every email address is money” commented respondent 6.*

“We have built up a database of 14 000 people. We want referrals from them so we stay in touch” noted respondent 5.

Only one respondent admitted to using spam to promote their product, and while they have only used this method once, they did comment that it resulted in a fair amount of business.

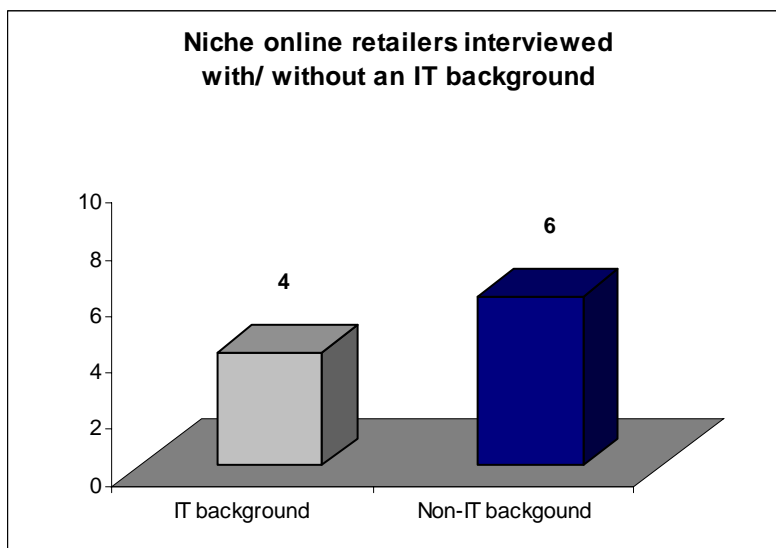
Respondent 8 noted, *“You are your own marketing – how you conduct yourself, your business, how you answer people’s questions – all this translates into word of mouth marketing”.*

Another respondent noted that when they launched they sent emails and used [facebook.com](https://www.facebook.com) and [myspace.com](https://www.myspace.com) to tell all their friends about their launch and to create some hype. This appears to have worked well.

- **Personnel (people)**

All respondents interviewed noted personnel as an important factor to consider for a niche online retailer in South Africa. Being online retailers, the majority of comments regarding personnel related to IT experts and website designers. As can be seen from figure 5.4 below, only four of the ten respondents had IT backgrounds themselves and were therefore able to either develop and maintain their websites themselves, or design the site and its functionality and oversee its development and maintenance.

Figure 5.4 Niche online retailers interviewed with/ without an IT background



Another respondent commented that niche online retail owners and their staff need to have thick skins and be able to deal with irate customers. *“People seem to find it easier to get angrier with a faceless person on the other end of a*

phone, than they would in person. Your staff must accept this and be able to deal with it' noted respondent 4.

Another respondent noted that their market was a very emotionally charged one as a result of the products they sold, and that staff needed be aware of this and sensitive to customers' needs.

Other comments regarding personnel were that staff needed to be trustworthy and resourceful – able to work alone and be able to adapt to challenging situations when they occurred, such as product defects or delayed delivery.

"You need to be passionate about your product and technology to be successful in this business" noted respondent 5. *"Hire children (sic) to work in your team – they have grown up with the internet and are very comfortable working with it"*.

- **Target market**

With regard to their target market, as noted under research question 2, despite online retailers having access to a global market, only two of the respondents interviewed were currently consciously targeting the global market. *"I have made sales to France, Russia, Malaysia, Germany and Mexico"* commented respondent 9.

As noted above, three out of ten commented that their choice of product restricted them to the local South African online market as a result of stringent export regulations. Another three respondents commented they were

specifically only targeting the South African market as a result of their product. One of these respondents was importing goods for sale, while the remaining two respondents were currently purchasing their goods and produce locally for resale online.

Regardless of whether their target market was international or local, all respondents appeared to know their target markets well. *“My target market is often computer illiterate or scared of the internet”* noted respondent 9.

Respondent 7 noted *“with no targeting of the international market, we still receive queries from outside South Africa”*.

Respondent 4 remarked *“the majority of our overseas business is from expats”*.

Research Question 4: Cost leadership, differentiation and focus

Are critical success factors for a niche online retailer in South Africa the decisions made regarding whether to follow a low cost strategy or a differentiation strategy? (Porter’s Competitive Advantage model) The question regarding focus is considered superfluous as it refers to a niche retailer – which the sample of respondents must be in order to be interviewed in the first place.

Given the nature of this research, all interviews were conducted with South African niche online retailers. Niche online retailers by virtue of their focus on narrow markets and products are classified according to Porter’s Generic Strategies Model (figure 2.3 in chapter 2) as falling into one of the two focus

quadrants. These niche online retailers would then be either competing on cost or differentiation models in their niche.

Entering the market with the aim of being a low cost supplier and competing on price has been covered under Research Question 1 above in discussing Hollander's Wheel of Retailing. Two respondents were noted as competing on price in their markets, and a 3rd in certain instances. Our attention here will be focused on the remaining seven respondents who have focused on specific differentiating characteristics for their niche online businesses.

Five of the remaining seven respondents noted their primary differentiator as being the selection and variety of products they offered. One respondent commented that they were able to offer their customers a choice of close to 8 million products online.

Customer service was noted by four of the remaining seven respondents as differentiating offerings they offered.

"Customer service is what brings people back" noted respondent 8.

These customer service offerings included: the offering of information on products currently available, for education and comparison purposes and to enable buyers to make informed choices when purchasing their products.

"The more detailed the replies I give to queries I get asked about my products, the more chance there is that I'll make a sale" noted respondent 3.

“On my website, customers are able to compare the ingredients in up to three products at a time” commented respondent 1.

Respondent 7, however, was opposed to this. *“We limit the amount of free information we include on our website as we don’t want to give too much away for free. We are however looking at adding PDFs with information that customers can pay for and download”*

Other differentiating offerings included information on new products or ranges recently launched; calendar services for reminders of important upcoming dates; customer feedback on product usage and their experience of buying online; tracking facilities for all orders from time of order to expected time for delivery; and call centres for any customer queries.

“Customer service is what brings people back to your site” noted one respondent. Respondent 6 commented, *“We respond to all email queries within four hours”*.

Quality of products on offer as well as convenience of after hours purchasing were also noted by respondents as differentiating characteristics of their online businesses. *“Quality is very important”* noted respondent 5. *“We never recommend a product based on sponsorship”*.

Respondent 8 commented, *“All our products are tested in-house before we offer them for sale”*.

Research Question 5: Primary and Support activities

Are critical success factors for niche online retailers in South Africa the decisions made regarding primary activities (inbound logistics, operations, outbound logistics, marketing and sales and service) and support activities (firm infrastructure, human resource management, technology development and procurement)? (Porter's Value Chain framework)

Having dealt with findings regarding marketing and sales and service and personnel above, the findings noted here will concentrate on Porter's remaining primary and support activities.

- **Primary activities (inbound logistics, operations and outbound logistics)**

A strong relationship with reliable delivery companies was a factor that the majority of respondents stressed for a successful online business in South Africa. *"You need to find the right delivery partner for your business"* noted respondent 8.

"Not having orders delivered timeously plays a big role in people's disappointment with their online shopping experience. You are very beholden to your delivery partner" commented respondent 4.

Respondent 8 noted, *“The big delivery guys can’t give you the personal attention you need for small, niche businesses”*. *“We have a network of delivery companies”* noted respondent 10.

Of the ten respondents, two used the post office to deliver their products to customers, while six used courier services. Two respondents noted that they had been disappointed by the well known global courier companies in South Africa and had gone in search of local courier partners. A requirement from a delivery partner was noted by respondents as being the ability to track where items for delivery were at any point in time.

Exchange control regulations were a factor noted by one respondent as important to consider when you need to export your products. *“You need to apply to the South African Reserve Bank to set up a foreign company and foreign bank accounts to enable your overseas operations”* noted respondent 5.

One respondent noted that their business is basically a global logistics business with their customers’ orders being received by them, repackaged and delivered. Eight out of ten respondents receive products from suppliers, repackage them and dispatch them for delivery, with only two respondents having their products delivered directly from their suppliers to their customers.

“You must make sure your back end infrastructure, where you will pack and process your orders, is in place before you launch your online business” commented respondent 7.

One respondent noted the need to monitor the minimum order size as some smaller orders could be very labour intensive and not very profitable.

