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Perceptions of Internet Marketing Effectiveness within the South African FMCG Retail Sector

Vandayar, Vilashni

2012-10-05
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Perceptions of Internet Marketing Effectiveness within the South African FMCG Retail Sector

Vilashni Vandayar

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg, 2012

ABSTRACT

Technology is changing the face of the retail-shopping environment, with many industries adopting online services to either replace or supplement their traditionally “brick and mortar” businesses. The phenomenal growth of the Internet has changed the way business is conducted from the traditional bricks and mortar model and has brought about huge opportunities for both the business and the consumer. Given the profound impact the Internet is having on the way business is conducted, most traditional businesses today have an online presence.

Prior research found that although internationally many companies use the Internet as part of their integrated marketing campaigns, the most popular uses of the Internet were product and company information, communication to consumers, and customer service.

The purpose of this research was to to evaluate the perceived effectiveness of Internet marketing within the FMCG retail sector in South Africa as an integrated marketing channel.

It was found that South African FMCG retailers are using the Internet for the same purposes as international retailers. It was also concluded that South African FMCG retailers do not believe that they are using the Internet to its full potential in terms of being a transactional medium. This is a conscious decision of the retailers, as they believe that the Internet should be used on a more strategic level to engage with their target audience in real time rather than an alternate distribution channel.

DECLARATION

I, Vilashni Vandayar, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Vilashni Vandayar

Signed at Johannesburg

On the …….. day of …… 2012

DEDICATION

I dedicate this research report to my husband, Mervin and our two beautiful children, Tashyn and Thiasha who always believed in me and supported me in all my endeavours. Thank you for teaching me that if one can dream it, one can achieve it.

In loving memory of my mother who always encouraged me to be myself and reach for the stars.

ACKNOWLEDGEMENTS

I wish to thank and express my sincere gratitude and appreciation to the following people:

- Prof. Geoffrey Bick, for the support, guidance and assistance provided to me throughout my research
- my husband Mervin, who has been a source of inspiration and support for me. Thank you for believing in my abilities and me, even when I didn't believe in myself.
- my son Tashyn, who was only two years old when I embarked on this journey, but never complained about me having to go to school at night
- my daughter, Thiasha, who was born in the second year of my MBA and renewed my sense of perseverance in completing my MBA
- to my classmates and lecturers who were especially supportive through my pregnancy
- to all my family and friends who supported me and
- finally, to all the respondents in my interviews, without them this research would not have been possible.

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CHAPTER 1: INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to evaluate the perceived effectiveness of Internet marketing within the FMCG retail sector in South Africa as an integrated marketing channel.

1.2 Context of the study

There is little doubt that the Internet is the fastest growing vehicle for marketing today and has overtaken long-established advertising methods such as TV, radio and magazine advertisements.

Technologically aware consumers are now surfing the Internet or communicating with peers over social media networks and on cell phones and marketing on these media is not only more effective, it is also more cost efficient than the traditional approaches (Harrisson, 2010).

According to Shugan (2004), academic research in marketing often and rightfully tends to either build on well established past research topics or follow well-established practices in industry. However, as technology advances, it might be possible to foresee some more enduring trends and focus research on future issues rather than on past issues (Shugan, 2004).

The Internet now provides a wide variety of search services for finding websites, sellers, services, people, product information, archived information, news,

weather, messages, companionship, reviews, announcements, other search engines, and so on (Harrisson, 2010). There are now a variety of Web search services that enable buyers and sellers to find each other. The web search activity has vastly changed the type, quantity, and cost of information. Globally, search engines have become an important part of the distribution channel. Search engines can disseminate information about the products and services of many organizations. Search engines can also actively enable the finding of particular products and services while making it difficult to find other products and services. In many ways, search engines are gatekeepers, similar to traditional retailers who provide selected information, narrow buyer choices to a chosen assortment, and target particular items to particular customers (Harrisson, 2010).

Search term marketing is one of the most well-known online marketing strategies (Duffy, 2004). In the past, search engines such as Google, did not sell placement within the search results. But in recent years this has changed to allow an organization to choose the position it would like to appear once keywords are searched for. For example, a search for “camping equipment” on Yahoo on a given day displays results from the following companies:

. Rvawningmats.com;

. REI;

. Libertyoutdoorsandsurvival.com;

. Sierra Trading Post;

. LL Bean; and

. Supremeknives.com (Duffy, 2004).

All of these companies have paid for search term marketing programs to ensure their text advertisements appear near the top of the list when a customer searches Yahoo for the term “camping equipment.”

It is interesting that as the marketplace observed an initial shift in market power from retailers to manufacturers, there is now a shift in market power to the portals and information providers.

Beyond search engines, other advancing technologies have the potential to also allow marketers to communicate directly with their target market. Social media avenues such as Facebook and Twitter give marketers the opportunity to connect with their target market in a different environment and helps position the brand.

1.3 Problem statement

1.3.1 *Main problem*

To determine the perceived effectiveness of the Internet in the South African FMCG retail market as an integrated marketing channel.

1.4 Significance of the study

The study fills a gap in that it investigates South African retail companies' use of Internet marketing and its effectiveness.

It has been observed that many South African companies that have invested in online marketing have experienced significant growth not only in visitors to their website but in the resulting sales and customer awareness.

However, according to Goldstuck (2004), only 8 companies completely dominate the South African online market. While Internet use has shot up dramatically in SA over the past few years, the online shopping market is small by world standards. The limited number of consumers with Internet access, retailers say, prevents consumers from exploring this option (AllAfrica, 2011). Well known retailers such as Woolworths, Checkers, and Pick n Pay have seen the writing on the wall, have taken up the challenge and have set up their own websites. However, while using an innovative marketing medium in the form of the Internet, these companies, and others who have spent years promoting their particular brand names, are still using this traditional approach to advertising, promoting their brand rather than what they have to offer the customer. The problem is that, online, what you sell is a far more important consideration than who you are. While potential customers might seek out a 'Woolies' shop at the mall, when online they are far more likely to search for the item they want to buy (AllAfrica, 2011).

Clearly then, those companies who make the best use of keyword search options will attract the most traffic to their websites. However, if one types

‘ladies fashions’ into Google’s South African pages one would not, as might be expected, find Woolworths heading the list, and ‘fresh produce’ although part of Checker’s advertising campaign, fails to list this company on the first few pages of the search engine results. Despite the large amounts these companies have spent on setting up their online marketing campaigns, the design of the websites does not make them easily accessible on any of the major search engines.

Whilst most retailers view the Internet as an important channel for the future, they are not certain of the future of Internet marketing and do not see it as a huge threat to physical retail business (Govender, 2001).

The traditional business approach does not work on the Internet, and until retailers acknowledge that they are working in an entirely new field, using very different skills and techniques, they will fail to benefit from the opportunities that online marketing can offer South African companies (Govender, 2001).

The study provides guidance not only to FMCG retailers but to retailers and marketers in all industries who are considering using Internet marketing as part of their marketing campaign.

1.5 Delimitations of the study

This study addresses the FMCG retail sector in South Africa only.

It focuses on senior managers within the retail sector that are responsible for Internet marketing within their organisation.

1.6 Definition of terms

Internet marketing – marketing of products and services over the Internet

Search engine - web site that collects and organizes content from all over the Internet.

ROI – return on investment

IMC – integrated marketing campaign

FMCG – fast moving consumer goods

www – world wide web

B2B – business to business

B2C – business to consumer

ATL – above the line

1.7 Assumptions

The following assumptions have been made regarding the study:

a. The sample was able to share information on their marketing campaigns and the use of Internet marketing due to their seniority in the organisation. Lack of knowledge of the marketing strategy would negatively affect the credibility of study.

b. Information was conveyed honestly and truthfully by the respondents. False data would have a severely detrimental effect on the study's results.

c. The respondent sample reflected the general experiences of the office they work within. Non-representative views would have skewed the results of the study.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

Businesses use a wide variety of media to communicate and perform other marketing activities with their customers. Integrated marketing uses the marketing mix tools (product, place, price and promotion) to create, communicate and deliver value for consumers. Two key themes of integrated marketing are:

- Many different marketing activities communicate and deliver value and,
- When co-ordinated, marketing activities maximize their joint efforts (Kotler and Keller, 2009)

E-marketing describes company's efforts to inform buyers, communicate, promote and sell its products and services over the Internet (Kotler and Keller, 2009). The authors go on to state that online marketing activities play an increasingly prominent role in building brands and selling products and services.

