# Dimensional Objectives for E-Commerce in Africa: The Case of Company Z

Lindiwe N. Kunene ORCID iD: http://orcid.org/0000-0002-4284-643X

Thokozani P. Mbhele ORCID iD: <u>http://orcid.org/0000-0003-3124-8781</u>

#### P.S. Mthembu

#### Abstract

Failure to understand the varied dynamics of business in different African countries in Africa has been a huge barrier to international businesses trying to enter the African market. With the advent of e-commerce, it has become critical to find the best solutions for online business activities on the continent. The objective of this study was to identify objectives that are of importance in forming an e-tailing strategy in the African context. The study used the case of Company Z, an international retail company from South Africa, which has entered various African markets. This paper investigated how they performed when they entered the rest of Africa. It was essential to learn from both their successes and failures. The study was exploratory in nature, designed to understand the decision rationale that management at this organisation followed in conducting their online e-tail business. Interviews were analysed using thematic analysis and conclusions found that three objectives that lead to success in Africa's e-tailing industry. The first two objectives were similar to those adopted by first world countries, however the third objective was different. This objective was 'collaboration' whose principle is entrenched in the Ubuntu management principles.

**Keywords**: retail, e-business, business strategy, technology, innovation & developing country

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# Introduction

Researchers and authors of e-business models have made several attempts to classify online business models, with no common classification reached. Lam and Harrison-Walker (2003) thoroughly analysed business models adopted by online companies and narrowed them down to a two-dimensional business model, consisting of value-based objectives and relational objectives. From a strategic viewpoint, their e-business model attempts to respond to the question that asks why businesses develop online and e-business strategies (Matook 2012). Rapid advancements in e-commerce have made it essential to find robust typology, which relates to the strategic objectives of e-business models. Businesses cannot afford to constantly enter various African markets, and fail. For many businesses, being present in different African countries has become reactionary, they do it because it seems that many other businesses are also doing it. This has had dire consequences. It is important that African-designed models are developed, in Africa and by Africans to ease the way of doing ebusiness in Africa. This paper probes how an African-designed model for ecommerce and more specifically e-tailing should look.

In developing economies, not all e-business models are equally attractive. In his adaptation of the e-business typology, Kshetri (2007) asserts that e-business models which are developed-country focused need to be adapted to fit the varied environments in the developing world. Kshetri (2007) analysed environmental factors in Nepal, which defined the relational and value-based dimensions of e-commerce business models there. Based on their work, this study was able to determine characteristics that underlie adoption and use of e-business models in Africa. Completing such a study identifies relevant objectives for e-tailing in the continent.

# Background

Company Z has its offices in Cape Town, South Africa, where it is part of a bigger media conglomerate, with an electronic footprint across the country. They are part of an international Media Holding Group from South Africa. Part of this group is Company X, which provides well-known fashion and lifestyle magazines, on which Company Z was founded. Through their fashion and clothing retail, they expanded to offer their services beyond South Africa. They began to offer their fashion online merchandise to the rest of Africa. Pseudo-

nyms have been used to protect the identities of the parties involved, as per their request and general ethical guidelines pertaining to research.

