

News release from the Centre for Competition, Regulation and Economic Development (CCRED), University of Johannesburg

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Research points to obstacles to building black industrialists

The South African economy needs a new approach to regulation, competition, and industrial policy to open the economy for greater participation, particularly by black industrialists, according to research released today by the Centre for Competition, Regulation and Economic Development (CCRED) at the University of Johannesburg.

In a series of studies funded by the National Treasury, CCRED has identified substantial barriers to the entry and growth of new entrepreneurs and producers hoping to gain a foothold in the market.

“Entry barriers are significant, but their magnitude and how they can be reduced is poorly understood,” said Professor Simon Roberts of CCRED. “Our studies – into both individual firms and important economic sectors – underscore what South Africa needs to ensure a more inclusive economy, including greater performance-based competition, investment in capabilities and learning, and mechanisms for rewarding effort and creativity.”

The obstacles to rival entrants according to the research are a combination of intrinsic features of the markets, consumer behaviour, strategic exclusionary conduct by incumbents, as well as risk aversion in financing entrants.

The key constraints include the challenges in accessing markets and value chains, overcoming consumer inertia and switching costs, achieving scale and obtaining ‘patient’ capital.

While finance is often cited as the determining factor in new business success, Roberts said that without addressing the other barriers to entry, funding alone is likely to be a waste of money. Similarly, implementing procurement measures without building capabilities and addressing the power of dominant firms is unlikely to ensure sustainable businesses.

“We chose our focus areas according to several criteria,” said Roberts, “They include a history of concentrated markets and anti-competitive behaviour; the economy-wide impact and those sectors where competition policy, regulation and microeconomic policies overlap.”

The CCRED studies cover agro-processing, the ‘network industries’ of banking and telecoms, supermarkets, low cost airlines, beer brewing, liquid fuels, renewable energy and mobile money. The firms the Centre studied include Capitec, Fruit & Veg City, Soweto Gold, 1Time and FlySafair.

The studies highlight the importance of new entrants and effective rivalry for consumers and the economy, as well as what is at stake if they are blocked.

Among their findings are that the entry and growth of Capitec has saved consumers close to R20bn per annum since 2010; the reduction in mobile call termination rates, which enabled Cell C and Telkom (mobile) to be more effective competitors, has saved consumers R47bn over 2010 to 2015; and low cost airlines reduced prices by as much as 38%. Fruit & Veg City opened routes to market for suppliers and offered fresh produce at substantially lower prices. All entrants widened access and the extension of services to consumers.

The Centre’s recommendations – with a number of practical ideas – include regulating *for* competition; providing funding for risk and rivalry; amending the Competition Act; and opening routes to market.

“Ownership and control matter,” said Roberts. “Participation and the share of returns need to be much more inclusive for South Africa – and the region – to address poverty and foster a healthier, more competitive economy.”

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