2.2. What is a Retailer?

Retailing includes all activities in selling goods or services directly to final consumers for personal, non-business use (Kotler and Keller, 2009). The authors go on to define a retailer or retail store as any business enterprise whose sales volume comes primarily from retailing.

Retailers position themselves as offering one of four levels of service:

- Self-service – the cornerstone of all discount operations. Customers carry out their own locate-compare-select process to save money.
- Self-selection – customers can find their own goods but can ask for assistance.
- Limited service – these retailers carry more shopping goods and services such as credit and merchandise-return privileges.
- Full service – sales people are ready to assist in every phase of the locate-compare-select process (Kotler and Keller, 2009).

2.3. Factors affecting Grocery Shopping within the Retail market

The South African grocery shopping and household goods industry is dominated by a few major retailers.

Shopping is the process of physically going to locations to purchase goods or products and is an activity that was developed to ensure that mass produced goods that are manufactured by modern manufacturing companies are sold (Farrell 1998).

Grocery shopping is a purposeful exercise of purchasing fast moving consumer goods (FMCG) by consumers, which is normally repeated at some defined interval. Shopping for groceries is perceived to be one of the most boring and least liked tasks (Farrell 1998).

Several factors have been shown to affect the retail patronage decision. Among these factors is location, service level, pricing policies and merchandise assortment.

2.4. 6Ps of Traditional Retailer Marketing

Similar to the 4Ps of marketing (Product, place, price and promotion), there are 6 Ps within retail marketing (Mason, 1975, 1993).

Mason (1975, 1993) defined these as:

- Product – this refers to the range of products within a category that is kept in the store
- Place – this refers to the physical location of a store and its trading hours.
- Price – refers to the price of products within the store and comparing it to the competition. For example, Shoprite prides itself on its value for money proposition whereas Spar positions itself as a more premium store. Thus, consumers perceive Spar to be more expensive in terms of groceries and would prefer it to do their top-up shop (weekly shopping as certain items such as bread and milk are required) and prefer to do their bulk month end grocery shopping at a value for money store such as Shoprite.
- Promotion – this refers to the retailers' ability to advertise both within the store and out of the store. In store promotions may take the form of TV advertising and shelf talkers within the store making shoppers aware of

promotions, competitions and other exciting news within the store. Out of store promotions may include broadsheets, PR campaigns as well as traditional TV advertising.

- People – this element of retail marketing is critical to stores as it involves customer service and all staff that are visible to shoppers. Within retail marketing the front office staff play a crucial role in ensuring shoppers are enjoying their shopping experience and encourage shoppers to become loyal to their store.
- Presentation – this involves store layout, atmosphere and merchandising.

These elements need to be aligned and work synergistically to ensure that the retail marketing strategy is able to meet the expectations and needs of the target consumer or shopper. However, the retail market is changing rapidly as technology advances and as consumers look for a one-stop shopping experience.

2.5. Evolution of retail marketing

In the past, retailers secured customer loyalty by offering convenient locations, special or unique assortments of goods, greater or better services than competitors, and store credit cards (Kotler and Keller, 2009). The authors go on to state that all this has changed. In a time when retailers are finding it increasingly difficult to create a differential advantage on the basis of merchandise, price, promotion and location, the store itself becomes a fertile

opportunity for market differentiation. A large amount of money is spent each year by retailers designing, building and refurbishing stores.

Technology is also changing the face of the retail-shopping environment, with many industries adopting online services to either replace or supplement their traditionally “brick and mortar” businesses. The advent of the Internet and the subsequent developments of various Internet services have significantly changed the manner in which business is conducted.

Kotler and Keller (2009) identified some of the retail developments that are changing the way consumers buy and manufacturers and retailers sell to be:-

- New retail forms and combinations – some supermarkets include automated teller machines (ATMs). Bookstores offer coffee shops. Petrol stations offer food stores.
- Growth of Intertype competition – traditional grocery stores are expanding into products such as clothing, health, beauty and electrical appliances.
- Competition between store-based and non-store based retailing – consumers receive sales offers through direct mail letters, over television, computers and telephone. These non-store based retailers are taking business away from store-based retailers. Many traditional retailers saw online retailers as a threat but are now finding it advantageous to work with them. Most major retailers such as Wal-mart have developed their own websites.

- Growth of giant retailers – through their superior information systems, logistical systems and buying power, giant retailers such as Wal-mart are able to deliver good service and immense volumes of product at appealing prices to consumers.
- Growing investment in technology – retailers are using computers to produce better forecasts, control inventory costs, order electronically, send email between stores and even sell to customers.

2.6. What is the Internet?

The Internet is a vast computer network interconnected globally (Palumbo and Herbig, 1998). The authors go on to state that it offers organisations inexpensive and sophisticated tools for advertising, taking and placing orders, promoting their philosophies, and communicating with their customers all over the world. These Internet tools are email, mailing list, newsgroup, world wide web and indirectly cyber mail. Added to this list recently is social networking media such as Facebook and Twitter.

Internet usage has grown phenomenally over the last decade with the number of users increasing from 360 million in 2000 to almost 2 billion projected users in 2010 (Internet World Stats, 2010). Globally, the number of websites increased from 23 000 in 1995 to more than 230 million in 2010 (Zakon, 2010). In the US alone, total Internet driven sales revenues have grown from almost nothing in 1995 to over $50 billion in 2004 (Schibrowsky, Peltier and Nill, 2007). Facebook has grown from just under 100 000 users in 2007 to over 500 000 users in 2010 (Zakon, 2010).

According to Kurnia and Chien (2003), the Internet has been a key driver in facilitating online business transactions, not only between different commercial business entities, but also between such entities and the end consumer.

According to Raijas and Tuuainen (2001), an Online Grocery Shopping Service (OGSS) offers an Internet ordering interface, whereby the consumer selects and pays for the products and the retailer is responsible for picking and delivering the product to the consumer. Kurnia (2003) defines an OGSS as the use of a retailers' website to purchase groceries by means of a mouse click.

In South Africa, OGSS's were first introduced in 2003 by Pick n Pay and to date there are only two major retailers namely Pick n Pay and Woolworths who truly offer online grocery shopping to selected areas. Another major retailer, Spar offered the service but has abandoned it in the last five years.

Thus, the Internet allows the retailer to serve the customer away from the physical store benefits the customer greatly, but what is the benefit to the retailer by offering this service?

2.7. Benefits of Online for Retailers

Early commentators tended to focus on the internet's potential to deliver efficiencies and cut costs. By contrast, more recent contributions have tended to support Porter's (2001) view that competitive advantage is more likely to be achieved through differentiation, than cost leadership.

Some commentators suggest that the future of shopping lies in multi-channel retailing (Dennis et al., 2002) where, rather than competing with the internet, retailers should incorporate it as part of their retail strategy, adopting a hybrid strategy combining both online and offline activity through a bricks and clicks approach. Multi-channel marketing involves the integration of traditional marketing efforts such as retailing and catalogue marketing with effective online marketing (Duffy, 2004).

Computer mediated communications is becoming cheaper as well as more adaptable and relevant to our needs. The importance of the Internet to buyers, sellers, and intermediaries across all aspects of the relational continuum from prospecting to customer retention is unquestioned. The Internet's interactivity and tracking ability allows custom tailored marketing at minimum costs especially for developed countries with good telecommunications structure (Witter, 2000).

It is not just the customers that are getting enthusiastic about the internet, retailers are also increasingly realising the internet's potential. In particular, its ability to present and store information, two-way communication with customers, collect market research data, promote goods and services and ultimately to support the online ordering of merchandise, are all seen as highly valuable attributes, which in an increasingly competitive marketplace, retailers are keen to exploit. Indeed, the Internet currently provides an extremely rich and flexible new retail channel that all the major supermarkets are keen to exploit (Hart et al., 2000).

2.8. Adoption of Online by Retailers

Changes in the retail environment due to the internet have important ramifications for retailers.

While Internet retailing could be interpreted to be at the innovation stage of the retail life cycle, the rate of retailer penetration of the Internet as a new format may in turn affect the rate of adoption by consumers. Smaller retail organisations are more likely to adopt the Internet due to their greater flexibility.

Considerable attention has been focused on the Internet and its commercial potential for retailers (Hart, Doherty and Ellis-Chadwick, 2000). Two key areas of confusion emerge for retailers:

- What is it and what role can it play in retail marketing?

  The debate here is will the Internet provide a new retail format, making the traditional brick and mortar obsolete or will it play a supporting role for existing marketing strategy.

- Which retailers are online and are they using the Internet strategically or tactically as a marketing tool?

