Digital Disruption in Retail: Management Strategies for South African Shopping Centers

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Abstract. Online retail has grown substantially over the years both globally and in South Africa. Technology continues to impact, influence and shape how and where consumers shop. The South African shopping Centre industry is the 5th largest in the world and houses South African retailers who account for over R900 Billion ($61 Billion) sales revenue or 15% of the GDP.

This report investigated digital disruption in retailing, its impact on the South African Shopping Centre industry and the available strategies that may be employed to counteract any negative impacts. A desktop literature survey followed by qualitative analysis was employed in carrying out the research.

The research found that digital disruption was causing a change in consumer behaviour that leads to a reduction in demand for retail space and lower rentals and retail property values. Available strategies to counteract these negative impacts were found to include a customer centric retail property business model, Shoppertainment, leveraging technology, repurposing shopping centers for other uses, developing green shopping centers and agile property management.

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1   Introduction

Online retail has grown substantially over the years both globally and in South Africa. According to a research conducted by Euromonitor research (2018), e-commerce has been the fastest-growing retail channel since 2008 in the USA and it is expected to become the largest retail channel in the country by 2020. The increasing market share of e-commerce has resulted in mall closures and increased vacancies in the USA, a phenomenon that Yan (2018), describes as the "death of the mall". The traditional mall culture of going to malls for shopping and socializing has been disrupted by the arrival of ubiquitous Digital Retail Technology or Retailtech. Retailtech enables digital shopping and shopping insights.

In South Africa shoppers still prefer to touch and feel products and thus use a mixture of online shopping and in-store shopping depending on the category of goods and the cost thereof (Prinsloo: 2016).

Online shopping is, however, likely to grow over the medium to long-term as we get deeper into the digital era. The use of digital technology in retail will definitely increase as the use of digital equipment such as Smartphones proliferates unabated (McKenzie, 2018). Furthermore, online shopping will increase as the heavy technology using Millennials who are the largest segment of the South African population grow older and become the largest proportion of the age groups between 20 and 40 years (Prinsloo, 2016).

In response to the observed "mixed shopping" trend, South African online retailers have been joined in the online market by traditional retailers who are setting up online platforms to enable shoppers to do both online and offline shopping. Other online shopping trends that are increasing in occurrence are:
- The online location of stores, where shoppers find store locations online.
- Price and product comparisons.
- Online purchase followed by pick up/collection in-store.
- Online search and product selection followed by product trial in-store and purchase in-store or online (Showrooming).

The research problem that needs to be answered is, therefore "what can the South African shopping centre industry do to meet the challenges posed by the digital disruption of traditional bricks and mortar retailing?"

2   Literature Review

The South African Shopping Centre Industry represents 65% of the retail sales, which exceeded R1 trillion for the first time in 2017. To put these facts in perspective, South Africa has more shopping centers than the rest of Africa combined and has the fifth-largest number of centers in the world. What the foregoing means is that the shopping centre industry is a significant part of the South African economy and way of life (Prinsloo, 2018).

In the 20 years between 1998 and 2018, the number of shopping centers has continued to increase resulting in extreme competition. This level of competition coupled with a lack of innovation in marketing such as the low use of social media and the sluggish South African economic growth over the last decade, has resulted in declining weekly visits for all classes of shopping centers (Prinsloo, 2018).

The key challenges to shopping centres caused by digital disruption, of which online shopping is just one segment are: Changing consumer behaviour, customers increased experience expectations- mall visits for experiences as opposed to purchasing, customer demand for better transaction efficiency, increased retail price competition, increased channels of delivery by retailers in addition to physical store locations, reduced retailer floor spaces and demand for space, customer data collection and data-informed marketing, online web presence and social media marketing and interaction and the need for investment in Omni and multi-channel infrastructure (Veuger,2018., PayPal Ipsos, 2018., Buss, 1997., Changsu Kim, 2007., Xin, 2017., Marston, 2002., Prinsloo, 2015).