### **Literature Review**

Since the late 1990s, when many traditional brick-and-mortar organisations became completely internet-based; e-commerce promised to become the key to business development and economic growth (Hughes & Beukes 2012). It was believed that e-commerce would offer substantial changes in the way that firms buy and sell products, and that this would mean major reductions in costs associated with trading internationally (Fredriksson 2010). The Internet has brought rapid changes in the business environment and enabled new and diverse ways of trading (Cunningham & Fröschl 2013). The success of a business is now measured in the ability of a workforce to absorb change, whilst also exploiting new and emerging technologies (Chesher & Kaura 2012). Organisations that have been quick to realise and adopt business practices associated with Information and Communication Technology (ICT) are even more globalised and have secured a competitive advantage (Bigliardi, Dormio & Galati 2012). e-Commerce could result in cost reductions, timely dissemination of information, consistency in information distribution, an enhanced emphasis on quality, significantly improved customer service, customisation of products, convenience of doing business (Makame et al. 2014) and improved financial margins (Chester & Kaura 2012). e-Commerce reflected the anticipated growth in the business-to-business (B2B) market sector, which included other forms of electronic interaction between businesses (Chester, Kaura & Linton 2013). Celik and Yılmaz (2011) suggest that e-commerce can be defined from a communications, business, service and/or online perspective. Carsten, Al-Taitoon, Kietzmann, Pica, Wiredu, Elaluf-Calderwood, Boateng, Kakihara, and Gibson (2008: 564) defined e-commerce as the 'sharing of business information, maintaining business relationships, and conducting business transactions by means of telecommunications networks'. As e-commerce forms part of electronic business (e-business), it should also involve pre-sale and post-sale activities, where the commercial exchange of products, goods and services takes place (Mahajan & Agarwal 2015). The nature of suppliers and recipients of e-commerce is such that it leads to two well-known categories, namely business-to-business (B2B) and business-to-consumer (B2C) activities (Hande, Debleena, & Atingovil 2015).

### Nature of E-Tailing

'Retailing refers to the buying of products in bulk from manufacturers and selling them in smaller quantities or individual units to the end consumer. Etailers are defined as transactional websites which make products available for purchase online' (Koch & van Brakel 2012: 5). In essence, e-tailers (online retailers) purchase products in bulk from manufacturers and offer them for sale to end consumers in smaller quantities or individual units. One main difference between e-tailers and retailers is that the physical traditional store is replaced by a website, application, or any other electronic platform. The fundamental difference is that unlike traditional retailers, e-tailers do not keep stock. Products are shipped straight from the warehouse or manufacturer to the end consumer (Koch & van Brakel 2012). The internet's scope, interactivity and power has provided e-tailers with the potential to transform their customers' shopping experience, and by doing so, improve their competitive position (Kataria, Ritu & Hasan 2014). Through the internet's capability to provide information, facilitate dual communication between the customer and business, collect market research data, promote goods and services and ultimately support the online ordering of merchandise, retailers have been provided with an extremely powerful and flexible channel. The internet offers retailers a mechanism for expanding target markets, cultivating customer communica-tions, extending product lines, improving cost efficiency, strengthening cus-tomer relationships and delivering offers tailored to customers' needs (Doherty & Ellis-Chadwick 2015). However, purchasing apparel online represents a new form of consumer behaviour and e-tailers selling apparel are faced with high levels of competetion. E-commerce is expensive. In order to cover the costs incurred and make profits, e-tailers need to find ways to attract the consumers who are most likely to purchase their products. Liao et al. (2014) maintained that customer loyalty is of utmost importance for retailers who operate in a competitive market.

When compared to non-loyal customers, loyal customers contribute a higher share of profits and customer retention costs are less than the costs associated with attracting new customers. Given the advantages of customer loyalty, retailers and researchers have examined the factors influencing customer's intention to make repeat purchases (Liao *et al.* 2014).

#### **Theoretical Framework**

When making a decision on e-business models, two prominent questions arise.

The first question relates to the relational objective and attempts to find out what purpose a company's website will serve, while the second question is value-driven which attempts to establish how an e-business can add value to a company (Lam & Harrison-Walker 2003).

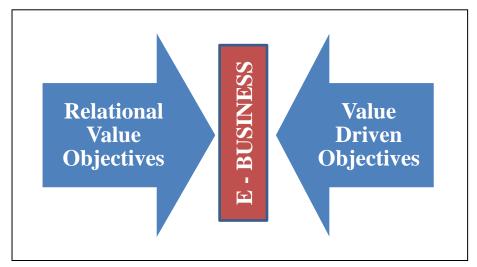


Figure One: Two Dimensional eBusiness Model Source: Author's Own

# **Relational Objectives**

The relational objectives dimension classifies e-commerce models based on the internet's connectivity characteristic; the internet gives companies the ability to reach any consumer regardless of distance. It is further divided into three categories, namely, corporate communications, network development and direct access (Lam & Harrison Walker 2003). Corporate communications serves as a media and communications tool so that companies can connect with their existing and potential customers. In other words, companies in this category will develop an e-business strategy to disseminate information related to the company and its offerings in order to create demand for a product category or brand (Zumpe & Madlberger 2007).