Retailers need to be cognisant of the fact that traditional rules do not apply for online sales. The retail “store” and its “ambience” may need revising, whilst the physical “product” might still need merchandising and the customer related “services” need to be carefully designed and delivered online and in store (Hart et al., 2000).

The low penetration of the Internet by retailers confirms that the Internet is unlikely to replace the high street in the near future. The greatest commercial potential of the Internet probably lies in its power to integrate retail marketing activity rather than as an alternative sales channel.

Marketing effectiveness depends significantly on communications effectiveness because any marketplace is “energized” by information flows (Hoey, 1998). The author goes on to state that the information available on the product offering (and the buyer’s reaction to this) influences the buyer’s perception of the product. Channels of communication traditionally follow a one-to-many communication model, whereby a firm reaches many current and potential customers through marketing efforts that allow only limited forms of feedback from the customer. The Internet facilitates an interactive multimedia many-to-many communication network, thus radically changing the way in which firms can do business with customers and suppliers.

Hoey (1998) describes Web applications for the marketing mix as:

- Providing detailed product information and specifications;
- Gaining access to previously unknown or inaccessible buying influences;
- Projecting a favourable corporate image;
- Fostering and encouraging customer involvement with the product range;
- Interactively offering product samples and building a customer database;
- Providing product distribution and online transactions;

- Conducting market research.

To achieve effective marketing communications through the Web, it is first necessary to focus on the basic “building blocks” of the marketing mix (Hoey, 1998).

For these communications to become truly effective within the realm of the Website, it is not sufficient for a company to simply create an on-line catalogue of product and corporate information. It is necessary to exploit the true nature of the hypermedia environment, providing content laden channels of communication through which site visitors may interact.

2.9. Consumer Perceptions of the Internet

Consumer predisposition toward the Internet as a new retail format may constrain future growth. Unless online retailers can overcome consumer resistance to non-store based formats, the retail marketing potential of the Internet may be limited. However, Internet shopping is beginning to show signs that it may live up to its early revolutionary projections (White, 1997). The online shopping environment still represents a comparatively new, and largely unexplored, marketing channel. Not surprisingly, little is understood regarding the nature of and influences on impulsive consumer purchases during online marketing exchanges (Zhang, Prybutok and Strutton, 2007). Business managers face great challenges in incorporating the Internet in their marketing efforts and devising effective online marketing strategies to create a successful

online brand. Online retailer branding and trust play an important role in Internet markets (Smith, Bailey and Brynjolfsson, 1999).

Maal and Bick (2011) found that the profile of the South African online grocery shopper is a person between the ages of 30-49, with a tertiary education, earning a monthly income of at least R10 000 (about US$ 1 450), with Internet access and spending a significant amount of time conducting shopping.

Perceived benefits of online grocery shopping included time saving, convenience and assisting the elderly, perceived risk related to credit card fraud, potential robbery and incorrect products being delivered (Maal and Bick, 2011).

The De-Kare Silver e-Shopping (ES) Test (De-Kare Silver,1999) assesses the consumer's propensity to purchase a retail product using the Internet. De Kare-Silver (1999) suggests factors that should be considered in the electronic shopping test:

- Product characteristics. Does the product need to be physically tried, or touched before it is bought?

- Familiarity and confidence. Considers the degree the consumer recognizes and trusts the product or brand.

- Consumer attributes. These shape the buyer's behavior – are they amenable to online purchases in terms of access to the technology, skills available and do they no longer wish to shop for a product in a traditional retail

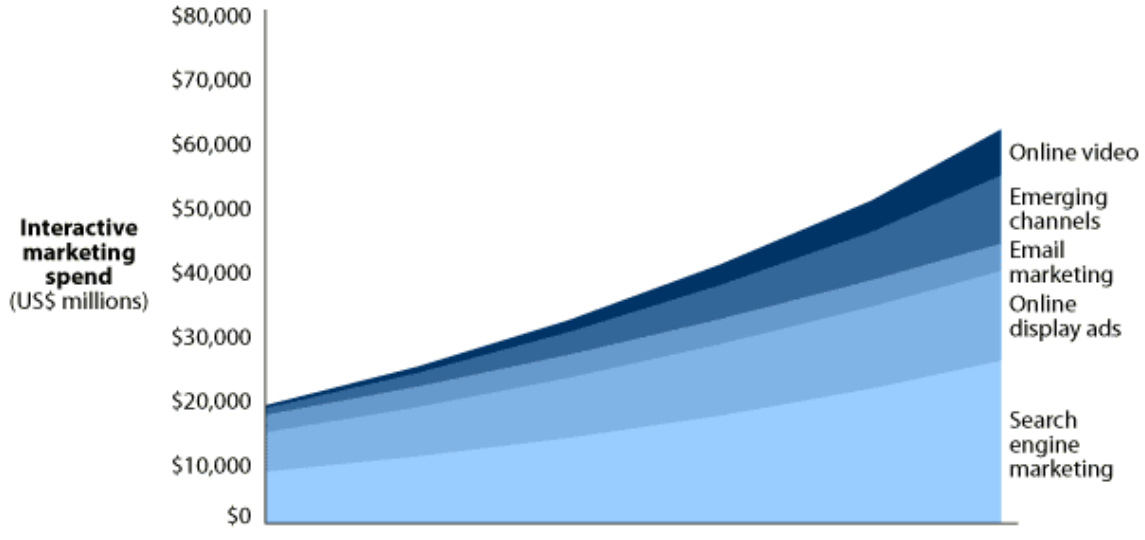
environment? Typical results from the evaluation, where products are scored out of 50 for suitability for electronic commerce, are:

- Groceries (27/50)
- Mortgages (15/50)
- Travel (31/50)
- Books (38/50)

De Kare-Silver (1999) states that any product scoring over 20 has good potential, since the score for consumer attributes is likely to increase through time.

2.10. Marketing Usage of Online

The Internet is the perfect direct marketing tool (Witter, 2000). According to Weber (2007), the world is going digital and that competitive advantage will accrue to those who understand the transformation. Marketers of all levels of sophistication in all industries are spending more on interactive marketing as they try to better distribute their investments into the media their customers actually use (Boskirk, 2008). Figure 1 below shows the phenomenal growth expected from online marketing.



	2007	2008	2009	2010	2011	2012	CAGR
Search engine marketing	$8,056	$10,432	$13,310	$16,775	$20,993	$25,323	26%
Online display ads	$6,126	$7,656	$9,354	$11,137	$12,745	$13,988	18%
Email marketing	$2,710	$3,189	$3,588	$3,892	$4,130	$4,256	9%
Emerging channels marketing	$1,040	$2,130	$3,534	$5,301	$7,519	$10,610	59%
Online video marketing	$471	$989	$1,859	$3,198	$4,875	$7,153	72%
Total	**$18,402**	**$24,396**	**$31,645**	**$40,304**	**$50,261**	**$61,330**	**27%**
Percent of total advertising	8%	10%	12%	14%	16%	18%	

(numbers have been rounded)

46122 Source: Forrester Research, Inc.

Figure 1: Forecast: US Interactive Marketing Spend, 2007 To 2012 (Boskirk, 2008)

Having realized the astonishing growth and importance of the Internet, marketers are challenged with its effective integration into their marketing communication mix.

According to Hart et al (2000), the Internet has been used in three main ways to facilitate retail marketing:

- As a means of communicating information about a retail organisation, its' products and services

- As a pro-active marketing tool, inviting consumers interactively to access the website to gain more product information to facilitate their buying decision making process and,

- Physically selling products online through transactions with the consumers, providing an additional channel to an existing store base or mail order operation.

An organizations' value chain is defined as the collection of activities that produce, market, deliver and support its products or services. Marketing practitioners and academics have devoted considerable effort to identifying the effect of the Internet on International marketing (Eid and Trueman, 2008). The authors go on to state that International Internet Marketing has changed some elements of the marketing mix. Marketing on the Internet is a very different process from traditional marketing.

Product:

A product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need (Kotler and Keller, 2009). The Internet leads to faster discovery of customer needs, greater customization of the products to the customer needs, faster product testing and shorter product life cycles. As part of a good marketing plan, a company must design new or improved products that meet the customer's current or latent needs, find an effective way to bring that product to the customer, and provide after-sales support. The Internet can dramatically

improve the entire process. Comprehensive product information is provided through homepages and “product forums”.

Price:

The Internet has many influences on the price strategy. Smart agents, software programmes that can search the Internet for products meeting pre-specified criteria may combat attempts at price discrimination by uncovering different prices. Price lists are available for each product and these are supported by information on pricing strategies.

