

Entry, exclusion and opening up the SA economy

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CCRED research covered 5 sectors and 4 firm studies

Sectors

CELL™



Telecoms



Agro-processing



Liquid Fuels



Renewable energy



Mobile Money

Firm studies



FOOD LOVER'S MARKET



CAPITEC BANK



FlySafair
for the love of flying

Barriers to entry, capabilities and growth

- Opening up economy?
 - Entry and growth of commercial scale businesses; black industrialists
- Creating competition to reward effort & creativity; entrants/rivals with new business models, bringing products to market
- Barriers to entry: inhibit rivalry, ensure incumbents continue with established ways of working stifling dynamism
 - Exogenous barriers: economies of scale, access to finance
 - Endogenous barriers: strategic behavior of incumbents
 - Routes to market, branding and consumer switching
 - Capabilities development, learning-by-doing & patient capital
- Proposal: 5 pronged approach

1. Regulating for competition

- Insiders vs outsiders and little has changed
- Studies show competition from entrants and smaller rivals makes a big difference:
 - lower prices;
 - better products and services;
 - investment and growth
- We need to generate competition through regulation
 - Change the balance in favour of entrants
 - If not they will be ignored

2. Amend the Competition Act

- Extensive anti-competitive behaviour uncovered, but is competition enforcement enough? No – competition requires competitors
- Choices:
 - Does the law address harm to the competitive process or just the effect of competition?
 - Alternative: harm to the competitive process - valuing participation and the intensity of actual and potential competition in its own right
 - Do anti-competitive effects have to be substantial?
 - Alternative: prevention, restriction or distortion of competition test

3. Finance for Risk and Rivalry

- Need for:
 - ‘patient capital’: it takes time to build capabilities and reach the scale required to be competitive in many areas
 - appetite for risk in financing rivals taking on powerful incumbents
 - financing rivals at different levels of a value chain
- NB to understand the market dynamics and the needs of the smaller rivals
- Cartel fines can be channelled into development funds for rivals, e.g. Pioneer Foods settlement
- NB finance, without the complementary measures to address the range of barriers to entry and growth, will not be an effective intervention

4. Open up routes to market

- Public procurement is not enough
- Supermarkets are critical route to market
 - Addressing exclusive leases
 - Long-term offtake commitments from supermarkets
 - Open up shelf/display space to small suppliers and address buyer power of supermarkets
 - Supplier Development Programmes
 - patient capital
 - focus on developing capabilities development
 - Fresh produce market an alternative for both suppliers and retailers-need support for expansion

5. Reorient Industrial Policy

- incentives for investment by smaller businesses not working well
- Incentives are not enough:
 - Access to infrastructure
 - Zoning decisions can create space for entrants in new developments
 - Fresh produce markets play a role in supporting entry/rivalry