	Financial impr	ovement	Product/channel enrichment
I. RELATIONAL OBJECTIVES	CELL 1		CELL 2
Direct access	Internet merchants and User-paid • Manufacturer • Subscription • Pay-per-use • Product line extension • Voluntary contributor • Public support	Provider-paid • Free • Content sponsorship	Virtual product differentiation • Online product enhancement • Bundling • Post-purchase support
	CELL 3		CELL 4
Network development	Brokerage networks User-paid • Online auction • Dutch auction • Reverse auction • Bounty broker • Online exchange	Provider-paid (Not available)	Interactive networks • Dealer support • Collaborative design • Community-building
	Purchase assistance ne User-paid • Buyer cooperative • Manufacturers' agent	tworks Provider-paid • Shopping agent	
	Retail networks User-paid • E-tailer	Provider-paid • Virtual mall • Retail alliance • Bargain discount • Metamediary • Catalog aggregator	
	CELL 5		CELL 6
Corporate communications	Internet promoters User-paid (Not available)	Provider-paid • E-coupon • E-contest	Image building • Category-building • Brand-building • Free trial

#### Table 1: An objective-based typology of e-business models

Source: Lam and Harrison-Walker (2003: 17 - 26)

Network development aims to develop more efficient and effective links among external stakeholders. In this category, commercial websites may also be built to establish supplier networks for industrial products (Lam & Harrison-Walker 2003). Lastly, direct access eliminates wholesalers and retailers to create direct access to existing and potential consumers. The main benefit to direct access is that companies have the opportunity to customise their products to their consumers' needs, usually at a lower cost than traditional distribution channels allow (Remané, Hanelt, Tesch & Kolbe 2019).

### Value-Driven Objectives Dimensions

Value-based objectives are concerned with establishing what value e-commerce business models add to an organisation. These values can include, but are not limited to revenue, increased marketing effectiveness, and/or improvement in consumer attitudes (Hedman & Kalling 2003). Financial rewards, the first dimension, directly adds monetary benefits through mechanisms such as user fees, merchandise sales, advertising and so forth. These revenue streams can be further divided into user-paid, where users are charged directly for website content, products or services; and provider-paid, where revenue is acquired through advertising fees, market research fees and sales commissions (Lam & Harrison-Walker 2003). The second dimension, product and channel enrichment, generates revenue indirectly. Models that are carefully designed can improve customer loyalty, create and raise brand awareness, decrease operating costs, decrease time to market or build synergy among brands that support new product acceptance. By focusing on customer loyalty, companies can protect themselves against competition (Lam & Harrison-Walker 2003). From these two dimensions, e-business models can be classified into six cells, namely: Internet merchants and portals; virtual product differentiation; brokerage networks; interactive networks; Internet promoters; and image building (Lam & Harrison Walker 2003), as depicted in Figure 2 above.

### Dynamism of African Market Environment

E-commerce has created a significant change in the way business is carried out. It is the primary reason that businesses now have opportunities for expansion and an ability to reach far-flung areas of the world without incurring additional costs (Agarwal & Wu 2015). More importantly, developing