The key impacts of the challenges posed by digital disruption as observed in the literature are: Decreased demand for space and thus increased vacancy rates, lower rent levels and decreasing income, lower returns on investment for investors in retail property, lease ambiguity on Omni-Channel retailing, increased innovation and investment in technology, obsolescence of certain retailers and shop closures, declining retail property values and flight of capital from retail property sector to other property sectors and vacant retail properties needing repurposing or demolition (Marston, 2002., Prinsloo, 2016., Baen, 2000., Goldman Sachs, 2019., Deloitte, 2016., Bahru, 2014., Rietbergen, 2007., McClatchey, 2007., Forbes, 2019., Retail Leader, 2019., Huffington Post, 2017., Businesslive, 2019)

The strategies that can be adopted by the shopping centre industry are: Enhance the customer experience, customer-centric retail property business model, shoppertainment, leveraging technology, repurposing shopping centres for other uses, developing green shopping centres and agile property management (Guimares, 2018., Buss, 1997., Hiltzik, 2011., Zhu and Nakata, 2008., Rawat, 2016., Jukna, 2018., Ghermazian, 2018., Sachdeva and Goel, 2016., O'Roarty and Billingsley, 2016., Epstein and Deng, 2019., Forsey, 2019., BCX, 2016., SA Commercial Prop News, online., Savills, 2019., Cloete, 2016)

3 Research Method

The research method adopted was a qualitative study that seeks to answer the research problem and sub-problems by means of a desktop literature survey. The survey of the literature was used to come up with a body of knowledge relating to the research problem. The corpus was used to answer the research problem and test the hypothesis. This data was then critically analysed and findings were expressed in the results of the research. (Popay, 2006).

4 Data Analysis and Findings

The research findings are summarized in Table 1 below. The first column in Table 1 depicts the relationship between the challenges, their impacts and possible strategies to counteract them as derived from the international literature. The challenges are grouped together according to the following rows:
- Row 1 - Customer Behaviour
- Row 2 - Retail Competition
- Row 3 - Omni-channel Retailing
- Row 4 - Vacancy and Lower demand for Space
- Row 5 - Adapting to Technology

Each of the 5 rows has a unique but often overlapping and compounding impact on the retail property as depicted in the second column. The third column proposes possible strategies to counteract the negative impacts of each challenge.

Table 1. Cross-Sectional Analysis - Challenges, Impacts and Strategies

Challenges imposed by digital disruption	Impacts of digital disruption	Strategies that can be adopted
Changing consumer behaviour Customer increased experience expectations - (mall visits for experiences as opposed to purchasing) Customer demand for better transaction efficiency	Decreased demand for space and thus increased vacancy rates Increased innovation and technological capital and operating expenditures	Customer-centric retail property business model Enhance the customer experience.
Increased retail price	Totally vacant retail	Repurposing shop-

competition	properties needing re-purposing or demolition.	ping centre for other use
Increased channels of delivery by retailers in addition to physical store locations	Lease ambiguity on Omni-channels	Agile property management Flexible leasing
Reduced retailer floor spaces and demand for space	Lower rent levels and decreasing income	Shoppertainment Repurposing excess retail space
Online web presence and social media marketing and interaction. Need for investment in Omni and multi-channel infrastructure	Declining Retail property values and flight of capital from retail property sector to other property sectors	Leveraging technology Developing green shopping centres

According to Loos (2019), the current biggest challenge to the South African retail property industry is the eroding of disposable income of the consumer because of the stagnating economy. Online retail and retail space affordability are notable challenges, which will pose a greater threat in the long-term, but the greatest challenge in the short term is the financial condition of the consumer.

5   Conclusion

The South African retail property industry is the largest in Africa and numbered in the world's top 10 for the greatest number of shopping centres. It houses a trillion-rand retail industry which is a major contributor to GDP and employment. The advent of the 4IR has resulted in the development of new technologies in property and retail known as Proptech and Retailtech respectively. These technologies present challenges to the profitability of retailers and in turn the retail properties that house them. The combined effect of these challenges brings both opportunities and negative impacts (threats) to the retail property industry. Strategies can be adopted to minimise the negative impacts and turn some challenges into opportunities as illustrated in Table 1 above.

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