The Internet poses both opportunities and threats to pricing, but a creative pricing strategy can help avoid the intense pricing competition that obliterates profits (Pitt, Berthon, Watson and Ewing, 2001).

The Internet is having a fundamental impact on the pricing strategy of businesses, opening doors to buyers long closed by the effects of time, cost and effort. It has the potential to migrate a significant number of customers up the value triangle, focusing marketing on high-value customers and enabling a firm to build relationships with those that negate the impact of mere price alone (Pitt et al, 2001).

Promotion:

Promotion refers to all the various ways an organization undertakes to communicate its’ products’ merits and to persuade target customers to buy from them (Chartered Institute of Marketing, 2009).

> The use of the Internet allows sales departments to have an interactive communication with customers. Paying to place links on pages with audiences that mirror or include a company's target customers is less expensive than traditional media. Postings on Internet discussion groups on topics relevant for specific products or markets are another way for marketers to attract visitors to their sites. Promotion within the site is largely facilitated by its "navigability". This is the combination of benefits statements and hyperlinks, together with a customer oriented structure, which provides cues or pointers to the most relevant products within the customers' area of interest.

The explosive growth of the Internet and the appearance of the World Wide Web (the web), together with the rapid expansion of public access to these media, have boosted the idea of doing business on-line and attracted a broad range of commercial interests (Watson, Akselsen and Pitt, 1998).

The authors go on to state that there are a number of reasons for firms to create a Website:

- To reduce the costs of matching buyers and sellers
- To promote the image of a leading edge corporation and increase visibility
- To improve customer service
- To enable market expansion

- To lower stakeholder communication costs through on-line transactions and global information distribution.

Physical Distribution:

Physical distribution is the place aspect of the marketing mix. Marketing channel can be defined as interdependent organizations involved in the process of making a product or service available for use or consumption (Kotler and Keller, 2009).

The key difference between the physical and virtual value chains is that the virtual value chain treats supporting information as a source of value in itself.

Virtual communities not only gather potential purchasers together, but they also arm them with far more information than they have typically been able to access conveniently and cost effectively in the past.

The new electronic medium is ravaging traditional distribution philosophy, rendering many conventional intermediaries and channels obsolete (Pitt, Berthon and Berthon, 1999).

The authors believe that the Internet will change distribution like no other environmental force since the industrial revolution. They go on to state that distribution may switch from channels to media in the future.

Pitt, Berthon and Berthon (1999), identified three major effects that the Internet may have on distribution:

- The death of distance

Distance will no longer determine the cost of communicating electronically and, for most products; distance will have substantially less effect on distribution costs.

- The homogenization of time

In the physical market, time and season predominate trading and distribution. However, the virtual market is atemporal and therefore, always open. Thus, time becomes homogenized in that it is formerly consistent for all buyers and sellers.

- The irrelevance of location

The authors state that physical location of a business will no longer be key to most business decisions. This phenomenon is referred to as a move from marketplace to “marketspace”.

> The Internet, by connecting end-users and producers directly may reduce the importance of traditional intermediaries. Whist some companies have developed their websites to allow consumers to purchase directly from them via the website, most producers’ websites are developed to educate consumers on the benefits of their product range. Consumers are still expected to purchase from an intermediary such as a retailer. Place is communicated through on-line ordering details, customer services information, and also through the provision of free trial to online journals. Thus, the move from marketplace to “marketspace” as anticipated by Pitt et al (1999) has not fully occurred.

Figure 2 below summarises the effect of the Internet on the International Marketing mix (Eid and Trueman, 2008).

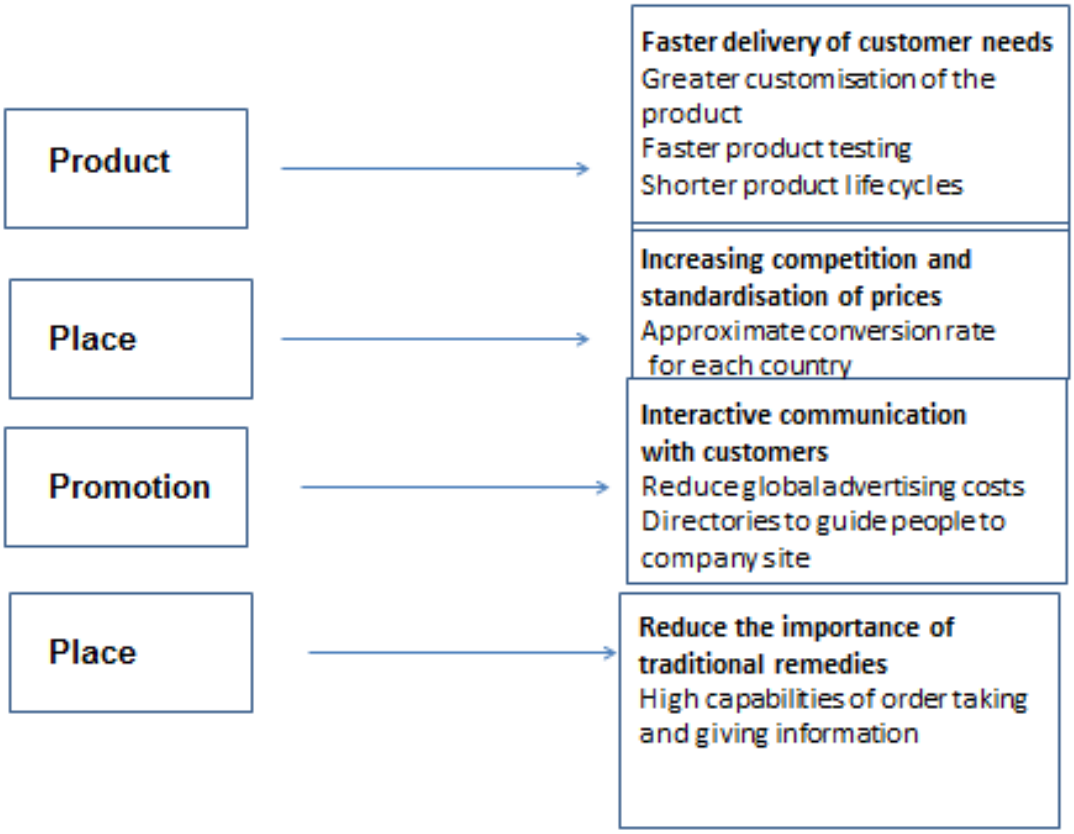


Figure 2: Effect of Internet on International Marketing (Eid and Trueman, 2008)

To truly maximize the effectiveness of communications in hypermedia, businesses must seek to provide inherent value through their on-line activities.

The emergent potential of community on the Internet encapsulates the need for targeted and value-added resources. To use these effectively, they must be specifically targeted at the key groups who support the organization's key

activities and be immersed in their own content. They must also facilitate and actively encourage communication flows between the various elements of the site. This connectivity will further enhance the benefit of the site to visitors, while exposing all parties to an environment rich in information and marketing communications.

2.11. Limitations of Online

Hughes (2003) noted that the Internet has not fulfilled its promise. He argues that Internet marketing has turned out to be a relatively good ordering tool but a poor sales tool.

KPMG (1999) found that five of the top 6 business functions performed electronically via the Internet relate to communication, namely:

1. Company information (50%)
2. Customer communication (49%)
3. Supplier communication (45%)
4. Marketing (42%)
5. Customer service (34%)
6. Public relations/advertising (31%)

They also found that very few companies are using the Internet for transactional services such as order-taking, procurement, product delivery and payment. Many small companies are disillusioned over the marketing effectiveness of the

Internet because sales are lower than targeted and they did not gain competitive advantage (Adam, 2002).

Porter (2001) commented on the lack of strategic intent behind the use of the Internet by businesses that expect to be judged on revenue growth alone. Business generally seeks to achieve a return on investment commensurate with associated risk and anticipates a positive cashflow outcome.

Mordhirghomi and Shashar (2005) suggest that some consumers prefer to visually inspect groceries before purchasing them so as to ensure that they are getting the correct quality, size and brand. In a study conducted by Kurnia and Chien, (2003), consumers indicated that they were willing to purchase certain grocery items online such as tin food, box food, household detergents and personal hygiene products. However, for certain foods such as fresh produce, meat and poultry, they preferred to visually inspect the products before purchase.

Thus, the Internet is one of a number of promotional tools, but it can also be used for informational purposes.