countries that were previously excluded from international markets and global activities have the opportunity to participate in international trade (Oluyinka Shamsuddin & Wahab 2013). In order to reap the benefits offered by ecommerce, organisations in developing countries need to understand environmental factors that characterise adopting the online trading system (Nabareseh & Osakwe 2014). The adoption of technological business practices has a positive correlation on the level of economic development in a country (Li & Xie 2012), which in turn is determined by the availability of infrastructural, economic, social and cognitive factors. When adopters have the financial capacity and the technological infrastructure to adopt technology, they are in a position to adopt e-commerce (Lin & Chen 2012). In today's global economy, markets on the African continent have shown much more dynamism (Moriarty et al. 2015) than in previous years, as well as major potential which in relative terms has been unexplored (Rossi, Murugesan & Godbole 2012). The African market is rapidly growing and presents opportunities to reach people living in rural areas. This is a huge benefit which is driving e-commerce growth on the continent. In areas where it is difficult for people to access traditional brickand-mortar stores, both local and global companies use websites to make sales that facilitate the purchase and delivery of high quality, domestic and international products right to the doorsteps of consumers.

### **Dimensional Business Models**

With all the various challenges facing African e-commerce companies, it is evident that organisations in developing countries cannot simply adopt business models used in the developed market (Hubbard 2015). What works for international e-commerce companies such as Amazon and eBay, for example, will not work in Africa, which is significantly different in terms of infrastructure and economic growth (Murray 2012). E-commerce companies that view Africa through a continent-wide perspective will miss the numerous opportunities and challenges that a continent with 54 countries and more than 2 000 language dialects presents (Hattingh *et al.* 2013). Which of these opportunities a company will choose, depends on its product or service offering. A good place for retail companies to start is by understanding the local markets and their competitive advantages. In this way, companies can align their offering by working off their strengths and customising where necessary, in order to be successful. Figure 2 illustrates three main categories

that African markets primarily fall under, namely, the basic, developing or the mature stage (ARDI 2015).

*Stage 1: Basic.* Little to no formal shopping exists in these markets. The key factor for buyers in these markets is thus price. For retailers entering basic markets, the discount 'value for money' format may offer a firm proposition and opportunities for scaling and growth (ARDI 2015).

*Stage 2: Developing.* Mainstream retailers may prove the most logical entrypoints for these markets. In this stage, retailers can follow one of two expansion opportunities – they can move upwards by developing more targeted or larger varieties, or downwards with smaller varieties. Both paths offer retailers unexplored growth potential with a steadily improving infrastructure (ARDI 2015).

*Stage 3: Mature.* If retailers entering at this point are not primarily concerned with scaling, entering Africa's mature markets remains a solid point of entry. These markets offer established shopping cultures, relatively high wealth levels and well-established infrastructure. Retailers in this stage have the option to move downwards to test basic versions of their current formats. With more demanding consumers and stiff competition in these markets, differentiation is a key factor (ARDI 2015).

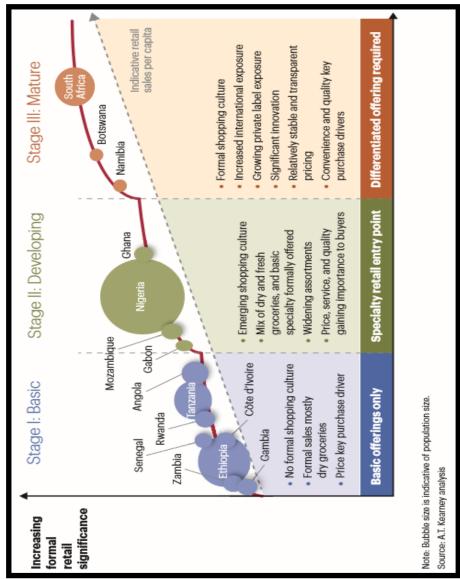


Figure 2: African Retail Proposition Stages. A.T. Kearney's 2015 African Retail Development Index (ARDI) Source: African Development Retail Index (2015)

E-tailers should embrace what the African Institution of Technology calls a 'city-centric' approach, i.e. they should look at the African e-commerce sector in terms of the opportunities that specific cities can offer (Hubbard 2015). For instance, while it may be too early for smaller, more basic towns in Nigeria to trade online, Lagos is ready due to its affluent and highly population density (Apulu *et al.* 2011). Therefore, even within a country, it is important for e-tailers to look at opportunities' city by city due to a lack of adequate infrastructure in some cities and this can assist with scaling (Hubbard 2015). Further, e-tailers may need to share some resources, at least until there are significant improvements in infrastructure. If they do not reduce costs related to logistics, e-tailers may be unable to out-compete traditional stores on price. Another major element shaping e-commerce in Africa is the rise in web traffic coming from mobile devices; so it is important for e-tailers to build a responsive website experience that is compatible across all devices (Hubbard 2015).