Support activities (firm infrastructure, human resource management, technology development and procurement)

Ten out of ten respondents interviewed noted the importance of good relationships with their suppliers as a critical factor for a successful niche online retailer to consider. The reasons for this included: not wanting to have to hold stock on-hand and therefore being dependent on suppliers to hold sufficient stock to meet orders; relying on suppliers to ensure their stock is of a high quality, with minimal defects or substandard produce; relying on suppliers to accept returned stock and replace it if it is found to have been poor quality; depending on suppliers to fill your customers' orders timeously and correctly the first time; as well as, depending on the size of the online retailer, needing to purchase smaller volumes of products at a time than suppliers are used to selling.

Respondent 7 commented, "*Suppliers don't take you seriously unless you give them lots of business*". "*As a niche online retailer, you are very dependent on your suppliers*" noted respondent 10.

Respondent 8 remarked, "*Suppliers don't communicate with you regarding the stock they have on hand. You can end up scouring the country to find certain products to fill orders*".

Another respondent noted the need to have trustworthy suppliers, to trust that your supplier won't cut you out and deal directly with your customers.

Only two of the ten respondents interviewed made mention of communicating orders with their suppliers online, or being able to check their suppliers stock of products online. The remainder of respondents needed to physically call their suppliers to enquire as to levels of stock on-hand and to place orders.

When discussing technology development, one respondent noted the need to be vigilant when employing website designers and website hosts. They noted that while these skills in South Africa were not in short supply, a number of suppliers charge exorbitant prices for designing, hosting and maintaining your website.

"You need to minimise your site's downtime, so consider this when choosing someone to host your website" noted respondent 8.

Respondent 9 remarked, *"You need to be able to manage your own content. Make sure you aren't reliant on your website developer to put 'sale' on your website or to load new product descriptions"*.

Another respondent noted the need to protect the content on your website. Two respondents noted that their content had been used by other online retailers in South Africa on their websites.

“Make sure your developer disables the right click on your website to minimise your pictures and content being stolen from your website” noted respondent 8.

The majority of respondents either currently employed full time IT professionals for maintaining their sites, or were considering this going forward.

Being online retailers, an important aspect for all the respondents was their payment facilities. Seven of the ten respondents had facilities on their websites for their customers to pay using credit cards. All these respondents spoke highly of their payment gateways. One respondent said they consciously did not have credit card payment facilities as purchasers of their products did not want to pay using credit cards, while two respondents cited the prohibitive cost of credit card transactions as their reasons for not providing the option of paying using credit cards.

Half of those interviewed commented on the need to have processes and procedures in place so as to be able to grow their business when the time was right. *“This isn’t something a lot of small businesses consider until it is too late”* noted respondent 1. Another respondent noted the challenge of balancing growing your team with growing your sales.

With regard to firm infrastructure, nine out of ten niche online retailers noted fraud detection and prevention processes as an important factor to consider. *“If I could do it all again, I would go on a fraud prevention training course”* noted respondent 1.

Six respondents noted that South African banks were not interested in assisting small online retailers when it came to fraudulent transactions. All respondents interviewed had developed their own internal mechanisms and procedures for detecting fraudulent transactions. Only two respondents noted having fallen victim to fraudulent transactions. One respondent noted that they received what they considered potentially fraudulent purchases or email scams every second day. These potentially fraudulent transactions were from local and foreign sources, particularly from other African countries.

With regard to a company's internal processes such as accounting records, respondent 8 remarked, "*Make sure you keep good records because the tax man is going to come knocking*".

To add credibility to the business, this respondent also recommended displaying your company's VAT number on your website and ensuring you register your company and trademark your company name. "*Be a good steward of your accounts*" agreed respondent 1.

- **Additional findings**

This research also highlighted a number of additional factors critical to the success of a South African niche online retailer which were not addressed by the retail theories, models and frameworks included as part of the literature review and have therefore not been discussed before this point. These include factors such as: the establishing of a **trust** relationship between online buyers and niche online retailers and dealing with misconceptions around shopping online. It can be argued that trust is more important to a niche online retailer than to other online retailers given the smaller size of the niche online retailers target market, and the often unknown brand of the niche online retailer. As respondent 2 noted, *“Online, perception is everything”*.

Respondent 10 commented, *“South Africans are sceptical. We trust what our friends and family tell us”*.

Other factors respondents considered important include the management of **cashflows**, specifically for online retailers who cannot easily access venture capital funding given the intangible nature of their value proposition. As respondent 5 commented, *“business is business, whether online or not, it is all about cashflows”*.

Communication with the customer and potential customer at every stage of the query and purchase process is another factor not specifically addressed by retailer theory. Here the experts interviewed agreed with the respondents that good communication was vital to a customer’s online shopping experience.

As expert 3 remarked, “*Communication at every stage of the buying process is important, from the initial query all the way to the progress of delivery*”.

Return and refund policies which are not specifically covered by retail theory will be more onerous for niche online retailers as they do not have physical stores where returns can be made, and returns therefore require collection. For niche online retailers who target global markets this could mean re-importation.

These findings will now be discussed in chapter 6 in conjunction with the literature reviewed in chapter 2.

6. Chapter 6 – Findings discussed



6.1. Introduction

This chapter will discuss the findings in terms of the literature discussed in chapter 2 and of the research questions noted in chapter 3, and will involve the integration of findings from both expert interviews and interviews with niche online retailers. Where appropriate, comparisons between these two bodies of opinion will be drawn.

A summary of the key findings to be discussed in this chapter are noted below:

- The ability to enter their market as a low cost supplier is not a critical success factor
- The most favoured strategies of the niche online retailers interviewed for this research were the market penetration strategy and the diversification strategy
- Product, place, price and promotion, personnel and passion, as well as target market are all vital factors for a successful niche online retailer in South Africa with promotion, personnel and passion being most important
- South African niche online retailers see value in having a physical store
- Whether to focus on a low cost strategy or a differentiated strategy in your niche market is a critical factor to consider

- Respondents considered Porter's support activities to be of equal if not greater importance than the primary activities
- Neither experts nor niche online retailers interviewed noted any specific retail theories, models or frameworks which were being applied. The primary distinguishing factor was between those niche online retailers competing on price and those not
- Experts and niche online retailers interviewed commented on studying Tesco and Amazon's online businesses
- Additional factors critical to the success of a South African niche online retailer include the establishing of a **trust** relationship between online buyers and niche online retailers, the management of **cashflows, communication** with the customer at every stage, and **return and refund policies**
- The majority of clientele of one niche online retailer are IT professionals

6.2. Findings discussed

Research Question 1: Low cost entry

Is a critical success factor for a niche online retailer in South Africa the ability to enter a market as a low cost supplier, with the option of increasing prices at a later stage? (Wheel of Retailing)

Hollander's (1960) major hypothesis concerning patterns of retail development stated that new types of retailers usually enter a market following a low-status, low-margin, low-price model. Gradually these retailers acquire more elaborate premises and facilities resulting in increased investment and operating costs.

These retailers ultimately mature as high-cost, high-price merchants who in turn are vulnerable to newer entrants who follow the same pattern.

While the experts interviewed as part of this research considered it likely that niche online retailers enter the market competing on cost, only two of the ten South African niche online retailers interviewed had entered their markets as low cost suppliers. Both were able to compete on price based on their ability to contain their input costs by either using local suppliers or purchasing raw materials directly from the source. A third respondent was able to compete on price in regions where he had secured distribution rights for his products. None of these three respondents had significantly increased their prices since launching their niche online businesses. The remaining 7 respondents had consciously not entered the market as low cost suppliers, which differs from the expectations of the experts interviewed.

The researcher surmises that in the case of one of the three respondents competing on price, producing the product locally is incrementally cheaper than the imported product. As a result, even after a healthy margin, the locally produced product is still competitively priced. This enables the respondent to compete on price. For the remaining two respondents, their competition tends to be large retailers whose buying power enables them to supply these products at very competitive prices. For these respondents, not competing on price would mean their customers buying from large retailers.

The fact that the clear majority of respondents had consciously not entered their markets as low cost suppliers and are still successful allows the conclusion that the ability to enter their market as a low cost supplier is not a critical success factor for a South African niche online retailer. This conclusion is consistent with a characteristic of niche markets which Kotler (2003) highlights, that customers are prepared to pay a premium price to the firm that best satisfies their needs. The researcher proposes that, in general, those niche online retailers who have chosen to compete on price are required to do so to ensure their products remain competitively priced, and that competing on price is therefore a consequence of their choice of product and not because they chose to enter the market as a low cost supplier.