2.12. Impact of Online marketing on B2B vs B2C

B2B marketers face two primary challenges: reaching key decision-makers and demonstrating marketing results (Ramos, 2007). Outdated marketing tactics, immature lead management processes, and metrics focused on pipeline inputs — not sales results — keep B2B marketers from rising above these tactical issues. When business marketers embrace interactive tactics and use

technology selectively to integrate online communications into the marketing mix and align with sales, they can move from basic sales-centered support to customer-centric strategists as they evolve customers from buyers to advocates.

Businesses across Africa are expecting a revolution in Internet access, technology and costs as a result of the rush of new undersea cables connecting the continent. More than 90% of business decision makers across Africa are expecting prices to drop and competition to increase dramatically (Goldstuck, 2010).

Marketing academics and practitioners have devoted considerable effort to identifying the critical success factors for business-to-business international Internet marketing.

The pace of change brought about by new technologies has had a significant effect on the way companies and consumers relate to one another. New and emerging technologies challenge the traditional process of transactions and the way communications between consumers and companies are managed. The advent of the Internet is having a major impact on the way in which communications between companies and consumers are conducted and maintained in the evolving marketing paradigm. Current understandings tend to question whether the recent and most remarkable changes as a result of Internet ubiquity warrant a paradigm shift in the practice of marketing, especially in marketing communications and competitive advantage. It is interesting to

recognize the profound influence of consumers changing their behaviour in the province of marketing communications (Ozuem, Howell and Lancaster, 2008).

Consumers, traditionally the receivers of unidirectional modes of communication have been transformed into potent participants in the emerging networked economy.

The potential of the networked economy, as a consequence of the Internet has not only created a global economy, but has fashioned a means of communication through the popularity of the WWW.

The web is not a simulation of a real world environment but it is an alternative to the real world where consumers may experience telepresence, or the perception of being present in the mediated world rather than a real environment (Eid, Trueman and Ahmed, 2006). The Internet is a new form of mass communication. Mass communication has always involved controlled broadcasts to passive audiences. The mass audience has never had any significant input or control over the mass communication. The Internet changes these characteristics. Providing consumers with a timeless avenue to access product information as desired at any given time, this medium allows users to exercise their willpower exclusively.

As consumers use the Internet to coordinate their daily activities beyond the confines of traditional communication channels, computer mediated marketing environments are enhancing their bonds with friends and organizations. Once connected, communication is a matter of personal decision making as consumers learn the inherent advantages of the medium. The rise of computer

mediated marketing environments is changing the balance of power by putting technology and tools in the hands of consumers. These empowered individuals can navigate information from several locations and make purchases to suit themselves. Products purchased no longer rely on a physical interface between buyers and sellers as Internet connectivity is redefining marketing as a virtual negotiation where physical presence is not necessary in some transactions.

On-line shopping was a borderless transaction where product information was easily reachable beyond national boundaries. Web-enabled business environments handle product specifications in a more detailed manner than the traditional shopping environment.

Information accessibility is completely porous as users can remotely access information relative to their areas of interests at anytime and anywhere. Instead of waiting for such information to be delivered in person or to their place of abode, it can be delivered in real-time and obtained within seconds.

2.13. Conclusion of Literature Review

Internet marketing has the potential to change the traditional approach to marketing campaigns. However, businesses should be wary in expecting a similar ROI on Internet marketing as expected from traditional methods. Internet marketing should not be seen as a replacement to traditional marketing methods but rather integrated into the overall marketing campaign of the organisation. The literature review shows that internationally retailers have not

fully integrated Internet as a marketing channel and in South Africa few retailers have embarked on using the Internet as a transactional medium.

The examination of the prior research leads to the following propositions:

2.13.1. *Research Propositions*

2.13.1.1. ***Research Proposition 1:***

South African retailers use the Internet for the following marketing activities:

- **Advertising**
- **Company information**
- **Transactions/ordering**
- **Interactive communication with customers**
- **Product information**
- **Customer service.**

KPMG (1999), Hoey (1998) and Hart et al (2000) found the above elements to be the key uses of the Internet by retailers.

2.13.1.2. ***Research Proposition 2:***

South African retailers have not utilised the full potential of the Internet as a transaction medium/distribution channel.

Pitt et al (2001), Maal and Bick (2011) and Kurnia and Chien (2003) found that the Internet has not been fully utilised as a transaction medium/distribution channel.

KPMG (1999) found that very few companies are using the Internet for transactional services such as order-taking, procurement, product delivery and payment.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Methodology/Paradigm

Due to the small population of FMCG retailers, and as this research is designed to gain a deeper understanding of the perceived effectiveness of Internet as an advertising and distribution channel, qualitative research methodology has been selected.

Qualitative marketing research is often characterised as involving intense research with small samples (Christy and Wood, 1999). Exploratory research by nature lends itself to qualitative research.

The focus is on the depth of understanding attained within the confines of the project sample.

Part of the reason for concentrating on small samples is the greater expense incurred per respondent. Qualitative data includes detailed descriptions of situations, events, people, interactions and observed behaviours. Unlike quantitative research, much reliance is placed on the researcher's interpretation of the data collected, making it more subjective in nature. For a market in which there are large numbers of interesting possibilities, small sample sizes carry the risk of excluding some of them altogether (Christy and Wood, 1999)

Qualitative research, as per all research, requires a research question. What makes a research question a qualitative one is the way the question is framed. A qualitative question must explore a qualitative argument in a qualitative way

(Crescentini and Mainardi, 2009). Methodological choice, in terms of cases selected, how information is collected and how the data is collected, also determines if the research is qualitative in nature.

Qualitative research falls under the phenomenological paradigm. In this paradigm, reality is subjective and multiple, the researcher reacts with the respondent, generates theory and data is rich and value laden.

Some strengths associated with qualitative research are:

- Facilitates depth of understanding
- Is suited to understanding attitudes and behaviours in their natural setting
- Capable of capturing complexity
- Flexible – take account of the unanticipated
- Objectivity and validity can be enhanced by research design

Some weaknesses associated with qualitative research are:

- Not quantifiable
- Objectivity may be difficult to maintain
- Not easy to replicate
- Not generalisable

3.2 Research Design

The research methodology selected is that of one-on-one semi-structured interviews with marketing executives within the FMCG retail sector within South Africa.

This method has been chosen above others to allow for exploration of the research question. It allows for open ended questions and in depth data collection to occur. Semi-structured interviews also allow for flexibility in the sequence in which questions are asked and allow the respondents to answer in their own words. There is scope for the interviewer to introduce new material that may arise during the interview. It allows for depth as the interviewer is allowed to probe further.

The purpose of the interview was to gather information to answer the research question. The advantages of one-on-one interviews are that they allow for complex questions to be asked, it is more friendly and flexible and allows for the respondent to ask questions which removes confusion.

However the nature of qualitative research implies that sample sizes are small due to the large amount of time consumed in interviewing as well as interpreting the data. Another constraint of interviews is that the interviewer may influence the respondent.

3.3 Population and Sample

3.3.1 *Population*

The population for this research includes all marketing executives within the FMCG retail sector in South Africa.

3.3.2 *Sample*

The FMCG retail sector in South Africa is fairly small. Thus all players in the market comprised of the sample, purposive sampling were used. Marketing executives or marketing personnel that are responsible for decision making in developing an integrated marketing campaign were chosen. The target sample size was between ten and twenty respondents. The FMCG retailers interviewed were:

- Shoprite/Checkers
- Woolworths
- Pick ‘n Pay
- Makro
- Spar
- Game
- Clicks
- Dischem
- Metro

Interviews were set up with each of the respondents for a one-on-one semi-structured interview using the discussion guide (Appendix A). The answers to the questions during the interview were then used to determine the perceived retailers' effective use of Internet marketing.

3.4 The Research Instrument

Each respondent was contacted either by email or telephonically to arrange the appointment. The appointment covered the discussion guide which was in the form of a questionnaire (see Appendix A). Each interview lasted about one hour in duration.