#### **Research Methodology**

This study followed an inductive approach as there are currently questionable theories that inform the value-based objectives for e-tailing in Africa. The qualitative research was therefore exploratory in its design as there was limited information in this area (Sekeran & Bougie 2011). Data collected in this research could be used as a basis for further studies in the e-tailing phenomenon in Africa. The aim of this research was to gain a deeper understanding of the topic under investigation (Banister *et al.* 2011).

The target population of this study comprised the 64 employees at Company Z in 2016. The population is geographically based in Company Z's head office in Cape Town in the Western Cape Province, South Africa. The sample size used was twelve middle and top management employees, which made up the census of middle and top management cohort in Company Z. To collect data for the study, semi-structured, individual face to face interviews were administered. The questions asked were based on existing literature and the constructs it provided. In addition, this data collection process gave the researcher the opportunity to deeply investigate the social matters of the study (DiCicco & Crabtree 2006).

Transferability was critical for this research. The research was designed to provide lessons that could be transferred to other similar contexts. External validity is 'concerned with the extent to which the finding of one study

can be applied to other situations' (Shenton 2004: 69). This was paramount in this study. However, many researchers argue that the findings in qualitative research cannot be applied to other populations, as they relate to a small number of specific environments or individuals. Nonetheless, contrary to this argument, Stake (1999) suggests that while the case in a qualitative study may be unique, it is a case within a broader group, and thus the potential for transferability should not be completely ruled out. In seminal works on achieving data quality for qualitative research, Lincoln and Guba (1985) offer the same argument, suggesting that the researcher has a responsibility to ensure that sufficient contextual information about the fieldwork is provided in order for the reader to make a transfer. It is important for the researcher to also provide a thorough description of the phenomenon being investigated in order for the reader to have a good understanding. This also enables the reader to compare the occurrences in the study with broader situations.

The qualitative data was analysed using thematic analysis, which is a form of content analysis. The data was processed using NVivo data analysis software (Version 10). To conduct the data analysis, the data collected was transcribed verbatim in order to capture all the important information. Using the NVivo programme, the researcher reviewed and reduced the research data by identifying and noting down relevant concepts, textual phrases and quotes by the participants which were related to the major elements of the research objective. The textual phrases of each participant were laid out under each participant's name, coded according to relevant themes, grouped according to each concept, and presented in a tabular format. The textual phrases were then analysed, and key concepts, themes and patterns were identified. Interpretations were made and the results were presented.

### **Presentation of Results**

Not all the targeted sample respondents were reached. The study was therefore based on eleven of the twelve that were targeted. Results showed how Company Z fits its business model to meet its e-commerce business strategy.

**Financial rewards:** The majority of the participants revealed that Company Z adds monetary value directly to the company by selling fashion online.

*It (the online business strategy)is to get people to visit our website and buy our product offerings.* (Participant 3)

**Product and channel enrichment:** It was found that Company Z also adds value indirectly through 'brand promotion' and 'brand loyalty'. A number of participants added that when Company Z was first established, value was created through 'brand awareness'.

When we started out, our initial barrier was to try and start an online retail store from a company that is [was] purely focused on media. To achieve this, we had to be aggressive in our strategy in order to make ourselves known. (Participant 6)

Now that the brand is established and has a presence in the market, it is focused on building 'brand loyalty' through digital marketing efforts and customer service. In terms of marketing, the business intelligence department provides the marketing team with data it can use to communicate with the customer.