Research Question 2: Products and Markets

Is a critical success factor for a niche online retailer in South Africa the decision between offering current products in current markets, current products in new markets, new products in current markets or new products in new markets? (Ansoff's Matrix)

Ansoff's Matrix (Ansoff, 1957) suggests four options for success and growth of a business and makes a clear distinction between new and current markets and new and current products. Online retail, being a new channel to reach both existing markets and new markets, providing an instant global presence (Chipp and Ismail, 2004) can be seen as applying Ansoff's market penetration and market development strategies. In addition, an online retailer's ability to supply

a larger variety of goods as a result of no physical store constraints (Chipp and Ismail, 2004) implies the use of Ansoff's product development strategy.

For the purpose of this research, a current product was defined as a product currently available in South Africa, a new product as a product not previously available on the South African market, a current market as a local market, and a new market as a non-local market (foreign or international market).

Figure 5.3 in chapter 5 shows that the majority of respondents interviewed (eight out of ten) were following a strategy of market penetration, offering current products in current markets. Eight of the ten respondents however are also currently undertaking an element of forward or backward integration, which Ansoff's defines as applying a diversification strategy. Types of backward integration employed or envisaged included manufacturing of products or producing of the raw materials required for manufacturing of products as well as the purchasing of a share in suppliers. Examples of forward integration employed or envisaged included primarily the delivery of products as well as the opening of a physical store for distribution of their products.

This simultaneous implementation of more than one strategy as defined by Ansoff's Matrix is consistent with Ansoff's (1957) comment that in most actual situations a company would follow several of these strategies simultaneously. It is interesting to note that despite niche online retailers having access to a global market, only two of the respondents interviewed were currently consciously targeting the global market. The researcher considered that this could be because, for South Africans, online retail is still relatively new, and that in

general, niche online retailers still consider South Africa too far removed from the rest of world to include global markets as their target market. This will be further discussed under research question 3 below.

It can therefore be concluded that it is not critical to the success of a niche online retailer to decide between the four strategic options offered by Ansoff's Matrix. It is possible to simultaneously implement more than one of the strategies defined by Ansoff's Matrix. The most favoured strategies of the niche online retailers interviewed for this research were the market penetration strategy and the diversification strategy.

Research Question 3: Product, price, place, promotion, personnel

Are critical success factors for a niche online retailer in South Africa the decisions made regarding product, price, place and promotion? (The Marketing Mix Model). Are decisions made regarding personnel and target markets critical success factors for niche online retailers in South Africa?

Timmers' (1998) research into business models for electronic markets found that it is essential to link the business model of an online retailer to a marketing model. To this end, the Marketing Mix was considered an appropriate retail theory to include in this research. The Marketing Mix focuses on four Ps: product, place, price and promotion.

- **Product**

Kotler and Keller (2006) define a product as anything that can be offered to a market to meet a want or need. The choice of product from an online retailer’s perspective is one of great importance, as not all products are suited to online retailing. Products with high sensory requirements, or those which need to be experienced, tried on or tested before being purchased are generally not suitable for online retailing (Chipp and Ismail, 2004). Kotler and Keller (2006) note that the recipe for a niche online retailers’ success is the combination of a hard-to-find product that customers do not need to see and touch before purchasing.

This research has shown that seven out of the ten respondents noted the choice of product as one of the factors to consider for a successful niche online retailer. Characteristics noted for the ideal niche online retail product by the niche online retailers interviewed are noted in table 6.1 below and are consistent with the literature reviewed above.

Table 6.1 Characteristics of ideal niche online retail products

	Characteristics
•	The product should be easily transportable
•	The product must be able to be packaged so as to arrive in a usable state
•	A picture of the product on the website must be sufficient to enable the customer to make a choice, as no testing or handling of the product can be done prior to purchase
•	Products with an international appeal that can easily be exported are preferable as the South African market for niche products is limited
•	Products not easily available in South Africa

“Even a big slice of a small pie is still small” noted respondent 5.

Three of the ten respondents noted that, since the launch of their online businesses, they had started to include supplementary products for sale on their websites as well. This was an attempt to increase the size of purchases made by increasing the variety of products available, and has proved successful. The researcher noted that the comment by one of the experts that the majority of online retailers in South Africa tend to be online computer stores did not support the findings from the sample of niche online retailers interviewed for this research. This could potentially be a result of the sample size used for this research. Further research could look to expand the sample size to test this finding further.

It was interesting to note here that of the ten respondents interviewed, three respondents noted that their choice of product had been influenced by researching successful US online retailers such as www.bluenile.com and www.wine.com. Respondent 4 commented, "*We stumbled across our product after considering what niche products were selling well in the US*", which suggests that replicating overseas niche online retail success can be a viable model.

Six of the remaining seven respondents all had personal interests in the products they sold. Their online businesses were either an extension of hobbies they had, or a business idea sparked by products they had needed to purchase at a point in time and had not been able to acquire easily. The researcher therefore surmises that while product is an important factor for a niche online retailer to consider, **passion** for your product and entrepreneurial spirit is

potentially a more important factor to consider for a niche online retailer in South Africa, than the current demand for the product itself.

The tenth respondent's products were incidental – the primary focus of their business was to build a strong central online brand off which a number of smaller brands could be built. Given the comments from the majority of respondents however, it can be concluded that the choice of product is an important factor for niche online retailers to consider.

- **Place**

For online retailers, location is one aspect which is irrelevant because the internet reduces the importance of the physical location of the retailer. It widens the geographical market from local to regional, national and even international (Porter, 2001). “The internet provides an instant global presence, which provides access to traditionally geographically dispersed and hard-to-reach markets” (Chipp and Ismail, 2004, p. 209). This has disadvantages as well though as virtually every dealer or retailer globally becomes your potential competition in the market (Porter, 2001).

All the respondents interviewed for this research agreed that in online businesses, physical location is no longer important. Three out of ten commented however that their choice of product restricted them to the local South African niche online market as a result of stringent export regulations. The researcher noted that while the stringent export regulations hampered certain niche online retailers attaining a global presence, this hampering

appeared to be primarily due to the size and experience of the niche online retailer interviewed. Larger and more experienced niche online retailers interviewed had gained the necessary approvals for export of their products. One of the larger respondents interviewed has successfully met all requirements for exporting their product to both the European and US markets.

Another three respondents commented they were specifically only targeting the South African market as a result of their product. One of these respondents was importing goods for sale, while the remaining two respondents were currently purchasing their goods and produce locally for resale online. The researcher noted that given the limited size of the South African market actively purchasing online, this could possibly be seen as having negative consequences for these three respondents, both in terms of current sales and future growth opportunities. Two of these three respondents have however proved it is possible to be successful while only focusing on the South African online purchasing market, making sales in excess of R15 million each in 2007.

Six of the ten respondents interviewed admitted to considering opening a physical store, while one respondent already had a physical store. This would seem to defeat the object of being a niche online retailer. The researcher deemed this to be a further indication that the South African online retail market is still in its infancy and that South African niche online shoppers are still anxious to purchase from unknown online retailers. One way to overcome this anxiousness is seen to be the ability to visit a physical store initially and then to purchase online going forward or alternatively to visit the physical store to

collect items ordered, thereby ensuring items ordered and paid for are received. Respondent 10 referred to this as '*distance ordering apprehension*' of South African niche online shoppers, partly as a result of our historically poor postal service. "*The US and UK have a big mail order culture, so their move to online shopping was much easier. For South Africans, online shopping is a much bigger mindset change*" noted respondent 5.

It can therefore be concluded that, while for the online retailer, physical location is no longer as important a factor as it is for brick and mortar retailers, in the South African context, niche online retailers do currently see value in having a physical store in addition to an online business.

- **Price**

The pricing decision is influenced by the product and the target market. As Reynolds and Cuthbertson (2004) note, budget customers are price-focused, value customer focus on value for money and quality customers are focused on high quality products and services. Finally, luxury customers look for exceptionally high product quality products and services and are not concerned with price.

While online retailers do not have all the costs which traditional retailers have they do have other costs such as the cost of delivery which need to be factored in to the final price of their products. Only four out of ten respondents noted price of products as a vital factor to be considered for niche online retailers in

South Africa. The costs which respondents noted as needing to be taken into account when price setting are included in table 6.2 below.