Barriers to Entry

Regulate for competition

Finance for risk & rivalry

Amend Competition Act

Open up routes to market

Reorient industrial policy

Thank you

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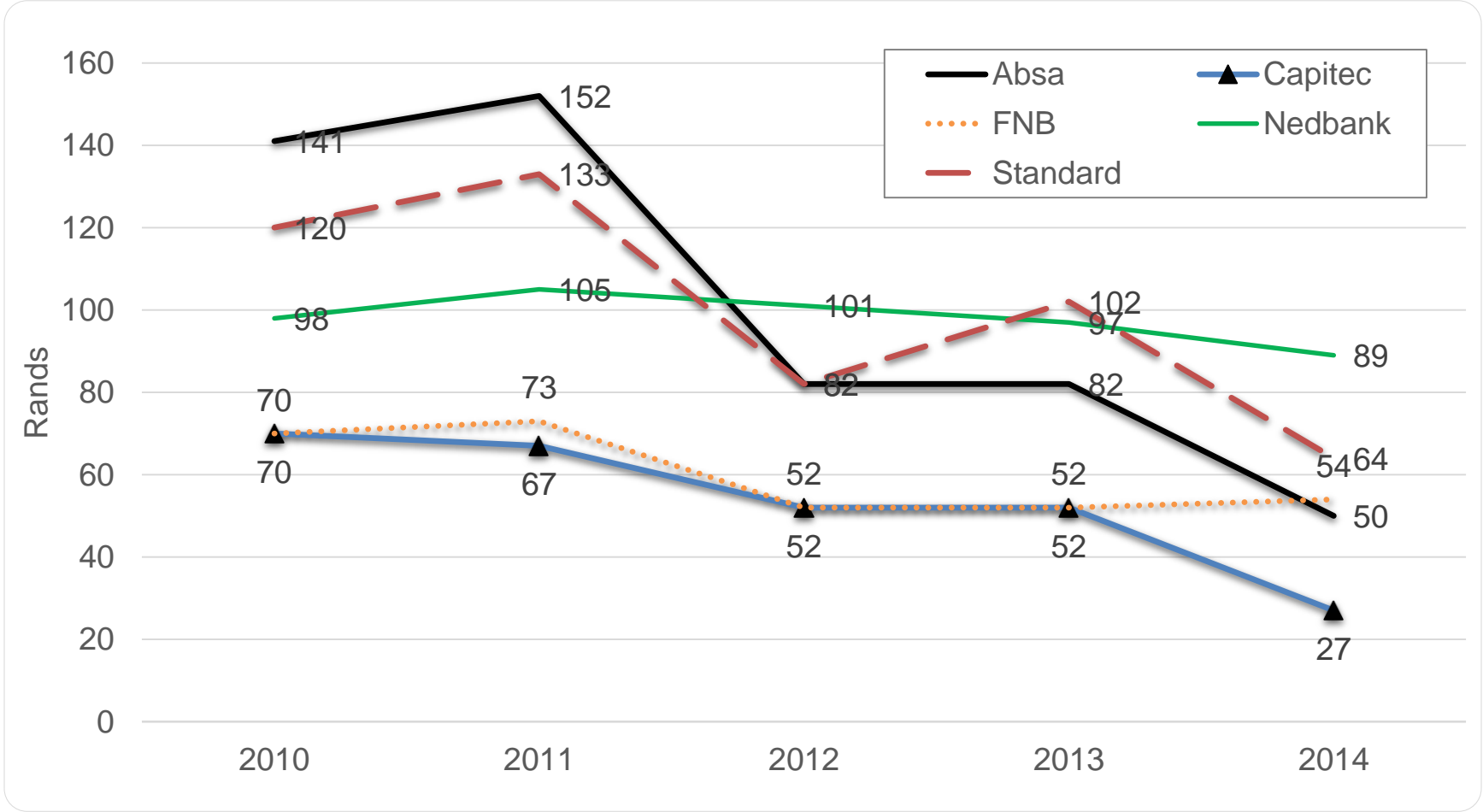
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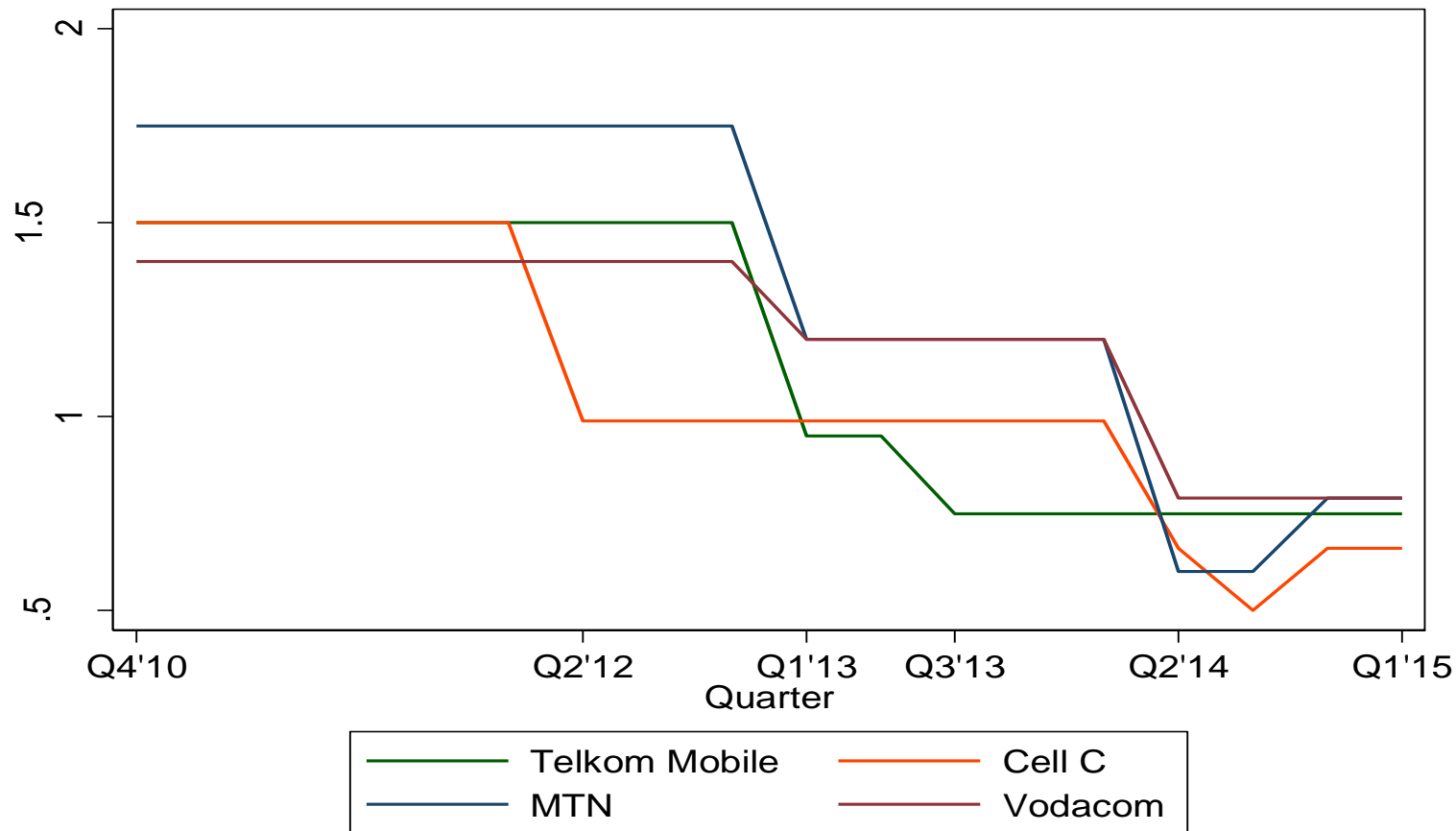
Linked slides

Capitec entry = R20bn/yr consumer savings



Bank fees (monthly), lowest cost bank account

MTR = R47.2bn savings for consumers



Lowest available retail prepaid voice prices (off-net, peak), 2010 – 2015 (Analysis of Research ICT Africa data).