Within our product offering we receive statistics from the business intelligence team and from those we can see what our customer is buying, and then try and gauge [develop] a customer profile. (Participant 9)

The 'customer profile' enables the e-tailer to 'keep track of customer shopping habits', and from there 'meet customer demands'.

The more the business intelligence division knows about the shopper, the more information we can give to the marketing team who can tailor [target] marketing strategies more appropriately. (Participant 8)

A majority of the participants suggested that the marketing department should use Integrated Marketing Communications (IMC) channels to 'target the right customers' and 'communicate with the customer'. From a marketing point of view, one of the participants commented that:

... when we look at brand acquisition and retention, as a marketer you know which channels are relevant to what, and then you plug in the channels, then from there you have a mix of channels that you take to market. (Participant 4)

In terms of customer service, it is vital for Company Z to provide a positive experience in order to build and improve brand loyalty. Participants revealed that Company Z aimed to provide their customers with a 'seamless experience'. A customer's experience during their interaction with the website is vital for Company Z in order to establish and maintain trust.

Building trust is largely the result of the customer's first interaction with the website. Does the website look secure? Has the customer been referred to the website by a friend? Has the friend used the website in the past? (Participant 7)

From a customer service point of view, the participants discussed the importance of Company Z dealing with customer complaints, some of which may be the result of a bad experience with a courier.

We view every complaint as an opportunity to win the customer over so that they become promoters of our brand. (Participant 10)

The participants added that building trust through customer service also means building a strong 'relationship with couriers' who control the last mile, and subsequently, are responsible for the last engagement with the customer.

Lastly, being affiliated with a company such as their Holding Group Company, which has a large presence in Africa and internationally, assists Company Z in building customer trust.

> It really helps that we are part of the Holding Group Company and part of Company X (which is within the Group) which are already hugely trusted brands in South Africa. (Participant 4)

**Decreasing operating costs:** Resource sharing is beneficial in decreasing operating costs. At Company Z resource sharing is evident in two themes. The first theme is revealed through the opportunity that the magazine titles owned by Company X presented for the establishment of an e-tailer like Company Z.

Company Z was set up to leverage off Company X's magazines business. So it made sense to build an e-commerce company off the strong magazine titles. (Participant 3) The second theme is the use of Company X's internal logistics company, which Company Z uses to deliver products to its customers. Participants revealed that it was important for Company Z to constantly work towards improving 'speed-to-market' in order to improve customer satisfaction.

### **Discussion of Results**

Company Z's e-business model adds value to the company both directly through the sale of merchandise and indirectly through product and channel enrichment, decreasing operating costs and improving logistics. According to Hedman and Kalling (2003), when a company's activities result in revenue, products and/ or reduced operating costs, value is created and added to the company. This fulfils the value-based objectives of the two-dimensional business model. During the start-up phase of the company, the aim of the business was to generate revenue through the development of an e-business model that would service a latent customer base in the fashion industry. The company aimed to achieve this by placing products online that would enable online shoppers to purchase these items. Through their hardcopy magazines, they identified a gap in the market that turned offline readers to online fashion buyers.

Hubbard (2015) maintained that e-commerce companies operating in the African market cannot adopt business models that have been used by companies in international markets because Africa faces numerous challenges and is developing differently in terms of infrastructure and economic growth (Murray 2012). When entering the African market, it is important for companies to understand the different local markets and their competitive advantages (ARDI 2015). For Company Z, having an affiliation with Company X's magazine titles, provided the e-tailer with a competitive advantage. The etailer leveraged off the company's magazines and several other magazines that already had a presence in the South African media industry and are associated with Company X and the Media Holding Company, both which are trusted multi-national companies in Africa.

In terms of product and channel enrichment, Company Z initially engaged in aggressive marketing campaigns. Durrant (2015) indicated that marketing strategies of this nature enable e-commerce companies to gain significant returns in terms of brand awareness. With an established brand, the e-tailer continues to add value by focusing its digital marketing and customer service efforts on building and maintaining brand loyalty. In a competitive market, maintaining customer loyalty is vital in ensuring a higher share of profits and decreasing the costs of attracting new customers (Liao *et al.* 2014). E-commerce is expensive, so in order to cover the costs incurred and make profits, e-tailers need to find ways to attract consumers who are most likely to purchase their products (Liao *et al.* 2014). In the study, it was established that Company Z uses the statistics received from its business intelligence team to create a customer profile that gives the company an understanding of its customer segment.