Table 6.2 Costs to be taken into account when price setting

	Costs
•	Prices of online and offline competitors products
•	Cost of delivery
•	Insurance costs
•	The applicable exchange rate
•	Applicable import duties
•	Costs associated with returns/ damaged products

These responses from respondents support Kotler’s (2003) assertion that customers using niche online retailers will pay a premium price to have their product needs satisfied. It can therefore be concluded that while it is important that pricing be considered and that all elements contributing to a products pricing be considered, pricing is not as important a factor to a niche online retailer as it may be to an offline retailer, or to a general online retailer.

• **Promotion**

Promotion refers to sales promotions, advertising, public relations and direct marketing (Kotler and Keller, 2006). Promotion has four distinct elements – advertising, public relations, word of mouth and point of sale. An extremely useful benefit of the internet is its use to the retailer as a means to communicate promotional data to the market.

All respondents interviewed as part of this research mentioned promotion and marketing as one of the most important factors for a new South African niche

online retailer to consider. As noted, respondent 4 commented, *“It is not a case of you can build it (a website) and they will come”*.

The majority of respondents also noted that they maintained contact with previous customers through electronic newsletters. This database of users was also used to obtain feedback on their purchase experience and to communicate product giveaways and discounts when applicable. Respondent 10 noted, *“We put details about our launch and other events on facebook and the traffic on our website and our orders spiked”*.

While respondents did not widely utilise traditional media, Google Adwords was freely used to drive traffic to the respondents' websites. Each respondent interviewed had their views on what marketing was best suited to their business and to reach their target market. The researcher noted that there was a very noticeable distinction between the respondents of smaller businesses, and those from larger, more established online businesses in their attitude towards marketing their businesses, and the unique and non-traditional marketing efforts these respondents were prepared to use. Those with larger, more established businesses or those with financial backing were prepared to take more risks with their advertising, and to use channels such as radio and non-traditional mediums such as facebook and myspace.

Respondent 4 commented, *“Until there is generic advertising of the internet; until we see the big guys (large retailers such as Makro) making a noise about*

the internet, we (niche online retailers) will battle to drive people to new sites and to get people to shop online”.

What niche online retailers have in their favour is the fact that their products are not easily available from offline retailers. Often purchasing the products online is the only way to obtain them. In this instance, promotion is vital. *“If people can’t find you, they can’t buy from you”* commented respondent 7.

It can be concluded that promotion is a very important factor for a niche online retailer to consider. In fact, given the responses from those interviewed as part of this research, promotion is the most important factor discussed so far.

- **Personnel (people)**

An additional P considered in the literature review was **Personnel (people)**. Stephen J. Arnold’s research into lessons to be learnt from the world’s best retailers (2002) highlights inspirational leadership. Arnold (2002) concluded that regardless of what the retailer sold, or the retailer’s location, success originated from individuals who motivated others in the organisation to be innovative in making customers and their community their top priority. Crittenden and Wilson (2002) concur that success in retailing is due to the maturity and experience of key managers, and the ability to retain good people and to promote from within.

From an online retailer’s perspective, good personnel are equally as important. Whether web designing, answering queries from potential customers, placing orders with suppliers, responding to dissatisfied customers or shipping items to

customers, an online retailer needs a team of competent, talented, passionate individuals. While true for all online retailers, personnel are particularly important for niche online retailers which are often staffed by smaller teams but still need to perform a broad range of functions and need to be extremely knowledgeable about their products (Chipp and Ismail, 2004).

All respondents interviewed agreed personnel are an important factor to consider for a niche online retailer in South Africa. Being niche online retailers, the majority of comments regarding personnel related to IT experts and website designers. Respondent 8 commented, *“You and your staff need to have thick skins and be able to deal with irate customers”*.

Other comments regarding personnel were that staff needed to be trustworthy and resourceful – able to work alone and be able to adapt to challenging situations when they occurred. *“You need to be passionate about your product and technology to be successful in this business”* noted respondent 5.

The researcher concluded that the right personnel are an important component of a successful niche online retailer. As one respondent commented, this line of business is not for everyone and one needs to select their staff carefully. Again, the need for passion about your product was noted. Further research in this area could look at the personal characteristics needed to run or lead a successful niche online retail business in South Africa.

- **Target market**

With regard to **target market**, as Kotler and Keller (2006) note, for each chosen market, the retailer must develop a market offering which is seen as delivering certain key benefits and value. In the case of a niche online retailer, Dalgic and Leeuw (1994, p. 40) “consider a niche market to be a small market consisting of an individual customer or a small group of customers with similar characteristics or needs”.

With regard to their target market, as noted under research question 2, despite online retailers having access to a global market, only two of the respondents interviewed were currently consciously targeting the global market. Regardless of whether their target market was international or local, the researcher noted that all the respondents’ comments seemed to indicate that they knew their target markets well. “*My target market is often computer illiterate or scared of the internet*” noted respondent 9.

Respondent 7 noted “*with no targeting of the international market, we still receive queries from outside South Africa*”.

Respondent 4 remarked “*the majority of our overseas business is from expats*”.

Respondents also noted the combination of a focus on a Business-to-business (B2B) model as well as a Business-to-consumer (B2C) model in their South African niche online retail businesses. This is not an aspect covered by traditional retail theory, possibly due to the fact that retail implies a B2C model

and wholesale would be used to describe a B2B model. Nevertheless, niche online retailers interviewed for the purposes of this research were implementing both models in their businesses. The researcher surmised that one of the reasons for this might be the limited size of the South African online shopping population currently. By focussing on B2B and B2C models simultaneously, niche online retailers are targeting both individual consumers and other businesses that use their products, and the size of their target market can be substantially increased.

It can therefore be concluded that the choice of target market is a critical factor to be considered by a niche online retailer. This choice is influenced by the niche online retailer's choice of product, including the product's appeal across a broad audience and its ability to be packaged and sent long distances.

Table 6.3 4Ps for retailers compared to 6Ps for niche online retailers

	4Ps for retailers (in order of Marketing Mix)	6Ps for niche online retailers in South Africa (in order of importance)
1	Product	Promotion
2	Place	Personnel
3	Price	Passion
4	Promotion	Product
5		Place
6		Price

The overall conclusion, as shown in table 6.3 above, is that the 4Ps: product, place, price and promotion, two additional Ps: personnel and passion, and target market are all deemed by the results of this research to be vital factors to consider for a successful niche online retailer in South Africa. The order of importance though was made very clear through the research findings.

Promotion, personnel and passion were considered to be of most importance while pricing was considered to be of lesser importance. This order of importance is highlighted in figure 6.3 above.

Research Question 4: Cost leadership, differentiation and focus

Are critical success factors for a niche online retailer in South Africa the decisions made regarding whether to follow a low cost strategy or a differentiation strategy? (Porter's Competitive Advantage model).

From a literature review point of view, Michael E. Porter (1980) in his book entitled 'Competitive Strategy: Techniques for Analyzing Industries and Competitors' proposes three generic strategies that a business can choose to focus on from a strategic point of view. These are overall cost leadership, differentiation and focus.

From a literature review point of view, two seemingly opposing arguments emerged with regards to niche online retailers and Porter's Competitive Advantage model. Kotler (2003) noted that niche online retailers, given that customers are prepared to pay a premium price for niche products may look to focus on differentiating themselves in their product, their product range and service offering as opposed to competing on price. Porter (2001, p.66, 67) noted however, "It is more difficult for on-line (sic) dealers to differentiate themselves, as they lack potential points of distinction such as showrooms, personal selling and service departments. With more competitors selling largely

undifferentiated products, the basis for competition shifts ever more toward price”.

Niche online retailers by virtue of their emphasis on narrow markets and products are classified according to Porter’s Generic Strategies Model as falling into the two focus quadrants, as can be seen in figure 2.3 in chapter 2. The researcher therefore sought to determine whether niche online retailers in South Africa currently follow Porter’s low cost strategy or differentiation policy in their niche markets. As noted in discussion around research question 1 above, of the ten South African niche online retailers interviewed as part of this research, only two respondents had entered their markets as low cost suppliers. Seven out of ten respondents were therefore following Porter’s differentiation strategy in their niche markets. Five of the remaining seven respondents noted their primary differentiator as being the selection and variety of niche products they offered. One respondent commented that they were able to offer their customers a choice of close to 8 million products online, the majority of which were not available in South Africa currently. Customer service was noted by four of the remaining seven respondents as differentiating offerings they offered.