3.5 Procedure for Data Collection

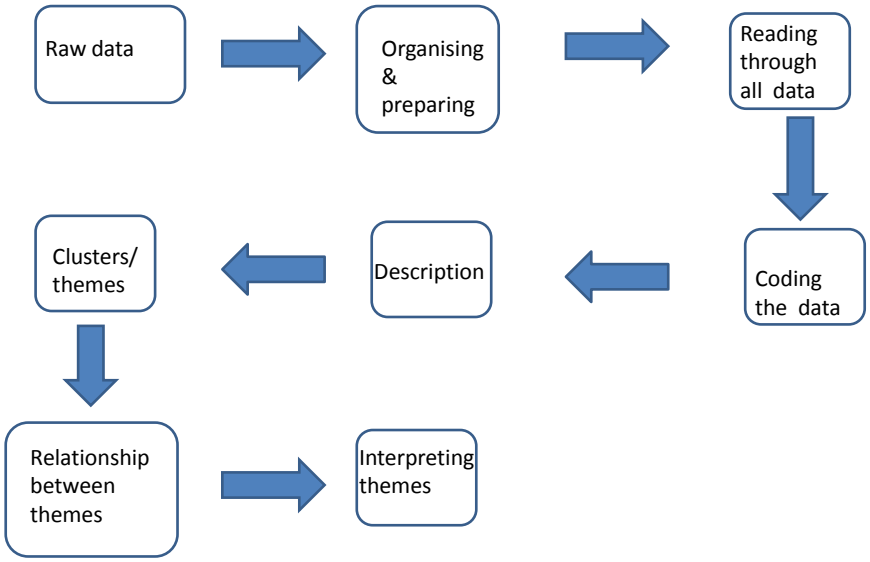
Data was transcribed during the interview. The interview was conducted either telephonically, by emailing the discussion guide questions or face to face depending on what suited the respondent best. Respondents were incentivised by receiving a collated spreadsheet of all the data collected. This allowed the respondent to determine his position in the market with regard to Internet marketing in South Africa.

3.6 Data analysis and Interpretation

Data was analysed using general analytic procedures in terms of content analysis.

The data reduction method below led to the identification of themes.

This process is described in the flowchart below.



3.7 Limitations of the Study

- With the restricted sample size, it is not possible to determine the perceived benefits of Internet marketing across all South African retailers. Thus, the results cannot be representative or generalisable. However, this research can provide insight into the reasons behind FMCG retailers leveraging or not leveraging the Internet as part of their integrated marketing campaigns.
- The responses to the questionnaire may be subjective in nature depending on who was available to respond to it on or behalf of the FMCG retailer. Also, the respondent may not have fully understood the question. Every attempt was made to provide clarity on questions to

ensure accurate data collection. To further reduce risk of inaccurate answers, respondents were given the opportunity to confer with other colleagues within the business and respond at a later stage.

3.8 Validity and Reliability

Validity is important in that it gives researchers confidence in the research results. There are two main categories of validity namely external and internal validity.

3.8.1 *External validity*

External validity is the extent to which the results of the study can be generalisable to the population, settings and others (Davis and Cosenza, 1985). Due to the small size of the sample in this research, it can be concluded that the research findings cannot be generalisable to the population. However, it may provide more insight into the perceptions of FMCG retailers of Internet marketing.

3.8.2 *Internal validity*

Davis and Cosenza (1985) go on to define internal validity as the degree to which the results of the study can be said to be correct. Once again, internal validity cannot be guaranteed on the research as it is dependent on the respondent being open and honest in answering the questionnaire. The results

may be subjective to the respondents' personal opinions of Internet marketing which may influence the results of the study.

3.8.3 *Reliability*

Reliability refers to the level to which the results are accurate and free from error. Respondents need to understand the questions being asked.

In this research, there is an allowance for respondent to confer with other colleagues within the organisation if they are unsure. This reduces the risk of attaining inaccurate data.

CHAPTER 4: PRESENTATION OF RESULTS

4.1 Introduction

The discussion guide was shared with 9 retailers within the FMCG sector, and interviews were held with all. Two respondents within one of the retailers were interviewed.

The total number of responses received was ten (10). Responses were clustered based on commonalities.

From the responses, the perceptions of the retailers on Internet marketing became evident. Certain commonalities also became prevalent from the results.

A more detailed analysis of the results is undertaken in the following chapter.

4.2 Demographic profile of Respondents

Table 1 below summarises the geographical split of the respondents.

TABLE 1: Geographic profile of respondents

Province	% Respondents
Gauteng	40%
Kwazulu Natal	30%
Cape Town	30%

The table below summarises the gender profile of the respondents.

TABLE 2: Gender profile of respondents

Gender	% Respondents
Male	80%
Female	20%

4.3 Results pertaining to Research Proposition 1

Responses to Research Proposition 1:

South African retailers use the Internet for the following marketing activities:

- **Advertising**
- **Company information**
- **Transactions/ordering**
- **Interactive communication with customers**
- **Product information**
- **Customer service.**

The bulk of the discussion guide focussed on understanding the current uses of the Internet by South African FMCG retailers and the level of integration of the Internet into the retailers marketing communication plans. Table 3 below outlines the common themes that emerged from the research.

TABLE 3: Perceptions of Internet marketing in South African FMCG retailers

- South African FMCG retailers use the Internet as another medium to replicate the messages communicated through traditional channels such as television, radio and in store.

    ✓ One respondent stated “It covers everything that we do as a

company, except actual sales at this stage".

- ✓ Another respondent commented "The website speaks to all our marketing activities across the board, supporting campaign activities across departments and linking to our social media properties"

- Most South African FMCG retailers have used the Internet as part of an integrated marketing campaign.
  - ✓ Online supports and integrates with an above the line(ATL) promotion for example by having the print material available online as a digital flip book as well as an enabler for loyalty programme fulfilment in terms of online enrolments and voucher print off the web.

- South African FMCG retailers do not expect a financial return on investment from the Internet when used as part of an integrated marketing campaign.
  - ✓ South African retailers are not looking for Return on Investment from using the Internet as part of their integrated marketing campaigns. They rather want to engage with consumers.
  - ✓ The Internet is to ensure top of mind awareness, not a revenue stream.

- ✓ One respondent stated “expectations for our website activities are not set formally but we believe it works”.

- Most South African FMCG retailers believe more strongly in social media as a medium to interact with their target market than just a website.
  - ✓ One of the leaders in online activity stated “We see social media as an integral extension of our marketing strategy. We use our social media channels to listen to our community, assist them where possible, and incorporate these learnings into our strategy where applicable”

- South African retailers have a positive attitude towards the future of Internet marketing within South Africa.
  - ✓ With increased internet access, internet quality and mobile usage, South African internet marketing will evolve at a rapid rate. As more consumers become digitally savvy, retailers will need to adapt.

Table 4 below summarises the findings from the research.

TABLE 4: Internet marketing activities used by South African FMCG Retailers

Purpose of Internet Site		Support Proposition
Advertising	All South African FMCG retailers use their website for advertising purposes. By doing this, they believe that they are aligning traditional media channels such as TV and Radio with the company image on the Internet.	Y
Company Information	All South African FMCG retailers are using their Internet site to communicate corporate information so that the public is able to view their key strategies. Financial information and details of its shareholders.	Y
Transactions/Ordering	Only Woolworths, Pick ‘n Pay and Clicks allow for transactions on their	N

Purpose of Internet Site		Support Proposition
	website. However, they did not want to disclose the percentage of sales generated from their respective websites. Spar historically offered this service but found it to be too expensive and that customers did not understand classifications by categories eg. That washing powder is in the detergent section. Spar believes that retailers offering this service online are running their online transactions division at a loss. The reason for this statement was due to the low margins on FMCG products not warranting the cost of running a back office for online transactions.	
Interactive Communication with Customers	South African FMCG retailers use not only the Internet but also social media to be able to engage and interact with customers on a real time basis. Spar	Y

Purpose of Internet Site		Support Proposition
	uses social media to run adhoc promotions daily. Dischem, Game and Makro use the Internet site to promote all competitions taking place in store. Metro uses mobi sites as these are more relevant and accessible to their target market.	
Product Information	South African FMCG retailers use the Internet to communicate key product information to customers. However, they are careful not to over promote one manufacturer over another. Pick ‘n Pay has now started selling web space to manufacturers allowing them to showcase their brand on the Pick ‘n Pay website.	Y
Customer Service	All retailers believe that the Internet and especially social media allows them to react in real time to customer	Y

Purpose of Internet Site		Support Proposition
	concerns and issues. Woolworths has integrated customer service to the degree that valued input received online is implemented quickly thereby improving customer service continuously.	

4.4 Results pertaining to Research Proposition 2

Response to Research Proposition 2:

South African retailers have not utilised the full potential of the Internet as a transaction medium/distribution channel.

All South African retailers interviewed agreed that they have not fully utilised the full potential of the Internet as a transaction medium/distribution channel. Most of them cited the huge investment cost associated with this element as the key barrier to entry and believed that the opportunity risk was too high.