The statistics also enable the marketing team to gain a better understanding of Company Z's consumer buyer behaviour, and in that way, the e-tailer can tailor its communication efforts to meet the customer expectations. This information provides Company Z with the opportunity to meet demand. This builds brand loyalty such that the e-tailer will be able to drive repeat purchases. Furthermore, various channels are used to communicate the right message to the right customer.

> We look at brand acquisition and retention to see which channels are relevant to what. We then plug into the relevant channels, and from there, you have a mix of channels that you can take to market. (Participant 4)

The company also builds and maintains brand loyalty through its customer service department.

An indirect way of generating income is by always aiming to retain our customers. We want to win customers over so that they keep coming back to us. It is more expensive to get a new customer in than to keep an old one. Therefore, our aim is to win customers for life. (Participant 10)

Building brand loyalty and customer trust are achieved by maintaining a strong relationship with the courier services that the e-tailer relies on for deliveries. In reality, to do business well, one is required to create long term mutually beneficial relationships with a network of different stakeholders; it cannot be done alone. You are, because of others, in business. This is an African way of doing business and it is embedded in Mbigi's African business practice identified as *Ubuntu* Management Principles (Machi & Kunene 2018).

The last dimension in which Company Z's e-business model adds value to the company is by decreasing operating costs. Hubbard (2015) asserted that in order for e-tailers to reduce the costs related to logistics they need to share some resources, at least until there are significant improvements in infrastructure. If they do not, they may be unable to out-compete traditional stores on price. Resource sharing at Company Z is demonstrated through the use of Company X's internal logistics company, which the e-tailer uses for some of its customer orders.

# **Conclusions & Recommendations**

The study found that there was a third objective that businesses with e-tailing strategy need to consider in the African context, this was a collaboration objective. These are depicted in the conceptual framework below.



Figure 3: Three Dimensional Business Model to e-tailing Source: Author's Own

# 1 Relational Objective

This objective is concerned with the sale of merchandise. It is essential for people who visit the website to make apparel purchases; this is the core reason for the online existence of any e-business.

#### 2 Value-Based Objective

This objective is concerned with product, channel enrichment as well as reduction of operational costs.

A strong brand strategy with an emphasis on brand loyalty is important. But most importantly, there is a need to become aggressive when building a brand initially as a new e-tailer. This will lead to building and maintaining customer trust. The second factor in defining value based objective links to the next objective. A network of companies and/or a parent company that has existing infrastructure, can be beneficial in reducing operating costs.

### 3 Collaboration Objective

Where there is a parent company already in existence, it is critical for the parent company to share its resources in delivering products to customers. This is especially critical in places where infrastructure is not in existence or has not been fully developed. Where there are no parent companies, it requires that a company finds partners with a shared vision, that they can share resources with and help one another in promoting their brands.

This research reveals a third objective in conducting e-tailing business in the African context. Businesses need to be cognisant of the fact that different African countries will present different environments. It is therefore imperative to customise the city-centric strategy guided by the three value-based objectives, which are embedded in strong network creations, especially via linkages with networks that are already present in each city.

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Lindiwe, N. Kunene University of KwaZulu-Natal School of Management, Information & Governance Discipline of Management & Entrepreneurship +2731 260 7152 KuneneL3@ukzn.ac.za

P.S. Mthembu University of KwaZulu-Natal School of Management, Information & Governance Discipline of Supply Chain & Marketing <u>mthembusinegugu@gmail.com</u>

T.P Mbhele University of KwaZulu-Natal School of Management, Information & Governance Discipline of Supply Chain & Marketing <u>mbhelet@ukzn.ac.za</u>