“Customer service is what brings people back to your site” noted respondent 8. Quality of products on offer as well as convenience of after hours purchasing were also noted by respondents as differentiating characteristics of their online businesses. Respondent 8 commented, *“All our products are tested in-house before we offer them for sale”*.

The researcher noted that the results of this research therefore support Kotler's (2003) view that customers will pay a premium price to the firm that best satisfies their needs. The researcher cited possible reasons for this finding being: the target market which niche online retailers focus on - primarily the top income earners in the country – who are prepared to pay for products they want; and, time pressures faced by these income earners which makes online shopping more attractive. Other possible reasons identified by the researcher include the size of niche online retailers meaning they are currently unable to compete on price with the larger offline retailers, and are therefore forced to follow a differentiation strategy.

It can also be concluded that the decision of whether to focus on a low cost strategy or a differentiated strategy in your niche market is a critical factor to consider in the success of a niche online retailer. As noted in the discussion under research question one above, this decision may be driven by the niche online retailer's choice of product. Figure 6.1 below highlights the findings from the respondents interviewed as depicted on Porter's Competitive Advantage Model, with three of the respondents focusing on cost and the remaining seven respondents following a differentiation strategy.

Figure 6.1 Porter's Competitive Advantage Model

Source: Porter, M.E. (1980)

		Competitive advantage	
		Low cost	Higher cost
Comparative scope	Broad	Overall cost leadership	Differentiation
	Narrow	Cost focus <div style="text-align: center;">3</div>	Differentiation focus <div style="text-align: center;">7</div>
		Respondents	Respondents

Research Question 5: Primary and Secondary activities

Are critical success factors for niche online retailers in South Africa the decisions made regarding primary activities (inbound logistics, operations, outbound logistics, marketing and sales and service) and secondary activities (firm infrastructure, human resource management, technology development and procurement)? (Porter's Value Chain framework)

From the literature review it was established that Michael Porter's (1985) Value Chain is a tool for identifying ways to create more customer value and competitive advantage for the firm at each stage in the 'value chain'. In total, the model identifies 9 strategically relevant activities that create value and incur costs in any business (Porter and Millar, 1985), five primary activities and four support activities. Having dealt with findings regarding marketing and sales and service and personnel under research question 3 above, the findings noted here will concentrate on Porter's remaining primary and support activities.

When considering Porter's primary activities for a niche online retailer, a strong relationship with reliable delivery companies was a factor that the majority of respondents in this qualitative research stressed for a successful niche online business in South Africa. *"You need to find the right delivery partner for your business"* noted respondent 8. *"Not having orders delivered timeously plays a big role in people's disappointment with their online shopping experience. You are very beholden to your delivery partner"* commented respondent 4.

Comments around Porter's support activities for niche online retailers revealed ten out of ten respondents considered good relationships with their suppliers as a critical factor for a successful niche online retailer to consider. *"As a niche online retailer, you are very dependent on your suppliers"* noted respondent 10.

When discussing technology development, one respondent noted the need to be vigilant when employing website designers and website hosts. They noted that while these skills in South Africa were not in short supply, a number of suppliers charge exorbitant prices. Respondent 9 remarked, *"You need to be able to manage your own content. Make sure you aren't reliant on your website developer to put 'sale' on your website or to load new product descriptions"*.

Other comments regarding technology development included the need to protect the content on your website and the need to minimise your site's downtime. The researcher noted that very little mention was made of the need for one's website to be clean, effective, fast loading and thoroughly tested

before launching. The researcher concluded that this obvious omission was because these factors were considered a given.

This research clearly indicated that for niche online retailers, an important aspect for all the respondents was their payment facilities. Being niche online retailers, the respondents payment facilities were included here by the researcher under technology development. Seven of the ten respondents had facilities on their websites for their customers to pay using credit cards. Again, responses to the question of payment facilities highlighted the respondents' knowledge of their customers. All respondents knew 'off hand' the percentage of their customers who were paying using credit cards and who were paying using EFTs. Respondents differed in their opinions of whether South Africans were afraid to use their credit cards online. Some respondents commented that South Africans were afraid to use their credit cards online, while another respondent commented they had not detected any hesitance in their customers with using their credit cards to make online purchases.

Respondent 5 commented, *"It is more dangerous to give your credit card to a waiter in a restaurant than it is to use your credit card to shop online, but most South Africans don't know this"*. Expert 3 agreed with this and noted, *"Banks are poor at communicating the details regarding credit card fraud online, and so South Africans are very sceptical"*.

With regard to firm infrastructure, nine out of ten niche online retailers noted fraud detection and prevention processes as an important factor to consider.

Nine out of ten respondents noted that they detected fraudulent transactions on a regular basis. This could be often as daily. Half of those interviewed commented on the need to have processes and procedures in place so as to be able to grow their business when the time was right.

It can therefore be concluded that decisions regarding Porter's primary activities and support activities are indeed critical to the success of a niche online retailer in South Africa. In addition, the researcher noted that the majority of respondents considered activities classified by Porter's model as support activities to be of equal if not greater importance than those activities classified as primary activities. Reasons for this include challenges specific to niche online retailers that do not apply to other online retailers or to offline retailers. These challenges include dependence on suppliers for order fulfilment as their products are specialised and therefore not easily available, dependence on technology to facilitate every aspect of the niche online retailers business, from browsing, to ordering, to payment and to tracking progress of delivery, and fraudulent transactions which could result in bankruptcy for a small niche online retailer. It is therefore envisaged that Porter's Value Chain, if redrafted for niche online retailers, would look substantially different as can be seen in table 6.4 below.

Table 6.4 Porter’s primary and support activities

	Primary activities – per Porter’s Value Chain (1980)	Primary activities for South African niche online retailers
	Inbound Logistics	Technology Development
	Operations	Procurement
	Outbound Logistics	Inbound Logistics
	Marketing & Sales	Outbound Logistics
	Services	Marketing & Sales
		Services

6.3. General findings

This research revealed a wide number of reasons for niche online retailers interviewed to start their businesses. Responses included comments regarding ensuring a better quality of life and the ability to work from home as well as a religious conviction of one respondent that this was his calling.

Respondent 7 noted that the majority of their clientele were IT professionals. The researcher surmises that it is because of their comfort with the internet that IT professionals feel comfortable shopping online. This is consistent with the comment from one of the experts interviewed regarding the experience curve of internet usage leading to an increase in online shoppers.

Another comment was the fact that the majority of purchases were made during work hours and therefore supposedly made while at work. The researcher surmises that this is a possible indicator of poor internet access at home and that online shopping is being done primarily by white collar employees. This finding has implications for niche online retailers’ choice of products with regard to the target market identified. In addition, poor internet access at home further reduces the size of the niche online retailers’ market, as well as limiting the

amount of free time potential online shoppers have available to browse online sites for products they want. This reinforces the need for promotion of niche online retail products and ensuring ease of the purchase process.

Respondents also noted a couple of aspects unique to their niche online businesses. *“People who buy my products like anonymity. They don’t want to speak to someone – that is why they use emails and the internet”* noted respondent 3.

Respondent 10 commented, *“Shopping online is convenient. Shoppers don’t need to collect their purchases themselves – they get them delivered to their homes. It frees up your time for other things. We expect customers to try us online. If we don’t deliver on our promises, then they mustn’t come back”*.

Table 6.5 Comparison of respondent’s age of business, type of products sold and target market

Respondent	Age of business	Type of products sold	Target market
Respondent 1	5 years	Consumables	Local
Respondent 2	2 years	Non-consumable	Local and international
Respondent 3	5 years	Consumables	Local and international
Respondent 4	8 years	Non-consumable	Local
Respondent 5	9 years	Consumables	Local and international
Respondent 6	1 year	Non-consumable	Local
Respondent 7	2 years	Consumables	Local
Respondent 8	1 year	Non-consumable	Local
Respondent 9	3 years	Non-consumable	Local and international
Respondent 10	2 years	Non-consumable	Local

Table 6.5 above, comparing the respondent’s age of business, type of products sold and target market sought to determine whether any relationships exist between these three factors of the respondents’ niche online retailer

businesses. The researcher concluded that, apart from the correlation between the age of the respondent and the type of marketing undertaken as discussed under research question 3, no other correlations could be drawn.