South African FMCG retailers do not believe that the Internets' purpose is to sell more products but rather to engage with consumers and resolve customer service and consumer complaints in real time. They see the Internet as an

essential part of the marketing mix. It allows for true, real time engagement with consumers and provides unparalleled research into target markets.

4.5 Summary of the results

Table 4 provides a concise summary of the results obtained from the respondents with regard to the research propositions.

TABLE 4: Summary of Results

Purpose of Internet Site	% Respondents
Advertising	100%
Company information	100%
Transactions/Ordering	40%
Interactive communication with customers	100%
Product information	100%
Customer Service	100%
Full utilisation of website	0%

From Table 4 above, it can be summarised that retailers use their Internet sites for informational purposes mostly. While some retailers use it to interact with customers, a very small percentage uses it for transactions/ ordering.

All retailers, however, do not believe that they are making full use of the Internet as a transaction medium/distribution channel.

CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

The interpretation of the results of this research is based on the findings from the interviews and is compared to and contrasted with the findings revealed in the literature review. This chapter focuses on the analysis of the results obtained from the respondents. It analyses and discusses the responses obtained with respect to the research propositions outlined earlier.

5.2 Demographic profile of respondents

Due to the physical distance of some of the respondents, face to face interviews were not possible with all respondents. For those respondents in other provinces, a telephonic one on one discussion was held.

All respondents were in a position of seniority with the organisation and were the key decision makers regarding online marketing activity and strategies.

5.3 Discussion pertaining to Research Proposition 1

South African retailers use the Internet for the following marketing activities:

- **Advertising**
- **Company information**
- **Transactions/ordering**
- **Interactive communication with customers**
- **Product information**
- **Customer service.**

From the literature review, Hoey (Pg.49, 1998) states that “marketing effectiveness depends significantly on communications effectiveness because any marketplace is energised by information flows”. Hoey (1998) goes on to state that the information available on the product offering (and the buyers’ reaction to this) influences the buyers’ perception of the product.`

The responses received with regard to the use of Internet indicate that it is widely used by South African retailers as a source of product information as well as company information.

The results from the respondents support the literature cited earlier in that the Internet is used to deliver company and product information, interact with customers and advertise its products.

However, majority of the respondents are currently using the Internet in two of the three ways that Hart et al (2000) segmented the Internet to facilitate retail marketing ie.

- As a means of communicating information about the retail organisation, its products and services. All retailers interviewed used their website for this purpose, showcasing the company's shareholders, vision and mission statements.
- As a pro-active marketing tool, inviting consumers interactively to access the website to gain more product information, facilitating their buying decision making process. One of the respondent stated that they used the website as well as social media channels to run adhoc promotions. However, consumers were not able to purchase the promotional item online or via the social media channels. They had to physically go to a store to purchase the promotional item or participate in a promotion.

The third way of using the Internet to facilitate retail marketing according to Hart et al (2000), is selling products online through transactions with the consumers, providing an additional channel to an existing store based or mail order operation.

This way was used by a small percentage of retailers' respondents. Those respondents not using the Internet for this purpose stated that the investment costs to set up a transactional online system was very high and some respondents speculated that those retailers currently offering this service were actually running it at a financial loss. These respondents justified this comment due to the low gross margin associated with FMCG products. The low gross

margin did not support the costs associated with delivery. As a result, those offering online transactions either charged a fee for delivery or only deliver within a certain radius from the store. Some respondents believed that online grocery shopping was more targeted to the more affluent customer and therefore only offered online shopping in more traditionally affluent geographic areas of the country, where Internet penetration was assumed to be higher.

It can therefore be concluded from the respondents, that Internet marketing in South Africa is primarily information focused and is used as another communication channel with customers. It is used for interaction with customers but there are very few retailers using the Internet as a transactional or ordering medium. Thus it can be seen as part of the integrated marketing campaign but does not flow through to transactions and distribution.

5.4 Discussion pertaining to Research Proposition 2

South African retailers have not utilised the full potential of the Internet as a transaction medium/distribution channel.

KPMG (1999) found that very few companies are using the Internet for transactional services such as order taking, procurement, product delivery and payment.

Whilst most respondents agree that they have not utilised the Internet fully in terms of being a transactional medium/distribution channel, they don't see the need for the Internet to serve this purpose.

Respondents believed that the Internet's purpose should most dominantly be one of interaction with customers, engaging with them and keeping their brands at the top of customers' minds. They are not looking for or expecting a return on investment from the website.

This strategy is aligned with Porter's comment (2001) on the lack of strategic intent by some businesses. These businesses are expecting revenue growth from the Internet commensurate with the associated risk rather than seeing it as a strategic tool.

None of the respondents that have an online transactional medium were willing to disclose the percentage of sales that were generated from the Internet. Thus it may be concluded that the Internet is not actually generating a profit for these retailers. One respondent hypothesised that those retailers offering online transactions are not profitable with this offering. The organisation he works for offered online shopping a few years ago but decided to close down the division as it was not generating a profit but rather running at a loss. This may be the reason why current retailers offering online shopping have restrictions in terms of delivery distance. He believes that this phenomenon may change once Wal-mart enters the South African market completely. Wal-mart will probably have an electronics division that may be able to "subsidise" the online FMCG retail marketing leg of its operation. Another common reason cited by respondents for not using the Internet as a transactional medium or distribution channel is the high investment costs associated with building up the back office for this purpose.

One of the respondents cited two further reasons:-

- Construction of the site – an average store has about 15000 line items. Consumers do not know that washing powder falls into the detergent category and struggle to navigate these sites to find products.
- South African consumers like the tangibility aspect when purchasing groceries and food, eg, when purchasing lamb chops, they need to see the size to determine if 4 would be sufficient for the family. This insight aligns with Modirghomi and Sarshar (2005), who suggest that some consumers prefer to visually inspect groceries before purchasing it so as to ensure that they are getting the correct quality, size and brand. In a study conducted by Kurnia and Chien (2003), consumers indicated that they were willing to purchase certain grocery items such as tin food, box food, household detergents and personal hygiene products. However, for certain foods such as fresh produce, meat and poultry, they preferred to visually inspect the products before purchase.

Thus it can be concluded that the findings are aligned to the research proposition in that South African retailers are not fully utilising the Internet as a transactional medium/distribution channel.

However, in saying that, South African retailers do not wish to use it in this manner due to high investment costs, lack of understanding of category definitions by consumers and the retailers' belief that South African consumers prefer tangibility when making purchasing decisions, especially on grocery items. Many respondents believe that the infrastructure required to operate a

fully functional online transactional medium is very expensive and although “it is hugely efficient it needs back end support of a traditional ‘brick and mortar’ to be able to sustain sales.”

5.5 Conclusion

The overall conclusion of this study was that all retailers view the Internet as an important element of the marketing mix. Retailers currently use the Internet to advertise, communicate company and product information, engage with customers and provide basic customer service. Thus, the Internet is seen as a critical element in the integrated marketing campaign. They believe that South Africa is still in its infancy with regard to Internet usage and are optimistic about the future of the Internet as part of the integrated marketing campaign.

However, most retailers do not utilise the Internet as a transactional medium/distribution channel as this is not seen as a fundamental purpose of the Internet.

CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The first part of this chapter summarises the research findings, presents the conclusions and provides recommendations with regards to the perceptions of Internet marketing with FMCG Retail.

Secondly, suggestions are proposed for future research that could potentially add great value to the thinking and insights into this body of knowledge. Such further studies could explore in more detail and expand on the findings and conclusions presented in this report.

6.2 Conclusions of the Propositions

The purpose of this study was to investigate South African retail companies' use of Internet marketing and its effectiveness.

The primary purpose of this study was twofold, firstly to investigate what South African FMCG retailers are using the Internet for mostly. Secondly, determine if South African FMCG retailers are fully utilising the Internet as a transactional medium/distribution channel.

Proposition 1:

TABLE 6: Internet marketing activities used by South African FMCG Retailers

Proposition vs Findings

Research Proposition 1: South African retailers use the Internet for the following marketing activities	% Respondents
Advertising	100%
Company information	100%
Transactions/Ordering	40%
Interactive communication with customers	100%
Product information	100%
Customer Service	100%
RESULT: This proposition is **ACCEPTED** with exception to the transactions/ordering parameter	

In terms of the marketing activities FMCG retailers are currently using the Internet for, it was concluded that all FMCG retailers are using the Internet for advertising, company information, and interactive communication with customers, product information and customer service. However, only 40% of FMCG retailers are using the Internet for transactions or ordering. This may be attributed to two reasons. Firstly, the products the retailers offer. Previous research has found that consumers are more conservative when purchasing

groceries and fast moving consumer goods online. Secondly, South African retailers do not see this as a key activity for the Internet. They believe that the Internet has a more strategic role to play rather than driving transactions.