6.4. Conclusion – findings discussed

The comparison of the literature reviewed with the results from the qualitative research performed can be summarised as followed:

- Hollander's Wheel of Retailing (1960): The fact that the clear majority of respondents had consciously not entered their markets as low cost suppliers and are still successful allows the conclusion that the ability to enter their market as a low cost supplier is not a critical success factor for a South African niche online retailer. The researcher proposes that, in general, those niche online retailers who have chosen to compete on price are required to do so to ensure their products remain competitively priced, and that competing on price is therefore a consequence of their choice of product and not because they chose to enter the market as a low cost supplier.
- Ansoff's Matrix (1957): It was concluded that it is not critical to the success of a niche online retailer to decide between the four strategic options offered by Ansoff's Matrix. It is possible to simultaneously implement more than one of the strategies defined by Ansoff's Matrix. The most favoured strategies of the niche online retailers interviewed for this research were the market penetration strategy and the diversification strategy.
- The Marketing Mix (4Ps): The 4Ps: product, place, price and promotion, two additional Ps: personnel and passion, and target market are all deemed by the results of this research to be vital factors to consider for a successful

niche online retailer in South Africa. The order of importance though was made very clear through the research findings. Promotion, personnel and passion were considered to be of most importance while pricing was considered to be of lesser importance.

- Porter's Competitive Advantage Model (1980): It was concluded that the decision of whether to focus on a low cost strategy or a differentiated strategy is a critical factor to consider in the success of a niche online retailer. The researcher noted that the results of this research therefore support Kotler's (2003) view that customers will pay a premium price to the firm that best satisfies their needs. The researcher cited possible reasons for this finding being: the target market which niche online retailers focus on - primarily the top income earners in the country – who are prepared to pay for products they want; and, time pressures faced by these income earners which makes online shopping more attractive. Other possible reasons identified by the researcher include the size of niche online retailers meaning they are currently unable to compete on price with the larger offline retailers, and are therefore forced to follow a differentiation strategy.
- Porter's Value Chain (1985): It was concluded that decisions regarding Porter's primary activities and support activities are indeed critical to the success of a niche online retailer in South Africa. The majority of respondents considered activities classified by Porter's model as support activities to be of equal if not greater importance than those activities classified as primary activities.

This research sought to ascertain whether well known, well tested retail theories, models and frameworks were being applied by niche online retailers in South Africa. Neither experts nor niche online retailers interviewed noted any specific retail theories, models or frameworks which were being applied. The primary distinguishing factor appeared to be between those niche online retailers competing on price and those not. The researcher surmises that this may be due to the fact that in the case of the experts, they are IT experts and not necessarily retail experts. Further research into this field could focus on interviewing retail as well as IT experts.

A number of experts and niche online retailers interviewed did comment, however, on other online businesses which they had studied in determining their business models. These included Tesco and Amazon as well as online businesses in their specific niche markets. It can therefore be concluded that niche online retailers in South Africa use 'best business practice' derived from other successful online retailers in determining their business models as opposed to academic retail theory.

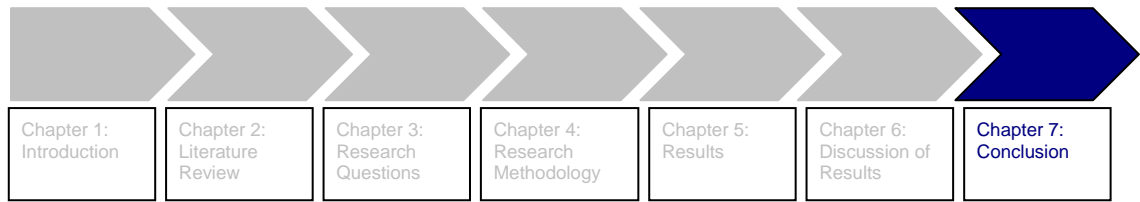
This research also highlighted a number of additional factors critical to the success of a South African niche online retailer which were not addressed by the retail theories, models and frameworks included as part of the literature review. These include factors such as: the establishing of a **trust** relationship between online buyers and niche online retailers and dealing with misconceptions around shopping online; the management of **cashflows**, specifically for online retailers who cannot easily access venture capital funding

given the intangible nature of their value proposition; **communication** at every stage of the query and purchase process and well implemented **return and refund policies**.

The researcher proposes that the main reason a trust relationship, good communication and well implemented return and refund policies are not emphasised in the retail literature reviewed is because they are factors which are not as important to offline retailers. For an online retailer, and in particular a niche online retailer, the researcher surmises these factors with separate a successful niche online retailer from an unsuccessful one. These factors all deal with the lack of human contact in an online purchase and the resultant need for trust and excellent communication to allay any concerns the purchaser may have. A well implement return and refund policy, a factor briefly noted under Porter's Value Chain's primary activities, while possibly having a large impact on a niche online retailer's profitability particularly if it involves re-importation, also affects the customer's overall buying experience. As Parrish *et al* (2006) noted, a good reputation is vital for a niche online retailer, particularly given the limited size of the niche online retailer's target market. The management of cashflows, as noted above, is important specifically for online retailers who cannot easily access venture capital funding given the intangible nature of their value proposition. In addition, the fact that online retail in South Africa specifically is still relatively new means raising funding from traditional financing sources, such as banks, is that much more difficult. This is not the case for an offline retailer.

These additional factors for success have been combined with the relevant aspects of the retail theory reviewed in a model for success which will be demonstrated in chapter 7.

7. Chapter 7 – Conclusion



7.1. Introduction

This research sought to ascertain whether well known, well tested retail theories, models and frameworks were being applied by niche online retailers in South Africa.

As part of the literature review in chapter 2, five well known retail theories, models and frameworks were considered. Interviews with online retail experts and niche online retailers in South Africa were then undertaken to ascertain whether decisions regarding the key characteristics of these retail theories, models and frameworks were critical to the success of South African niche online retailers. The retail theory considered and the results from the qualitative research conducted are summarised as follows:

- Hollander’s Wheel of Retailing (1960): The clear majority of respondents had consciously not entered their markets as low cost suppliers and were still successful. The researcher proposed that, in general, those niche online retailers who have chosen to compete on price are required to do so to ensure their products remain competitively priced, and that competing on price is therefore a consequence of their choice of product and not because they chose to enter the market as a low cost supplier.

- Ansoff's Matrix (1957): The majority of respondents' favoured the simultaneous implementation of a market penetration strategy and a diversification strategy.
- The Marketing Mix (4Ps): Of the 4Ps, promotion was considered the most important by niche online retailers interviewed. Two additional Ps were also added: namely, personnel and passion while pricing was considered to be of lesser importance.
- Porter's Competitive Advantage Model (1980): The researcher noted that the results of this research supported Kotler's (2003) view that customers will pay a premium price to the firm that best satisfies their needs. The researcher cited possible reasons for this finding being: the target market, being top income earners and time constraints of this target market. Other possible reasons identified by the researcher included the size of niche online retailers meaning they are currently unable to compete on price with the larger offline retailers, and are therefore forced to follow a differentiation strategy.
- Porter's Value Chain (1985): It was concluded that decisions regarding Porter's primary activities and support activities are indeed critical to the success of a niche online retailer in South Africa. The majority of respondents considered activities classified by Porter's model as support activities to be of equal if not greater importance than those activities classified as primary activities.

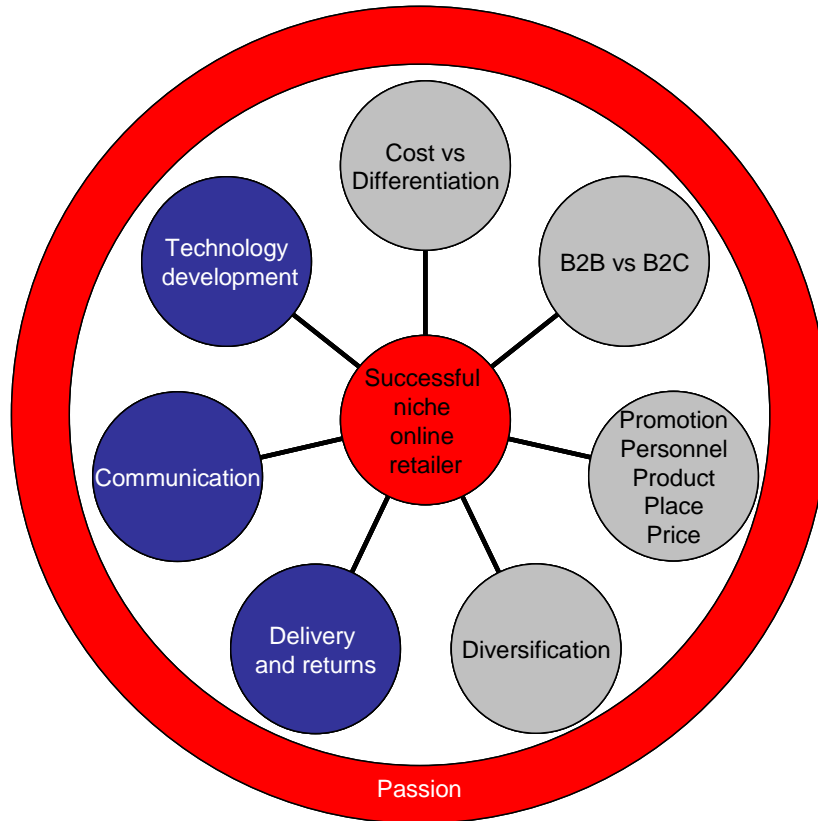
The additional factors cited by these research findings as critical to the success of a South African niche online retailer and not addressed by the retail theories,

models and frameworks included: the establishing of a **trust** relationship between online buyers and niche online retailers, the management of **cashflows, communication** with the customer and potential customer at every stage of the query and purchase process as well as **return and refund policies**.

Given these factors are not included in the retail theories, models and frameworks included in the literature review, it was considered important to conclude this research by developing a niche online retail model which incorporated all the factors identified during this qualitative research as being important for success. The model represents a combination of academic theory and the practical experiences of the niche online retailers interviewed.

7.2. Niche online retailers in South Africa – a Model for Success

Figure 7.1 Morgan's Model for Success (MMS)



Key

 Strategic and Marketing decisions

 Operational decisions

The MMS model as shown in figure 7.1 above has been designed to incorporate all aspects of the retail theories, models and frameworks discussed as part of the literature review in chapter 2 deemed by this research to be vital for the success of a South African niche online retailer. Additional factors identified during this research which were deemed critical for success which did not form part of the retail theory discussed in chapter 2 have also been

included. The aim of the model is to provide guidance to South African niche online retailers with regard to factors critical for success.

The MMS model seeks to identify all factors to be considered in the making of strategic and marketing decisions, and operational decisions. Its shape reflects the importance of each of the elements mentioned in relation to each other, all centred on a common purpose – that of the successful niche online retailer in South Africa.

Factors to be considered with regards to strategic and marketing decisions include:

- **Cost versus differentiation**

Capitalising on the Wheel of Retailing (1960) theory and Porter's Competitive Advantage Model (1980), this process involves the niche online retailer's decision regarding whether to position themselves as a low cost supplier or as the provider of a differentiated product, service or online shopping experience. Any differentiation contemplated must be a 'value add' to the online customer which they are prepared to pay for. **Customer service** should be among the first differentiators considered by a South African niche online retailer.

- **B2B versus B2C**

This research has highlighted decisions required to be made by niche online retailers with regards whether to follow purely a Business to Business model (B2B), a Business to Consumer model (B2C) or a combination of the two. Given the size of the South African niche online retail market currently, a number of

niche online retailers have chosen to follow both a B2B and B2C model, with great success.

- **Promotion, Personnel, Product, Place and Price**

Based on the Marketing Mix's 4Ps, this model emphasises decisions required regarding 5Ps which are vital for the success of South African niche online retailers. The 5Ps are listed in order of importance. Niche online retailers should be encouraged to consider using non-traditional methods of promotion including facebook and myspace.

- **Diversification**

Building on the diversification quadrant of Ansoff's Matrix (1957), the niche online retailer needs to decide what aspects of forward or backward diversification to undertake, if any. Forward integration could include the provision of delivery services for products or the opening of physical stores to sell niche products. Backward diversification could include the production, manufacturing or growing of products, possibly through the collaboration with suppliers.

Factors to be considered with regards to operational decisions include:

- **Delivery and returns**

Based on Porter's Value Chain primary activities, inbound and outbound logistics, delivery and returns have been specifically included here as a factor vital for the success of niche online retailers. The rationale behind the inclusion of delivery and returns is two fold: firstly, the niche online retailer has a limited physical presence, such as a warehouse or shop, which requires excellent inbound and outbound logistics planning. Secondly, this research has

highlighted the delivery, return and refund of products as factors which significantly affect a customer's online buying experience. The ability of niche online retailers to innovate around their inbound and outbound logistics, their delivery and returns is an opportunity for differentiation and increased value add to customers. Given the size of niche online retailers, they are in a better position to achieve this than possibly their other online retail contenders.

- **Communication**

An aspect not covered in any detail in the retail theory reviewed for the purposes of this research, communication was highlighted by experts and niche online retailers alike as a vital factor in the success of any niche online retailer. Communication here refers to communication with suppliers as well as customers at each and every step in the enquiry, ordering and delivery process. While offline retailers have the benefit of building up a relationship of trust with their consumers via face-to-face encounters, and larger online retailers have the benefit of large brands as a basis for consumer trust, niche online retailers need to build up this trust relationship with their customers. This model proposes that the primary manner in which this trust is established is through timely, targeted communication. The same can be said of the trust relationship building with niche online retailer suppliers.

- **Technology development**

The final component of the MMS model, decisions regarding technology development is perhaps the most obvious and yet one of the most important for the success of a niche online retailer. Again contributing to the building of a trust relationship, the perception a niche online retailer projects to the world is through its website. The website design, content, functionality, speed, security

and promotion using tools such as Google Adwords are key elements of a niche online retailer's success.

Finally, an element that none of the retail theory, models and frameworks addressed is the **passion** a niche online retailer requires to achieve success against a number of odds. This element shone through in each of the interviews conducted during this research, the respondents love of technology and for their product. In South Africa especially, the element of passion for your niche online business is essential for success. As depicted in the model, it is the element which binds all other factors together.

In conclusion, this research has identified from the sample interviewed a number of critical success factors for niche online retailers in South Africa. By taking cognisance of the model above and the factors for success it depicts, it is the hope of the researcher that this research will contribute to the success and growth of niche online retailers in South Africa.

7.3. Future research opportunities

The following opportunities for further research with regard to critical success factors for South African niche online retailers have been identified:

- Replication of this research with a larger sample of niche online retailers to eliminate any critical success factors identified which are unique to this sample only
- Examination of the personal characteristics needed to run or lead a successful niche online retail business in South Africa
- Consideration of the effect focussing on B2B and B2C models simultaneously has on the success of South African niche online retailers
- The inclusion of additional retail models such as Porter's Five Forces and the Balanced Scorecard in the literature review
- The inclusion of global, non-South African niche online retailers to ascertain the critical success factors identified in this research which are unique to the South African niche online retailer
- Interviews with retail experts as well as IT experts with regard to retail business models used by niche online retailers in South Africa
- The inclusion of non-niche online retailers in future research to ascertain critical success factors unique to niche online retailers

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Appendix A – Interview Guidelines for Expert interviews

Name of interviewer		Name of person interviewed	
Date of interview		Designation	
Place of interview		Company	
Time started		Time ended	

Note to interviewer:

- Being qualitative research, open ended questions are to be used in the interview initially. Any specific information required and not obtained will be covered in the specific questions at the end of the interview.
- Do not ask leading questions unnecessarily.
- It is not necessary to follow the order the specified questions are in
- It is not necessary to ask the specified question if the question has already been answered during the interview
- Aim to summarise the points raised by the interviewee at least twice during the interview and at the end of the interview
- The interview should take between 45 minutes and an hour

1. Introduce yourself
2. If asked, give the interviewee some background to the research being conducted:
 - Titled 'critical success factors for niche online retailers in South Africa'
 - Being completed as part of a GIBS MBA
3. If asked, mention how you selected/ found out about the interviewee (e.g.: from research/ other expert interviews)

4. Mention the purpose of the expert interviews, namely:
 - To obtain an understanding of the online retail market in South Africa currently (as a background for interviews with niche online retailers in Phase 2 of research)
 - To identify other possible experts in the market to interview
 - To identify niche online retailers in the South African market to interview as part of Phase 2 of the research
5. Ask the expert to paint a picture of the online retail market in South Africa currently? (Open ended – no leading. Ask clarifying questions as the interviewee answers). Ensure mention is made of:
 - Regulation
 - Growth of online retail in SA
 - Misconceptions of South African's regarding online retail
6. What in your opinion are the critical success factors for South African niche online retailers? (i.e. factors which done well/ implemented well will increases chances of success as a South African niche online retailer? What separates a successful niche online retailer from an unsuccessful one?)
7. What does the future of online retail in South Africa look like? (i.e. what changes can we expect to see in the next few years?)
8. Are there other experts in the online retail market in South Africa that we should be interviewing?
9. Which niche online retailers in South Africa would you recommend we interview as part of this research? (Niche defined as per research).