With the exception of the transactions/ordering, all other parameters of the marketing activities that South African FMCG retailers are using is similar to that proposed and thus proposition number one is ***ACCEPTED*** as shown in Table 6.

Proposition 2:

TABLE 7: Use of Internet to its' full potential Proposition vs Findings

Research Proposition 2: South African retailers have not utilised the full potential of the Internet as a transaction medium/distribution channel.	**% Respondents**
AGREE	100%
DISAGREE	0%
RESULT: This proposition is **ACCEPTED.**	

From Table 7 above it was concluded that South African FMCG retailers are not using the Internet to its full potential in terms of being a transactional medium or distribution channel.

It was concluded that South African FMCG retailers perceive the intent to serve a more strategic role in allowing them to engage with consumers in a more informal manner rather than using the Internet as another sales or distribution channel. This perception is aligned to the opinion of Porter (2001).

Since all the FMCG retailers in South Africa agreed that they are not using the Internet to its' full potential as a transaction medium/ distribution channel, proposition number two is ***ACCEPTED***.

6.3 Recommendations

As suggested in Chapter 1, the primary stakeholders that would be interested in the outcome of this study are FMCG retailers who have already, or are planning to enter the online space. It provides guidance to retailers and marketers who are considering using the Internet as part of its' integrated marketing campaign.

The research has found that South African FMCG retailers are using the Internet primarily for information and communication purposes. This is due to the perception by retailers that South African consumers prefer to purchase groceries tangibly, to determine quality, value, etc. This information can be used by retailers to understand what products South African consumers would be willing to purchase online.

At present, South African FMCG retailers are in the early, exploratory phase of Internet marketing. This research can be used by new entrants into online marketing to better understand the key success factors around Internet marketing in South Africa. If cost to sell online is a barrier to entry, FMCG retailers that have a broader product portfolio with higher profitability may be able to offer online sales by subsidising the set up and delivery costs from the higher profit products.

Retailers can also consider the option of buying placement space in search engines such as Google and Bing, allowing their retail outlet to become top of mind in consumers' minds when shopping online. This could change the landscape of retail within the South African market by changing online shoppers behaviour. Shoppers will no longer be searching for products first but may start searching online for products within their favourite retail store's website.

The primary benefits of saving time, increased convenience and benefits for the old and disabled highlights to retailers as to what they should focus on when developing their value proposition. These issues would form the core of the offerings with benefits of better planning, cost saving and additional information providing the role of secondary benefits.

However, if a retailer wants to be successful in this segment, they would need to ensure that the system they implement has a strong and robust security and user authentication/verification component. This would be critical especially with the proliferation of Internet fraud in South Africa.

Retailers would need to have an efficient, effective and secure logistics system that would ensure timeous delivery, accuracy of the products ordered and guaranteed safety, at a cost that is sensible and allows the retailer to still generate a profit. Retailers would need to secure sufficient Internet bandwidth and invest in state of the art information technology systems, to ensure availability of the service and speed of access of purchasing online.

This information highlights to retailers that they would need to market and advertise the online shopping service to get more people interested in using this service. Initially, such companies would need to invest substantial resources to get the service operational and to grow the market.

From the research conducted, South African retailers perceive the South African shopper as more conservative to shopping in general and avoid taking risk, preferring not to make impulsive purchases. This behaviour brings added challenges for online retailers in terms of bringing users on board to make their first purchase, especially on edible FMCG products. Therefore, online retailers need to be innovative in building relationships with the customer in order to gain the online users confidence and trust. Furthermore, delivering on the promise, a key marketing principal is critically important to achieve online success.

Online retailers need to demonstrate to the online shopper that the products are value for money as opposed to similar products purchased in the traditional business. Online advertisements also need to show useful information (price, specifications, warranties/guarantees, electronic manuals. etc.) to the online consumer in order for him/her to make informed purchasing decisions.

Finally, online retailers in the South African online market need to develop the online market from the early market phase to the maturity phase, using key market development methodologies; especially to get consumers to adopt the internet as an alternative medium to traditional shopping to gain critical mass.

6.4 Suggestions for further research

This research serves as an exploratory study of online strategies of traditional South African FMCG retailers.

One suggestion for further research would be to investigate what products South African consumers would be willing to purchase online.

Another area that could be delved into is the consumer perception of purchasing FMCG products over the Internet.

A further research direction could be to understand South African consumer perceptions on the safety of purchasing online.

Further to this, one can research what South African consumers expect from an online offering from FMCG retailers.

Another research direction may be to investigate the costs of creating an online channel in addition to the traditional “bricks and mortar” business.

A similar study can be conducted quantitatively.

The research can also be replicated for product categories besides FMCG.

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APPENDICES

APPENDIX A: MBA Research Discussion Guide





RETAILER:

REPRESENTED BY:

DESIGNATION:

DATE:

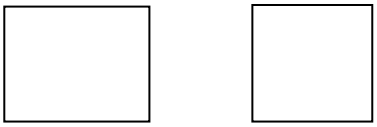
1. **Does your business have an existing website?**





2. **What marketing activities does the website serve?**

3. **Does your business currently generate sales off your website?**



4. **Who manages your business Internet activity?**

5. **How has your business used the Internet as part of an integrated marketing campaign?**

6. **What were the expectations and did it deliver the results expected?**

7. **What are your beliefs on the Internet as an effective marketing channel?**

8. **How does your business use social media to leverage its brands?**

9. **What, in your opinion, is the future of Internet marketing in South Africa?**

APPENDIX B: Example of interview transcription

MBA Research Discussion Guide

RETAILER: Undisclosed

REPRESENTED BY: Undisclosed

DESIGNATION: Marketing Director

DATE: 05 October 2011

1. Does your business have an existing website?
   Yes.

2. What marketing activities does the website serve?

Most of the marketing activities happen on facebook. Website used for more stagnant info. More business than customer. Customer interaction on facebook.

Why? Find facebook more interactive, more of a viral element. More trendy and will transition into something more.

3. What percentage of your total sales is currently generated from your website?

None.

Post all ads, specials on fb. Do not see internet as a medium to generate sales, it's not the role of internet.

Online shopping doesn't work globally. Moreso in SA as the delivery cost on groceries from store to consumer is prohibitive.Spar ventured into online shopping 5years ago and tried very hard but was not successful as offtake diminished when consumers realised that they have to pay for delivery. Pnp online is now selective (within a radius), upper lsm areas where convenience is more important than cost. Spar believes that online shopping is actually costing PNP and WW money as margins on food products are so low.

Wal-mart might change market dynamic but on electronics not food products.

4. Who manages your business internet activity?

Two dedicated people internally who manage facebook. Believe Facebook is the biggest electronic medium. Social media is a bit of both in terms of part of an integrated marketing campaigna s well as a stand alone marketing tool.

5. How has your business used the internet as part of an integrated marketing campaign?

Use facebook to replicate messages advertised on other media. Run small adhoc promotions on facebook. Let's keep talking to consumer and keeping them interested. Internet is seen as a tactical tool to take away focus from a negative story that may have broken. For example, run a quick baby promotion

giving away a baby hamper on Facebook to take away focus that a banner was seen at a rodeo.

6. What were the expectations and did it deliver the results expected?

No real targets set for small promotions. Not looking at roi, all about engaging customers, not looking for financial returns!

7. What are your beliefs on the internet as an effective marketing channel?

Fantastic, but can't apply normal terms to it. Its about keeping top of mind brand awareness. It can't be measured using traditional methods.

8. How does your business use social media to leverage its brands?

Discussed above

9. What, in your opinion, is the future of internet marketing in South Africa?

Internet marketing will grow but we're all grappling with it. Will get bigger, no textbook so we will feel our way around. All retailers may stumble on things and we will learn as we grow. It is a low cost medium which means we all need to be in it. Long term strategic plan would be to get people to watch it and see what comes out.

Apart from delivery costs, online grocery sales does not work because of two other reasons:

1. Construction of the site - avg store has 15000 line items. Consumers do not know that washing powder falls into the detergent category and struggle to navigate these sites to find products.

2. South African consumers like the tangibility aspect when purchasing, eg, when purchasing lamb chops, they need to see the size to determine if 4 would be sufficient for the family.