Thank the interviewee for their time!

Appendix B – Interview Guidelines for Niche Online Retailer interviews

Name of interviewer		Name of person interviewed	
Date of interview		Designation	
Place of interview		Company	
Time started		Time ended	

Note to interviewer:

- Being qualitative research, open ended questions are to be used in the interview initially. Any specific information required and not obtained will be covered in the specific questions at the end of the interview.
- Do not ask leading questions unnecessarily.
- It is not necessary to follow the order the specified questions are in
- It is not necessary to ask the specified question if the question has already been answered during the interview
- Aim to summarise the points raised by the interviewee at least twice during the interview and at the end of the interview
- The interview should not take longer than 1.5 hours

1. Introduce yourself
2. If asked, give the interviewee some background to the research being conducted:
 - Titled 'critical success factors for niche online retailers in South Africa'
 - Being completed as part of a GIBS MBA
3. If asked, mention how you selected/ found out about the interviewee (e.g.: from research/ expert interviews)

4. Mention the purpose of the interview, namely:
 - To obtain an understanding of how practically to ensure the success of a niche online retail business in South Africa (challenges faced and how overcome)
 - To identify other niche online retailers in the South African market to interview as part of Phase 2 of the research
5. Ask niche online retailer to talk you through how they started their online retail business. (Open ended – no leading. Ask clarifying questions as the interviewee answers). Ensure mention is made of:
 - Any business/ retail model followed for setting up business/ deciding on business (e.g. wheel of retailing, Marketing Mix/ 4Ps including people, Ansoff's matrix, Porter's value chain etc)
 - Do they compete on cost? If so, why?
 - What differentiates their business from their competitors?
 - What decisions are most important for their niche online retail business – decisions regarding product, price, place, promotion or people?
 - What process is followed from the moment a query is received to the time the product ordered is delivered?
 - Regulation with regard to online retail in South Africa
 - Growth of online retail in SA
 - Misconceptions of South African's regarding online retail

What in their opinion are the critical success factors for South African niche online retailers? (I.e. factors which done well/ implemented well will increases chances of success as a South African niche online retailer? What

separates a successful niche online retailer from an unsuccessful one? Are any of these factors unique to South Africa?)

6. What does the future of online retail in South Africa look like? (I.e. what changes can we expect to see in the next few years?)
7. What recommendations would they give to someone looking to enter the niche online retail market in South Africa? What would they do differently if they had the opportunity to start again?
8. Which niche online retailers in South Africa would they recommend we interview as part of this research? (Niche defined as per research)

<p>9. Annual turnover (not profit) using the following ranges:</p> <ul style="list-style-type: none"> • less than a million • R1 – R2 million • R2 – R3 million • R3 – R4 million • R4 million plus 	<p>10. Number of years they have been in this business?</p>
<p>11. Do they own a physical store for the sale of their online goods? Any future plans to have one?</p>	<p>12. Is this their first online business venture?</p>
<p>13. Are their sales predominantly local (i.e. to residents/ Corporates based in South Africa)</p>	

Thank the interviewee for their time!

Appendix C – Details of Experts and Niche Online Retailers interviewed

• Experts interviewed



Albert Bredenhann - www.jump.co.za

Albert is a co-owner of Jump Shopping. With a passion for e-commerce and the Internet in South Africa, Albert is one of the leading experts when it comes to usability and e-commerce in South Africa.



Arthur Goldstuck - www.theworx.biz

Arthur Goldstuck is a South African journalist, media analyst and commentator on Information and Communications Technology (ICT), Internet and mobile communications and technologies. Goldstuck led early research into the size of the Internet user population and the extent of Web commerce in South Africa. His findings have served to establish trend lines for Internet growth in the country.



Jaco Roux - www.jump.co.za

Jaco is the founder and co-owner of Jump Shopping. Jaco's Internet career spans over 10 years working with clients like MWEB, Nissan and Starlight Cruises. Jaco's passion goes beyond the Internet and he is also currently involved with the [Boxercup](#) of South Africa where he is currently ranked Number 2.

Charles Elliman - www.mwebbusiness.co.za

Charles is a Web Strategist in the DFS division of MWEB Business Solutions. He is also the founder of the South African Forum for E-tailers.

• Niche online retailers interviewed



Bodynut, based in Durban, is an online sport nutrition and health shop.



Cybercellar, based in Cape Town, is an online wine shop.



NetFlorist, based in Johannesburg, is an online florist and gift shop.



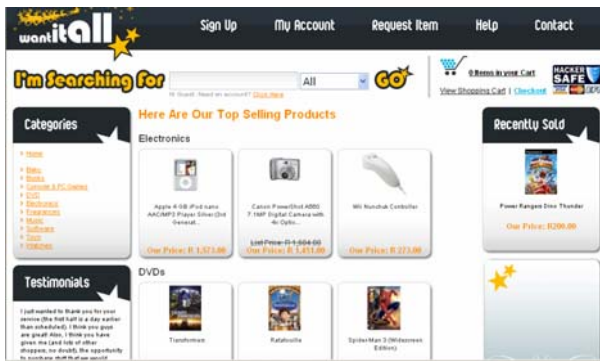
Gurgle, based in Centurion, is an online baby shop.



Embroidery Connection, based in Johannesburg, is an online embroidery digitising shop.



Girls Best Friend, based in Johannesburg, is an online engagement ring jewellery shop.



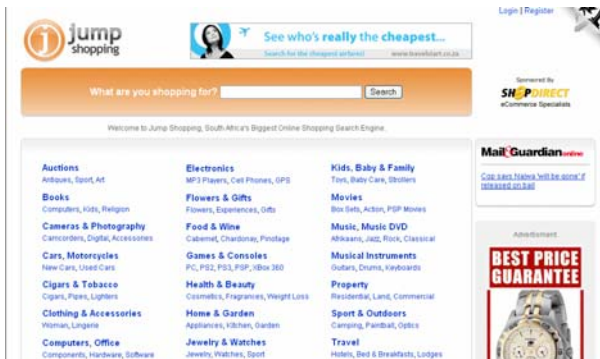
Want it All, based in Johannesburg, is an online mall specialising in products not available in South Africa.



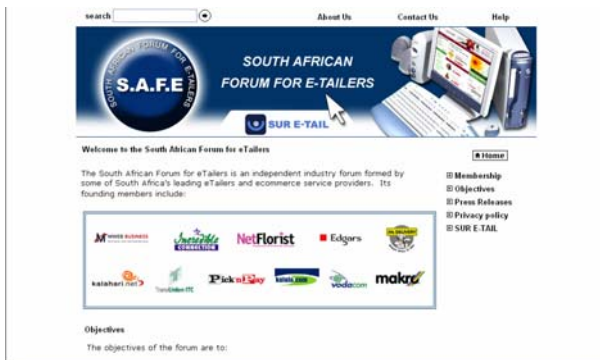
eDreams, based in Johannesburg, is an online shopping mall with a variety of specialisations: i.e. outdoor dreams and computer dreams.



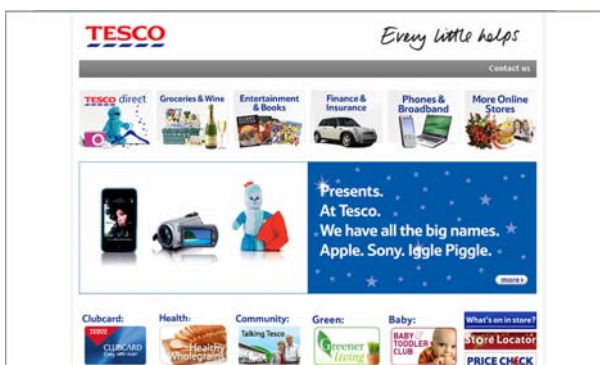
Beauty Bust, based in Johannesburg, sells natural breast enhancing supplements.



Jump Shopping, based in Centurion, is an online comparative shopping site.



The South African Forum for E-tailers is based in Johannesburg.



Tesco, based in the UK, is a supermarket chain with a large online presence.



Amazon, based in the US, is a large online shop specialising in books, DVDs and the like.